IMPORTANT NOTICE

THIS DOCUMENT IS AVAILABLE ONLY TO INVESTORS WHO ARE NON-U.S. PERSONS OUTSIDE THE UNITED STATES

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE SECURITIES 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 DESCRIBED HEREIN MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT). THIS OFFERING IS MADE SOLELY TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S THEREUNDER THE SECURITIES ACT.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON, IN WHOLE OR IN PART, ELECTRONICALLY OR OTHERWISE AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE THE SECURITIES DESCRIBED THEREIN.

Confirmation of Your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities described herein, investors must not be located in the United States or be a non-U.S. person (within the meaning of Regulation S under the Securities Act). The Offering Circular is being sent at your request and by accepting the e-mail and accessing the Offering Circular, you shall be deemed to have represented to the Dealers (as described in the Offering Circular) that you and any customers you represent are non-U.S. persons (as defined in Regulation S under the Securities Act) and that 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 that you consent to delivery of such Offering Circular by electronic transmission.

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

The materials relating to the issue of the securities described herein 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 issue of the securities described herein be made by a licensed broker or dealer and any Dealers or any affiliate of such Dealers is a licensed broker or dealer in that jurisdiction, the issue of the securities described herein shall be deemed to be made by such Dealers or such affiliate on behalf of the issuer in such jurisdiction.

The 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 Dealers, nor any person who controls any of them nor any of their respective directors, officers, employees, agents or affiliates 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 Dealers.

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

OFFERING CIRCULAR

KEB Hana Bank

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

U.S.$10,000,000,000
Global Medium Term Note Programme

On 17 May 1995, KEB Hana Bank (formerly Korea Exchange Bank; the "**Issuer**" or the "**Bank**") established a programme for the issuance of debt instruments up to U.S.$4,000,000,000 (as amended, supplemented or restated, the "**Programme**") and issued an offering circular on that date describing the Programme. On the date of this offering circular (this "**Offering Circular**"), the Issuer increased the aggregate nominal amount of the Programme from U.S.$4,000,000,000 to U.S.$10,000,000,000. This Offering Circular updates the Programme and supersedes all previous offering circulars and any supplements or amendments thereto, including the immediately preceding offering circular dated 26 May 2014. Any Notes (as defined below) issued under the Programme on or after the date of this Offering Circular are issued subject to the provisions described herein. This update does not affect any Notes issued before the date of this Offering Circular.

Under the Programme, the Issuer may from time to time issue notes in bearer and/or registered form (respectively, "**Bearer Notes**" and "**Registered Notes**", and together, the "**Notes**", which expression includes Senior Notes and Subordinated Notes (as defined herein)) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.$10,000,000,000 (or its equivalent in other currencies calculated as described herein).

In relation to any Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes, the Issuer may act through its principal office in Korea or through any of its branches, in each case as indicated in the applicable Pricing Supplement (as defined below).

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

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "**Singapore Stock Exchange**") for the listing and quotation of Notes that may be issued pursuant to the Programme and which are agreed, at or prior to the time of issue thereof, to be so listed on the Singapore Stock Exchange. Such permission will be granted when such Notes have been admitted for listing and quotation on the Singapore Stock Exchange. The Singapore Stock Exchange assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of any Notes on, the Singapore Stock Exchange are not to be taken as an indication of the merits of the Issuer, the Programme or the Notes. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche of Notes will be set out in a pricing supplement (the "**Pricing Supplement**") a copy of which, with respect to Notes to be listed on the Singapore Stock Exchange, will be submitted to the Singapore Stock Exchange before the date of listing of the Notes of such Tranche.

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

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

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

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplementary Offering Circular, if appropriate, will be published which will describe the effect of the agreement reached in relation to such Notes.

Arranger

UBS

Dealers

Barclays	**BNP PARIBAS**
BofA Merrill Lynch	**Citi**
Commerzbank	**Crédit Agricole CIB**
Hana Financial Investment	**HSBC**
KEB Hana Global Finance	**Mizuho Securities**
UBS	

The date of this Offering Circular is 8 January 2016.

The Issuer, having made all reasonable enquiries, accepts responsibility for this Offering Circular, and confirms that this Offering Circular contains all information which is material in the context of the Programme, that the information contained in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make any of such information or the expression of any such opinions or intentions misleading.

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

No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the authenticity, origin, validity, accuracy or completeness of the information contained or incorporated by reference in this Offering Circular or any supplement hereto or any other information provided by or purported to be provided by the Issuer in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the Programme. Each Dealer and its affiliates accordingly disclaim all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such information.

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

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

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

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

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

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

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

U.S. INFORMATION

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. See *"Subscription and Sale and Transfer and Selling Restrictions"* below.

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

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

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

NOTICE TO PERSONS IN THE UNITED KINGDOM

This communication is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "**relevant persons**"). Any Notes will only be available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

NOTICE TO NEW HAMPSHIRE RESIDENTS

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

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are "restricted securities" within the meaning of the Securities Act, the Issuer has undertaken in a deed poll dated 8 January 2016 (the "**Deed Poll**") to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Issuer is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, (the "**Exchange Act**") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

KOREAN SELLING RESTRICTIONS

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

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a corporation organised under the laws of Korea. All of the officers and directors named herein reside outside the United States and all or a substantial portion of the assets of the Issuer and of such officers and directors are located outside the United States. As a result, it may not be possible for investors to effect service of process within the U.S. upon the Issuer or such persons, or to enforce judgements against them obtained in courts in the U.S. predicated upon civil liabilities of the Issuer or such directors and officers under laws other than Korean law, including any judgement predicated upon U.S. federal securities laws. There is doubt as to the enforceability in Korea in original actions or in actions for enforcement of judgements of U.S. courts of civil liabilities predicated solely upon the federal securities laws of the United States.

FORWARD LOOKING STATEMENTS

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

- the risk of adverse impacts from an economic downturn in Korea and globally;
- the risks and challenges of Korea Exchange Bank's recent merger with Hana Bank (the "**Merger**");
- the Issuer's ability to successfully implement its business strategy;
- the condition of and changes in the Korean, Asian or global economies, including changes in consumer confidence and spending;
- future levels of non-performing loans;
- the Issuer's growth and expansion, including whether the Issuer succeeds with its business strategy;
- changes in interest rates and changes in government regulation and licensing of the Issuer's businesses in Korea and in other jurisdictions where the Issuer may operate; and
- competition in the financial services industry.

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

CERTAIN DEFINED TERMS AND CONVENTIONS

Unless otherwise specified or the context otherwise requires, in this Offering Circular:

- References to "**we**", "**us**", "**our**", the "**Issuer**" and the "**Bank**" are to KEB Hana Bank (formerly Korea Exchange Bank), the surviving entity resulting from the Merger;
- References to "**Korea Exchange Bank**" are to Korea Exchange Bank prior to the Merger;
- References to "**Hana Bank**" are to Hana Bank, which merged into Korea Exchange Bank pursuant to the Merger; and
- References to "**Hana Financial Group**" are to Hana Financial Group, Inc., the Bank's holding company.

References to "**Korea**" are to the Republic of Korea. References to "**U.S.**" or the "**United States**" are to the United States of America. References to "**PRC**" or "**China**" are to the People's Republic of China. References to the "**Government**" are to the government of Korea. The "**Financial Services Commission**" or the "**FSC**" shall mean the Financial Services Commission of Korea, and the "**Financial Supervisory Service**" or the "**FSS**" shall mean the Financial Supervisory Service of Korea, the executive body of the FSC.

All references in this Offering Circular to "**Won**" and "**₩**" refer to the currency of Korea, those to "**U.S. dollars**" and "**U.S.$**" are to United States dollars, those to "**Japanese Yen**" are to the currency of Japan, those to "**S$**" are to the currency of Singapore, those to "**Sterling**" and "**£**" are to the currency of the United Kingdom, those to "**Chinese Renminbi**", "**Renminbi**" and "**RMB**" are to the currency of China and those to "**Euro**" and "**€**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

Unless otherwise stated, all financial information contained in this Offering Circular is presented on a consolidated basis in accordance with K-IFRS together with, where applicable, accounting and reporting guidelines under Korean accounting standards applicable to the banking industry. Financial and other information contained in this Offering Circular regarding individual borrowers, groups or categories of borrowers or classifications by industry, geography, size or other factors, including information as to loans, credits, total exposures, allowances, collateral values, nonperforming loans and other items, has been derived solely from the Issuer's internal management information systems.

Unless otherwise stated, the financial data of the Issuer as of 30 September 2015 and for the nine months ended 30 September 2014 and 2015 contained in this Offering Circular have been derived from the Issuer's unaudited interim consolidated financial statements included herein, which have been prepared in accordance with K-IFRS. Any statement of financial position data of the Issuer as of 30 September 2015 represent the financial position of the Issuer as of such date giving effect to the Merger, which was consummated effective 1 September 2015. Any statement of comprehensive income data of the Issuer for the nine months ended 30 September 2015 represent the results of the Issuer (giving effect to the Merger) from 1 September 2015 to 30 September 2015 and those of Korea Exchange Bank (prior to the Merger) from 1 January 2015 to 31 August 2015, and any statement of comprehensive income data of the Issuer for the nine months ended 30 September 2014 represent the results of Korea Exchange Bank (prior to the Merger) for such period. Unless otherwise stated, the financial data of the Issuer as of and for the years ended 31 December 2013 and 2014 contained in this Offering Circular have been derived from Korea Exchange Bank's audited consolidated financial statements included herein, which have been prepared in accordance with K-IFRS and represent the financial position and the results of Korea Exchange Bank prior to the Merger, as of such dates and for such periods. Consequently, the financial data of the Issuer as of and for the nine months ended 30 September 2015 may not be directly comparable to those of prior dates or periods.

All references in this document to "**balance sheet**" are to the statement of financial position.

Under the Korean Banking Act (the "**Banking Act**"), assets accepted in trust by a bank in Korea must be segregated from its other assets in the accounts of that bank. Accordingly, banks, including the Issuer, engaged in the banking and trust businesses must maintain two separate accounts, the bank account and the trust account, and two separate sets of records, which provide details of their respective banking and trust businesses. All financial information contained in this Offering Circular relating to the Issuer is presented with respect to the Issuer's bank account only, unless stated otherwise.

Unless otherwise specified, all conversions of Won into U.S. dollars were made at the base rate under the market average exchange system, provided by Seoul Money Brokerage Services, Ltd. in Seoul for U.S. dollars against Won (the "**Market Average Exchange Rate**"). For convenience only, except as set out below and where otherwise indicated, certain Won amounts have been translated into U.S. dollars at the Market Average Exchange Rate of U.S.$1.00 = ₩1,194.5, which was in effect on 30 September 2015. No representation is made that the Won or the U.S. dollar amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all.

Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding. References to billions are to thousands of millions.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Such stabilising, if commenced, may be discontinued at any time and, if begun, must be brought to an end after a limited period. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

CONTENTS

DOCUMENTS INCORPORATED BY REFERENCE

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

(a) the publicly available audited consolidated and audited separate annual financial statements and the publicly available unaudited consolidated and unaudited separate interim financial statements of the Issuer for the most recent financial period; and

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

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise).

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the written request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Written requests for such documents should be directed to the Issuer at its registered offices set out at the end of this Offering Circular. In addition, such documents will be available for inspection, free of charge at the specified office of The Bank of New York Mellon, London Branch (the "**Principal Paying Agent**").

The Issuer will, in connection with the listing of the Notes on the Singapore Stock Exchange, so long as the rules of the Singapore Stock Exchange so require, in the event of any material adverse change in the financial condition of the Issuer which is not reflected in this Offering Circular, prepare a further supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of the Notes to be listed on the Singapore Stock Exchange.

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

GENERAL DESCRIPTION OF THE PROGRAMME

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

This Offering Circular and any supplement will only be valid for the offering of Notes in an aggregate nominal amount of Notes which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.$10,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

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

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

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

SUMMARY OF THE PROGRAMME

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

Issuer:	KEB Hana Bank (in relation to each Tranche of Notes the applicable Pricing Supplement will indicate whether the Issuer is acting through its principal office in Korea or through any of its branches).
Description:	Global Medium Term Note Programme.
Arranger:	UBS AG
Dealers:	Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment, Hana Financial Investment Co., Ltd., The Hongkong and Shanghai Banking Corporation Limited, KEB Hana Global Finance Limited, Merrill Lynch International, Mizuho Securities Asia Limited, UBS AG, Hong Kong Branch and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale and Transfer and Selling Restrictions*").
Principal Paying Agent and Calculation Agent:	The Bank of New York Mellon, London Branch
DTC Paying Agent, DTC Transfer Agent, DTC Registrar and Exchange Agent:	The Bank of New York Mellon
ICSD Paying Agent (in respect of Notes held through Euroclear and Clearstream):	The Bank of New York Mellon, London Branch
ICSD Transfer Agent and ICSD Registrar (in respect of Notes held through Euroclear and Clearstream):	The Bank of New York Mellon (Luxembourg) S.A.
CMU Lodging Agent, CMU Transfer Agent and CMU Registrar:	The Bank of New York Mellon, Hong Kong Branch

Size:	Up to U.S.$10,000,000,000 (or its equivalent in other currencies calculated as described under "*General Description of the Programme*") outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Maturities:	Such maturities as may be agreed between the Issuer and the relevant Dealer and as indicated in the applicable Pricing Supplement, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency; provided that Subordinated Notes shall have a minimum maturity of five years.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and vice versa.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer (as indicated in the applicable Pricing Supplement) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined either: (i) on the same basis as the floating rate under a notional interest-rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer as indicated in the applicable Pricing Supplement.

	The Margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each series of Floating Rate Notes.
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula, to the extent permitted by applicable law, as the Issuer and the relevant Dealer may agree (as indicated in the applicable Pricing Supplement).
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as selected prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates specified in, or determined pursuant to, the applicable Pricing Supplement and will be calculated on the basis of the relevant Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies and based on such rates of exchange, as the Issuer and the relevant Dealer may agree (as indicated in the applicable Pricing Supplement).
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest other than in the case of late payment.
Redemption:	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments (see below), if applicable, or for taxation reasons (in the case of Subordinated Notes, only with the prior approval of the FSS or of such other relevant regulatory authorities in Korea, if necessary) or, in the case of Senior Notes, following an Event of Default or, in the case of Subordinated Notes, following a Bankruptcy Event or the liquidation of the Bank) or that such Notes will be redeemable at the option of the Issuer (only with, in the case of Subordinated Notes, the prior approval of the FSS or of such other relevant regulatory authorities in Korea, if necessary) upon giving not less than 30 nor more than 60 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Pricing Supplement) to the Noteholders, and/or (except in the case of Subordinated Notes) at the option of the Noteholders, upon giving not less than 30 nor more than 45 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Pricing Supplement) to the Issuer, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Pricing Supplement.

	The applicable Pricing Supplement may provide that Notes may be repayable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.
Denomination of Notes:	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer and as indicated in the applicable Pricing Supplement save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. Definitive IAI Registered Notes sold in the United States to Institutional Accredited Investors pursuant to Section 4(2) of the Securities Act or in a transaction otherwise exempt from registration under the Securities Act shall be issued in minimum denominations of U.S.$500,000 (or its equivalent in any other currency) and higher integral multiples of U.S.$1,000 (or its equivalent as aforesaid).
Taxation:	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed within Korea or any Specified Country, subject as provided in Condition 9. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 9, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:	The terms of the Senior Notes will contain a negative pledge provision as further described in Condition 4.
Cross Acceleration:	The terms of the Senior Notes will contain a cross acceleration provision as further described in Condition 11.
Status of the Senior Notes:	The Senior Notes and any relative Receipts and Coupons will constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer which will rank *pari passu* among themselves and will rank at least *pari passu* with all other present and future unsecured (subject to Condition 4) and unsubordinated obligations of the Issuer, save for such as may be preferred by mandatory provisions of applicable law.
Status of the Subordinated Notes:	The Subordinated Notes and any relative Receipts and Coupons will constitute direct, general, subordinated and unsecured obligations of the Issuer which will rank *pari passu* among themselves and in priority to claims of holders of all classes of equity (including holders of preference shares (if any)) of the Issuer.

Write-off of the Subordinated Notes upon a Trigger Event:	The Subordinated Notes will be subject to Write-off upon the occurrence of a Trigger Event, as provided in Condition 8. See "*Investment Considerations — Risks relating to the Notes — The Notes that are Subordinated Notes may be fully written off upon the occurrence of certain trigger events, in which case holders of the Notes will lose all of their investment.*"
Listing:	Approval in-principle has been received for the listing and quotation of Notes that may be issued under the Programme and which are agreed at or prior to the time of issue thereof, to be so listed on the Singapore Stock Exchange. Such permission will be granted when such Notes have been admitted for listing and quotation on the Singapore Stock Exchange. The Singapore Stock Exchange assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of any Notes on, the Singapore Stock Exchange are not to be taken as an indication of the merits of the Issuer, the Programme or the Notes. For so long as any Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, such Notes will be traded in a minimum board lot size of S$200,000 or its equivalent in foreign currencies. Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. The Pricing Supplement relating to each Tranche of Notes will state whether or not and, if so, on which stock exchange(s) the Notes are to be listed. Notes not listed on a stock exchange may also be issued.
Governing Law:	The Notes and all non-contractual obligations arising out of or in connection with the Notes are governed by English law except for Condition 3(b) ("Status of the Subordinated Notes") which will be governed by, and construed in accordance with, Korean law.
Selling Restrictions:	There are selling restrictions in relation to the United States, the European Economic Area (including the United Kingdom), Japan, Korea, Hong Kong, Singapore and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See *"Subscription and Sale and Transfer and Selling Restrictions"*.

FORM OF THE NOTES

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

Bearer Notes

Each Tranche of Bearer Notes will be initially issued in the form of either a temporary global note (a "**Temporary Global Note**") or a permanent global note (a "**Permanent Global Note**") as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to either (i) a common depositary (the "**Common Depositary**") for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") or (ii) a sub-custodian for the Hong Kong Monetary Authority ("**HKMA**") as operator of the Central Moneymarkets Unit Service (the "**CMU Service**"). Whilst any Bearer Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and/or The Bank of New York Mellon, Hong Kong Branch (the "**CMU Lodging Agent**") and (in the case of a Temporary Global Note delivered to the Common Depositary for Euroclear and Clearstream, Luxembourg) Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the "**Exchange Date**") which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Global Note of the same Series or (ii) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The CMU Service may require that any such exchange for a Permanent Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report (as defined in the rules of the CMU Service) or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) have so certified. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note (if not held through the CMU Service) will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Global Note without any requirement for certification.

In respect of a Bearer Global Note held through the CMU Service, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Bearer Global Note are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) and save in the case of final payment, no presentation of the relevant Bearer Global Note shall be required for such purpose.

The applicable Pricing Supplement will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon the occurrence of an Exchange Event. For these purposes, "Exchange Event" means that (i) an Event of Default (as defined in Condition 11) has occurred and is continuing, (ii) the Issuer has been notified that Euroclear and/or Clearstream, Luxembourg have been or, in the case of Notes held through the CMU Service, the CMU Service has been, closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no alternative clearing system is available or (iii) the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 9 which would not be required were the Notes represented by the Permanent Global Note in definitive form (provided that, in certain circumstances where the Notes are held through Euroclear and/or Clearstream, Luxembourg, and/or the CMU Service, such adverse tax consequences are as a result of a change in, or amendment to, the laws or regulation (taxation or otherwise) in, or of, Korea). The Issuer will promptly give notice to Noteholders and the relevant agents in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream, Luxembourg, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) and/or, in the case of Notes held through the CMU Service, the relevant account holders therein, may give notice to the Principal Paying Agent or, as the case may be, the CMU Lodging Agent, requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent or, as the case may be, the CMU Lodging Agent, requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent or, as the case may be, the CMU Lodging Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

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

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

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

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form (a "**Regulation S Global Note**"). To the extent Category II is applicable at the time of the offering pursuant to Rule 903 under Regulation S, prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a

Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear or Clearstream, Luxembourg or the CMU Service and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

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

Registered Global Notes will be deposited with either (i) a custodian for, and registered in the name of a nominee of, the Depositary Trust Company ("**DTC**") for the accounts of Euroclear and Clearstream, Luxembourg, (ii) a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg or (iii) a sub-custodian for the HKMA as operator of the CMU Service, in each case, as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

The Registered Notes of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof ("**Definitive IAI Registered Notes**"). Unless otherwise set forth in the applicable Pricing Supplement, Definitive IAI Registered Notes will be issued only in minimum denominations of U.S.$500,000 and integral multiples of U.S.$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under "*Subscription and Sale and Transfer and Selling Restrictions*". Institutional Accredited Investors that hold Definitive IAI Registered Notes may not hold such Notes through DTC, Euroclear, Clearstream, Luxembourg or the CMU Service, but transferees acquiring the Notes in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144 under the Securities Act (if available) may elect to do so upon satisfaction of the requirements applicable to such transfer as described under "*Subscription and Sale and Transfer and Selling Restrictions*". The Restricted Global Note and the Definitive IAI Registered Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 1) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6(b)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default has occurred and is continuing, (ii) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act, (iii) in the case of Notes registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have and, in the case of Notes held through the CMU Service, the Issuer has been notified that the CMU Service has, been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (iv) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form. The Issuer will promptly give notice to Noteholders and the relevant agents in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (i) in the case of Notes registered in the name of a nominee for DTC or a nominee for a Common Depositary for Euroclear and/or Clearstream, Luxembourg, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Note) and/or (ii) in the case of Notes held through the CMU Service, the relevant account holders therein, may give notice to the Registrar, or as the case may be, the CMU Lodging Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iv) above, the Issuer may also give notice to the Registrar or, as the case may be, the CMU Lodging Agent requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar or, as the case may be, the CMU Lodging Agent.

Transfer of Interests

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

CMU Notes

Unless otherwise specified in the applicable Pricing Supplement, CMU Notes will initially be issued in registered form and represented by a global certificate registered in the name of HKMA, in its capacity as operator of the CMU Service. Certain special provisions apply to such CMU Notes. See "*Book-Entry Clearance Systems — CMU*".

General

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Principal Paying Agent or the CMU Lodging Agent, as the case may be, shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number and/or CMU instrument number which are different from the common code, ISIN, CUSIP, CINS and CMU instrument number assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear, Clearstream, Luxembourg and/or the CMU Service, each person (other than Euroclear, Clearstream, Luxembourg or the CMU Service) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg or the CMU Service as the holder of a particular nominal amount of such

Notes (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg and/or the CMU Service as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly. Notwithstanding the above, if a Note is held through the CMU Service, any payment that is made in respect of such Note shall be made at the direction of the bearer or the registered holder to the person(s) for whose account(s) interests in such Note are credited as being held through the CMU Service in accordance with the CMU Rules at the relevant time as notified to the CMU Lodging Agent by the CMU Service in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service as to the identity of any accountholder and the principal amount of any Note credited to its account, save in the case of manifest error) and such payments shall discharge the obligation of the Issuer in respect of that payment under such Note.

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

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

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 11. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg and/or DTC and/or the CMU Service, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear, Clearstream, Luxembourg, DTC and the CMU Service on and subject to the terms of a deed of covenant (the "**Deed of Covenant**") dated 8 January 2016 and executed by the Issuer. In addition, holders of interests in such Global Note credited to their accounts with DTC may require DTC to deliver Definitive Notes in registered form in exchange for their interest in such Global Note in accordance with DTC's standard operating procedures.

So long as any Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, in the event that the Global Note representing such Notes is exchanged for definitive Notes, the Issuer shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption. In addition, in the event the Global Note representing such Notes is exchanged for definitive Notes, an announcement of such exchange will be made through the Singapore Stock Exchange. Such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

Form of Pricing Supplement

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

[Date]

KEB HANA BANK

[(acting through its [ ] branch)]
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
Issued Pursuant to the U.S.$10,000,000,000 Global Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes set forth in the Offering Circular dated 8 January 2016 as amended or supplemented from time to time (the "**Offering Circular**"). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of this Pricing Supplement and the Offering Circular.

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

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

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the "**Conditions**") set forth in the Offering Circular dated [*original date*]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated 8 January 2016, save in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of this Pricing Supplement and such Offering Circulars.]

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

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

1.	Issuer (acting [through its principal office in Korea]/[through its branch]):	KEB Hana Bank, [acting through its [principal office in Korea]/[name of relevant issuing branch]]
2.	(i) Series Number:	[ ]
	(ii) Tranche Number:	[ ] *(If re-opening fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)*
	(iii) Re-opening:	[Yes/No] (*Specify terms of initial or eventual fungibility*)
3.	Specified Currency or Currencies:	[ ]
4.	Aggregate Nominal Amount:	
	(i) Tranche:	[ ]
	(ii) Series:	[ ]
5.	[(i)] Issue Price of Tranche:	[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible re-opening issues only, if applicable).
	[(ii) Net Proceeds:	[ ]
	(*Required only for listed issues*)]	
6.	(i) Specified Denominations:	[ ]
	(in the case of Registered Notes, this means the minimum integral amount in which transfers can be made)	*(N.B. Following the entry into force of the amendments made by Directive 2010/73/EU to the Prospectus Directive (Directive 2003/71/EC) (the "2010 PD Amending Directive") on 31 December 2010, Notes to be admitted to trading on a regulated market within the European Economic Area must have a minimum denomination of €100,000 (or equivalent) in order to benefit from Transparency Directive exemptions in respect of wholesale securities. Similarly, Notes must have a minimum denomination of €100,000 (or equivalent) in order to benefit from the wholesale exemption set out in Article 3.2(d) of the Prospectus Directive in that Member State.)* *(N.B. Where Bearer Notes with multiple denominations above U.S.$200,000 or equivalent are being used, the following sample wording should be followed:* *"U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof up to and including U.S.$399,000. No Notes in definitive form will be issued with a denomination above U.S.$399,000.")*

		(N.B. If an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €100,000 minimum denomination is not required.)
	(ii) Calculation Amount:	[ ]
		(If there is only one Specified Denomination, insert the Specified Denomination. If there is more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)
7.	(i) Issue Date:	[ ]
	(ii) Interest Commencement Date:	[*specify/Issue Date/Not Applicable] (N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.*)
8.	Maturity Date:	[*Fixed rate — specify date/Floating rate — Interest Payment Date falling in or nearest to* [*specify month and year*]]
		(*N.B. Subordinated Notes shall have a minimum maturity of five years*)
9.	Interest Basis:	[[ ] per cent. Fixed Rate] [[LIBOR/EURIBOR/HIBOR] +/- [ ] per cent. Floating Rate] [Zero Coupon] [Index-Linked Interest] [Dual Currency Interest] [*specify other*] (further particulars specified below)
10.	Redemption/Payment Basis:	[Redemption at par] [Index-Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [*specify other*]
11.	Change of Interest Basis or Redemption/Payment Basis:	[*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*]

12.	Put/Call Options:		[Investor Put] [Issuer Call] [(further particulars specified below)] **[*N.B. Investor Put not possible for Subordinated Notes; Issuer Call for Subordinated Notes will be subject to satisfaction of regulatory conditions.*]**
13.	(i)	Status of the Notes:	[Senior/Subordinated]
	(ii)	Date of [Board] approval for issuance of Notes obtained:	[ ]/[None required] (*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes*)
	(iii)	Date of regulatory approval/consent for issuance of Notes obtained:	[ ]/[None required] (*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes*)
14.	Listing:		[Singapore/specify other/None] (*N.B. Consider disclosure requirements under the EU Prospectus Directive applicable to securities admitted to an EU regulated market*)
15.	Method of distribution:		[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16.	Fixed Rate Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Rate[(s)] of Interest:	[ ] per cent. per annum [payable [annually/ semi-annually/quarterly/monthly] in arrear] (*If payable other than annually, consider amending Condition 5.*)
	(ii)	Interest Payment Date(s):	[[ ] in each year up to and including the Maturity Date]/[specify other] *(N.B. This will need to be amended in the case of long or short coupons)*
	(iii)	Fixed Coupon Amount(s): *(Applicable to Notes in definitive form)*	[[ ] per Calculation Amount]/[As per Condition 5(a)(II)]

	(iv) Broken Amount(s): *(Applicable to Notes in definitive form)*	[[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]]/[As per Condition 5(a)(II)]
	(v) Day Count Fraction:	[*30/360 or Actual/Actual (ICMA) or specify other*]/[Not applicable] (*Applicable if Condition 5(a)(I) is specified as being applicable in paragraph 16(viii)*)
	(vi) Determination Date(s):	[ ] in each year [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B.: This will need to be amended in the case of regular interest payment dates which are not of equal duration. N.B. Only relevant where Day Count. Fraction is Actual/Actual (ICMA*)]
	(vii) Business Day Convention:	[*Following Business Day Convention*] [*Other*]
	(viii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Condition 5(a)(I) applies/Condition 5(a)(II) applies. The Principal Paying Agent will act as the Calculation Agent/None/Give details]
17.	Floating Rate Note Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Specified Period(s)/Interest Payment Dates:	
	(ii) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[*specify other*]]
	(iii) Additional Business Centre(s):	[ ] (Insert New York City for U.S. dollar denominated Notes to be held through DTC and for non-U.S. dollar denominated Notes where exchange into U.S. dollars is contemplated for DTC participants holding through Euroclear and Clearstream, Luxembourg)
	(iv) Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/*specify other*]
	(v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent):	
	(vi) Screen Rate Determination:	
	—Reference Rate:	[ ]

	(*Either LIBOR, EURIBOR, HIBOR or other, although additional information is required if other — including fallback provisions in the Agency Agreement*)
—Interest Determination Date(s):	[ ]
	(*Second business day prior to the start of each Interest Period*)
—Relevant Screen Page:	[ ]
	(*In the case of EURIBOR, if not Reuters page EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
(vii) ISDA Determination:	
—Floating Rate Option:	[ ]
—Designated Maturity:	[ ]
—Reset Date:	[ ]
(viii) Margin(s):	[+/-] [ ] per cent. per annum
(ix) Minimum Rate of Interest:	[ ] per cent. per annum
(x) Maximum Rate of Interest:	[ ] per cent. per annum
(xi) Day Count Fraction:	[Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 30E/360 (ISDA)] (*See Condition 5 for alternatives*)
(xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[ ]

18.	Zero Coupon Note Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Accrual Yield:	[ ] per cent. per annum
	(ii) Reference Price:	[ ]
	(iii) Any other formula/basis of determining amount payable:	[ ]
	(iv) Day Count Fraction in relation to Early Redemption Amounts and late payment:	Conditions 7(e)(iii) and 7(j) apply/specify other] (*Consider applicable day count fraction if not U.S. dollar denominated*)
19.	Index Linked Interest Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Index/Formula:	[give or annex details]
	(ii) Calculation Agent:	[ ]
	(iii) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent):	[ ]
	(iv) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(v) Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(vi) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[*specify other*]]
	(vii) Additional Business Centre(s):	[ ]
	(viii) Minimum Rate of Interest:	[ ] per cent. per annum
	(ix) Maximum Rate of Interest:	[ ] per cent. per annum
	(x) Day Count Fraction:	[ ]

20.	Dual Currency Note Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Rate of Exchange/method of calculating Rate of Exchange:	[give details]
(ii)	Party, if any, responsible for calculating the principal and/or interest payable (if not the Principal Paying Agent):	[ ]
(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
(iv)	Person at whose option Specified Currency(ies) is/are payable:	[ ]

PROVISIONS RELATING TO REDEMPTION

21.	Issuer Call:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Optional Redemption Date(s):	[ ] (*N.B. Subordinated Notes may not be redeemed within five years of their issuance date*)
(ii)	Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/specify *other/see* Appendix]
(iii)	If redeemable in part:	
(a)	Minimum Redemption Amount:	[ ]
(b)	Maximum Redemption Amount:	[ ]
(iv)	Notice period (if other than as set out in the Conditions):	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent*)

22.	Investor Put:		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Optional Redemption Date(s):	[ ]
	(ii)	Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/*specify other/see* Appendix]
	(iii)	Notice period (if other than as set out in the Conditions):	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent*)
23.	Final Redemption Amount of each Note:		[[ ] per Calculation Amount/*specify other/see* Appendix]
24.	Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)):		[[ ] per Calculation Amount/*specify other/see* Appendix]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25.	Form of Notes:	[Bearer Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Bearer Notes only upon an Exchange Event]* [Temporary Global Note exchangeable for Definitive Bearer Notes on and after the Exchange Date]* [Permanent Global Note exchangeable for Definitive Bearer Notes only upon an Exchange Event]*

* *Ensure that this is consistent with the wording in the "Form of the Notes" section in the Offering Circular and the Notes themselves. N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6(i) includes language substantially to the following effect: "U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof up to and including U.S.$399,000." Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Bearer Notes.*

		[Registered Notes: Regulation S Global Note (U.S.$[ ] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/held through the CMU Service]/Restricted Global Note (U.S.$[ ] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/held through the CMU Service]/Definitive IAI Registered Notes (*specify nominal amounts*)] (*Ensure that this is consistent with the language in the "Form of the Notes" section in the Offering Circular and the Notes themselves*)
26.	Additional Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/give details] (*Note that this item relates to the place of payment and not Interest Period end dates to which items 17(iii) and 19(vi) relate; insert New York City for U.S. dollar denominated Notes to be held through DTC*)
27.	Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
28.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details.* *N.B. New forms of Global Note(s) may be required for Partly Paid issues.]*
29.	Details relating to Instalment Notes:	
	(i) Instalment Amount(s):	[Not Applicable/*give details*]
	(ii) Instalment Date(s):	[Not Applicable/*give details*]
30.	Redenomination applicable:	Redenomination [not] applicable (*If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates*))
31.	Other terms or special conditions:	[Not Applicable/*give details*]

DISTRIBUTION

32.	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilising Manager (if any):	[Not Applicable/*give name*]
33.	If non-syndicated, name of relevant Dealer:	[ ]
34.	Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable:	[TEFRA D/TEFRA C/TEFRA not applicable]
35.	Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

36.	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[CMU Service/Not Applicable/*give name(s) and number(s)*]
37.	Delivery:	Delivery [against/free of] payment
[38.	In the case of Registered Notes, specify the location of the office of the Registrar if other than New York:]	[Not Applicable/[Luxembourg]/Hong Kong]
39.	Additional Paying Agent(s) (if any):	[ ]

ISIN:	[ ]
Common Code:	[ ]

(insert here any other relevant codes such as CUSIP, CINS codes and a CMU instrument number)

[LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.$10,000,000,000 Global Medium Term Note Programme of KEB Hana Bank.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. Signed on behalf of the Issuer:

By: ______________________________
Duly authorised

If the relevant Pricing Supplement relating to a Tranche of Notes specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 2, 5, 6, 7 (except Condition 7(b)), 12, 13, 14, 15 (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 17, they will not necessitate the preparation of a supplementary Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplementary Offering Circular or a further Offering Circular describing the modification will be prepared, if appropriate.

TERMS AND CONDITIONS OF THE NOTES

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

This Note is one of a Series (as defined below) of Notes issued by KEB Hana Bank (the "**Issuer**"). The applicable Pricing Supplement (as defined below) will indicate whether the Issuer is acting in relation to the Notes through its principal office in the Republic of Korea ("**Korea**") or any of its branches.

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

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

(ii) definitive Notes in bearer form ("**Bearer Notes**") issued in exchange (or part exchange) for a Global Note;

(iii) any Global Note;

(iv) in relation to any Notes represented by definitive Notes in registered form ("**Definitive Registered Notes**"), units of the lowest Specified Denomination in the Specified Currency; and

(v) any Definitive Registered Notes.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of the Agency Agreement dated 8 January 2016 (as further amended, restated or supplemented, the "**Agency Agreement**") and made between, the Issuer, The Bank of New York Mellon, London Branch, as principal paying agent (the "**Principal Paying Agent**", which expression shall include any successor principal paying agent) and calculation agent (the "**Calculation Agent**", which expression shall include any successor), The Bank of New York Mellon (Luxembourg) S.A., as registrar with respect to Notes held through Euroclear and Clearstream, Luxembourg, The Bank of New York Mellon, as registrar with respect to Notes held through DTC, The Bank of New York Mellon, Hong Kong Branch, as registrar with respect to Notes held through CMU (the relevant "**Registrar**", which expression shall include any successor registrar) and The Bank of New York Mellon (Luxembourg) S.A., as the transfer agent with respect to Notes held through Euroclear and Clearstream, Luxembourg, The Bank of New York Mellon, as transfer agent with respect to Notes held through DTC, The Bank of New York Mellon, Hong Kong Branch, as transfer agent with respect to Notes held through CMU (the relevant "**Transfer Agents**", which expression shall include any successor or any additional transfer agents appointed in accordance with the Agency Agreement), The Bank of New York Mellon, as exchange agent (the "**Exchange Agent**", which expression shall include any successor exchange agent) and as DTC paying agent (the "**DTC Paying Agent**", which expression shall include any successor or any additional DTC paying agent appointed from time to time), The Bank of New York Mellon, Hong Kong Branch, as CMU lodging and paying agent (the "**CMU Lodging Agent**", which expression shall include any successor or any additional CMU lodging and paying agents appointed from time to time) (together with the Principal Paying Agent and the DTC Paying Agent, the "**Paying Agents**", which expression shall, unless the context otherwise requires, include any successor or any additional paying agents appointed in accordance with the Agency Agreement). For purposes of these Terms and Conditions, all references to the Principal Paying Agent and the Registrar shall, with respect to a Series of Notes to be held in the CMU Service (as defined below), be deemed to be a reference to the CMU Lodging Agent and all such references shall be construed accordingly.

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

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

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

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

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the deed of covenant dated 8 January 2016 (the "**Deed of Covenant**") made by the Issuer. The original of the Deed of Covenant is held by a common depositary on behalf of Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement, the Pricing Supplement applicable to this Note, a deed poll (the "**Deed Poll**") dated 8 January 2016 and the Deed of Covenant are available for inspection during normal business hours at the specified office of the Paying Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be available to a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the relevant Paying Agent as to its holding of Notes and as to identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed Poll, the Deed of Covenant and the applicable Pricing Supplement which are applicable to them.

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

1. **Form, Denomination and Title**

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

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note or a combination of any of the foregoing, depending upon the Interest/Payment Basis shown in the applicable Pricing Supplement.

Each Tranche of Bearer Notes will be initially represented by a temporary global Note without Receipts, Coupons or Talons attached (each, a "**Temporary Global Note**") which will be delivered to a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") and/or a sub-custodian for the Central Moneymarkets Unit Service (the "**CMU Service**") operated by the Hong Kong Monetary Authority (the "**HKMA**"). On or after the date which is 40 days after the Issue Date beneficial interests in a Temporary Global Note will be exchangeable upon a request as described therein either for interests in a permanent global Note without Receipts, Coupons or Talons (each, a "**Permanent Global Note**") or for definitive Bearer Notes (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification to the effect that the beneficial owner of interests in such Temporary Global Note is not a U.S. person or a person who has purchased for resale to any U.S. person, as required by U.S. Treasury regulations. The applicable Pricing Supplement will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default (as defined in Condition 11) has occurred and is continuing, (ii) the Issuer has been notified that Euroclear and/or Clearstream, Luxembourg have been or, in the case of Notes held through the CMU Service, the CMU Service has been, closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no alternative clearing system is available or (iii) the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 9 which would not be required were the Notes represented by the Permanent Global Note in definitive form (provided that, in certain circumstances where the Notes are held through Euroclear and/or Clearstream, Luxembourg, and/or the CMU Service, such adverse tax consequences are as a result of a change in, or amendment to, the laws or regulation (taxation or otherwise) in, or of, Korea). The Issuer will promptly give notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (x) in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream, Luxembourg, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) and/or (y) in the case of Notes held through the CMU Service, the relevant accountholders therein, may give notice to the Principal Paying Agent or, as the case may be, the CMU Lodging Agent, requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer will also give notice to the Principal Paying Agent or the CMU Lodging Agent, as the case may be, requesting exchange. Any such exchange following an Exchange Event shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent or the CMU Lodging Agent, as the case may be.

Bearer Notes in definitive form are issued with Coupons and (if applicable) Receipts and Talons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Unless otherwise provided with respect to a particular series of Registered Notes, Registered Notes of each Tranche sold outside the United States in reliance on Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended, (the "**Securities Act**") will, unless otherwise specified in the applicable Pricing Supplement, be represented by a permanent global Registered Note, without Receipts, Coupons or Talons attached, (each, a "**Regulation S Global Note**"), deposited with (i) a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("**DTC**") for the accounts of Euroclear and Clearstream, Luxembourg, (ii) a common depositary for, and registered in the name of a common nominee of , Euroclear and Clearstream, Luxembourg, or (iii) a sub-custodian for the HKMA as operator of the CMU Service, as specified in the applicable Pricing Supplement. Definitive Registered Notes issued in exchange for Regulation S Global Notes or otherwise sold or transferred in reliance on Regulation S under the Securities Act, together with the Regulation S Global Notes, are referred to herein as "**Regulation S Notes**". With respect to all offers or sales of an unsold allotment or subscription and in any case prior to expiry of the period that ends 40 days after the later of the relevant Issue Date and completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer, in the case of a non-syndicated issue, or by the Lead Manager, in the case of a syndicated issue (the "**Distribution Compliance Period**"), beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person (save as otherwise provided in Condition 2). After expiry of such Distribution Compliance Period, beneficial interests in a Regulation S Note may be held through DTC directly by a participant in DTC or indirectly through a participant in DTC.

Registered Notes of each Tranche sold in private transactions in reliance upon Rule 144A under the Securities Act to qualified institutional buyers within the meaning of Rule 144A under the Securities Act ("**QIBs**") will, unless otherwise specified in the applicable Pricing Supplement, be represented by a permanent global Registered Note, without Receipts, Coupons or Talons (each, a "**Restricted Global Note**" and, together with any Regulation S Global Note, the "**Registered Global Notes**") deposited with a custodian for, and registered in the name of a nominee of, DTC. Notes in definitive form issued in exchange for Restricted Global Notes or otherwise sold or transferred in accordance with the requirements of Rule 144A under the Securities Act, together with the Restricted Global Notes, are referred to herein as "**Restricted Notes**".

Registered Notes of each Tranche sold to accredited investors (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) ("**Institutional Accredited Investors**") pursuant to Section 4(2) of the Securities Act or in a transaction otherwise exempt from registration under the Securities Act who agree to purchase the Notes for their own account and not with a view to the distribution thereof will be issued as Definitive Registered Notes only, registered in the name of the holder thereof and will not be represented by a global Note.

Definitive Registered Notes issued to Institutional Accredited Investors or in exchange for an interest in a Restricted Global Note and Restricted Global Notes shall bear a legend specifying certain restrictions on transfer (each, a "**Legend**"), such Notes being referred to herein as "**Legended Notes**". Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of a Legend, the Registrar shall (save as provided in Condition 2(d)) deliver only Legended Notes or refuse to remove such Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Issuer shall notify the Registrar accordingly.

Subject as otherwise provided in Condition 2, Definitive Registered Notes may be exchanged or transferred in whole or in part in the Specified Denominations for one or more Definitive Registered Notes of like aggregate nominal amount.

Each Definitive Registered Note will be numbered serially with an identifying number which will be recorded in the register (the "**Register**") which the Issuer shall procure to be kept by the Registrar.

Notes are issued in the Specified Denomination(s) set out in the applicable Pricing Supplement which, in the case of Registered Notes sold other than pursuant to Regulation S, shall be the Authorised Denomination (as defined below) and, in the case of Notes having a maturity of 183 days or less, the Specified Denomination shall be at least U.S.$500,000 (or the equivalent in any other currency or currencies). Each Tranche of Notes is issued in a nominal amount that is a multiple of the applicable Specified Denominations.

"**Authorised Denomination**" means:

(i) in the case of a Restricted Note, U.S.$100,000 (or its equivalent in any other currency rounded upwards as specified in the relevant Pricing Supplement) and higher integral multiples of U.S.$1,000, or the higher denomination or denominations specified in the applicable Pricing Supplement; and

(ii) in the case of a Definitive Registered Note which is initially offered and sold to Institutional Accredited Investors pursuant to Section 4(2) of the Securities Act, U.S.$500,000 (or its equivalent in any other currency rounded upwards as specified in the applicable Pricing Supplement) and higher integral multiples of U.S.$1,000 or the higher denomination or denominations specified in the applicable Pricing Supplement.

Any minimum Authorised Denomination required by any law or directive or regulatory authority in respect of the currency of issue of any Note shall be such as applied on or prior to the date of issue of such Note.

Subject as set out below, title to Bearer Notes, Receipts and Coupons will pass by delivery. Title to Registered Notes will pass upon registration of transfers in the books of the Registrar in New York City. The Issuer, the Principal Paying Agent, any other Paying Agent, the Registrar, (if applicable) the CMU Lodging Agent (except as otherwise required by law) and any Transfer Agent may deem and treat the bearer of any Bearer Note, Receipt or Coupon and any person in whose name a Registered Note is registered as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next paragraph.

For so long as any of the Bearer Notes is represented by a bearer Global Note held by a common depositary on behalf of Euroclear and/or Clearstream, Luxembourg and/or a sub-custodian for the CMU Service or for so long as DTC or its nominee is the registered holder of a Registered Global Note, each person (other than Euroclear, Clearstream, Luxembourg, the CMU Service or DTC as applicable) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg, the CMU Service or, as the case may be, DTC, as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg, the CMU Service or, as the case may be, DTC, as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, any Paying Agent, the Registrar, the Exchange Agent and any Transfer Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer, any Paying Agent, the Registrar, the Exchange Agent and any Transfer Agent as the holder of such Notes in accordance with and subject to the terms of the relevant Global Note (and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly). Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg, the CMU Service and DTC, as the case may be. Notwithstanding the above, if a Note (whether in global or definitive form) is held through the CMU Service, any payment that is made in respect of such Note shall be made at the direction of the bearer or the registered holder to the person(s) for whose account(s) interests in such Note are credited as being held through the CMU Service in accordance with the CMU Rules at the relevant time as notified to the CMU Lodging Agent by the CMU Service in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service. Such notification shall be conclusive evidence of the records of the CMU Service as to the identity of any accountholder (the "**CMU Accountholders**") and the principal amount of any Note credited to its account, save in the case of manifest error, and such payments shall discharge the obligation of the Issuer in respect of that payment under such Note.

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

References to Euroclear, Clearstream, Luxembourg, the CMU Service and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer and the Principal Paying Agent and specified in the applicable Pricing Supplement.

2. Exchange and Transfers of Registered Notes

(a) *Exchange of interests in Registered Global Notes for Definitive Registered Notes*

Interests in any Registered Global Note will be exchangeable for Definitive Registered Notes if (i) Euroclear and/or Clearstream, Luxembourg, the CMU Service or DTC, as the case may be, notifies the Issuer that it is unwilling or unable to continue as depositary for such Registered Global Note, (ii) if applicable, DTC ceases to be a "**Clearing Agency**" registered under the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**") or Euroclear, Clearstream, Luxembourg or the CMU Service, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces its intention permanently to cease business, and a successor depositary or alternative clearing system satisfactory to the Issuer and the Registrar and, in the case of CMU Notes, the CMU Lodging Agent is not available or (iii) an Event of Default (as defined in Condition 11) has occurred and is continuing with respect to such Notes. Upon the occurrence of any of the events described in the preceding sentence, the Issuer will cause the appropriate Definitive Registered Notes to be delivered, provided that, notwithstanding the above, no Definitive Registered Notes will be issued until expiry of the applicable Distribution Compliance Period.

(b) *Transfers of Registered Global Notes*

Transfers of a Registered Global Note registered in the name of a nominee or a sub-custodian for DTC, Euroclear, Clearstream, Luxembourg or the CMU Service, as the case may be, shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee or sub-custodian of DTC, Euroclear, Clearstream, Luxembourg or the CMU Service, as the case may be, or to the nominee or sub-custodian of any successor thereto.

(c) ***Transfers of interests in Regulation S Notes***

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Note to a transferee in the United States will (unless otherwise specified in the applicable Pricing Supplement) only be made:

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

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

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

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

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

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

(d) ***Transfers of interests in Legended Notes***

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

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

(ii) to a transferee who takes delivery of such interest through a Restricted Global Note if the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or

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

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

(B) where the transferee is an Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an "**IAI Investment Letter**"); or

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

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

(e) ***Exchanges and transfers of Registered Notes generally***

Registered Notes may not be exchanged for Bearer Notes and vice versa.

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

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear, Clearstream, Luxembourg or the CMU Service, as the case may be, and, in turn, by participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will be transferable and exchangeable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in accordance with the terms and conditions thereof and the rules and operating procedures for the time being of DTC, Euroclear, Clearstream, Luxembourg, the CMU Service, as the case may be (the "**Applicable Procedures**") and as specified in the Pricing Supplement.

Upon the terms and subject to the conditions set forth in the Agency Agreement, a Definitive Registered Note may be transferred in whole or in part (in the Authorised Denominations set out in the applicable Pricing Supplement) by the holder or holders surrendering the Definitive Registered Note for registration of the transfer of the Definitive Registered Note (or the relevant part of the Definitive Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and upon the Registrar or, as the case may be, the relevant Transfer Agent, after due and careful enquiry, being satisfied with the documents of title and the identity of the person making the request and subject to such reasonable regulations as the Issuer and the Registrar or, as the case may be, the relevant Transfer Agent may prescribe, including any restrictions imposed by the Issuer on transfers of Definitive Registered Notes originally sold to a U.S. person. Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations) authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by mail to such address as the transferee may request, a new Definitive Registered Note of a like aggregate nominal amount to the Definitive Registered Note (or the relevant part of the Definitive Registered Note) transferred. In the case of the transfer of part only of a Definitive Registered Note, a new Definitive Registered Note in respect of the balance of the Definitive Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

Exchanges or transfers by a holder of a Definitive Registered Note for an interest in, or to a person who takes delivery of such Note through, a Registered Global Note will be made no later than 30 days after the receipt by the Registrar or, as the case may be, the relevant Transfer Agent of the Definitive Registered Note to be so exchanged or transferred and, if applicable, upon receipt by the Registrar of a written certification from the transferor.

(f) ***Registration of transfer upon partial redemption***

In the event of a partial redemption of Notes under Condition 7(c), the Issuer shall not be required:

(a) to register the transfer of Registered Notes (or parts of Registered Notes) during the period beginning on the 15th day before the date of the partial redemption and ending on the date on which notice is given specifying the serial numbers of Notes called (in whole or in part) for redemption (both inclusive); or

(b) to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

(g) ***Closed Periods***

No Noteholder may require the transfer of a Registered Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest or payment on that Note.

(h) ***Costs of exchange or registration***

Registration of transfers will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent, but upon payment (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to it provided that the Issuer shall not be responsible for any documentary stamp tax payable on the transfer of Notes effected in Korea unless the Issuer is the counterparty directly liable for that documentary stamp tax.

3. **Status of the Notes**

(a) ***Status of the Senior Notes***

Notes whose status is specified in the applicable Pricing Supplement as Senior (the "**Senior Notes**") and any relative Receipts and Coupons constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer which rank *pari passu* among themselves and will rank at least *pari passu* with all other present and future unsecured (subject to Condition 4) and unsubordinated obligations of the Issuer, save for such as may be preferred by mandatory provisions of applicable law.

(b) ***Status of Subordinated Notes***

This Condition 3(b) applies only to Notes whose status is specified in the applicable Pricing Supplement as Subordinated (the "**Subordinated Notes**"). Subordinated Notes and any relative Receipts and Coupons constitute direct, general, subordinated and unsecured obligations of the Issuer which rank *pari passu* among themselves and in priority to claims of holders of all classes of equity (including holders of preference shares (if any)) of the Issuer.

(i) If, on or prior to the Maturity Date or at any time while any amount is due and outstanding under any Subordinated Notes, a Bankruptcy Event (as defined below) occurs and so long as it continues, any amounts which become due then or thereafter under the Subordinated Notes (including overdue amounts) shall not be payable unless and until the total amount of any and all Senior Indebtedness of the Issuer which is listed on the distribution list (as amended, if such be the case) for final distribution submitted to the court in the bankruptcy proceedings is paid in full or provided to be paid in full in such bankruptcy proceedings.

(ii) If, on or prior to the Maturity Date or at any time while any amount is due and outstanding under any Subordinated Notes, a Rehabilitation Event (as defined below) occurs and so long as it continues, any amounts which become due then or thereafter under the Subordinated Notes (including overdue amounts) shall not be payable unless and until the total amount of any and all Senior Indebtedness of the Issuer which is listed on the rehabilitation plan of the Issuer at the time when the court's approval of such plan becomes final and conclusive shall have been paid in full in the rehabilitation proceedings to the extent of the original amount thereof (without regard to any adjustment of such amount in the approved rehabilitation plan).

(iii) If, on or prior to the Maturity Date or at any time while any amount is due and outstanding under any Subordinated Notes, a Foreign Event (as defined below) occurs and so long as it continues, any amounts which become due then or thereafter under the Subordinated Notes (including overdue amounts) shall only become payable upon conditions equivalent to those enumerated in the above two paragraphs having been fulfilled; provided that notwithstanding any provision herein to the contrary if the imposition of any such conditions is not allowed under such proceedings, any amounts which become due under the Subordinated Notes shall become payable in accordance with the terms herein provided and not subject to such conditions.

(iv) A holder of a Subordinated Note by its acceptance thereof or its interest therein, shall thereby agree that (i) if any payment in respect of such Note is made to such holder after the occurrence of a Subordination Event and the amount of such payment shall exceed the amount, if any, that should have been paid to such holder upon the proper application of these subordination provisions, the payment of such excess amount shall be deemed null and void and such holder (without the Registrar or any Paying Agent having any obligation or liability with respect thereto, save to the extent that the Registrar or such Paying Agent shall return to the Issuer any such excess amount which remains held by it at the time of the notice next referred to) shall be obliged to return the amount of the excess payment within 10 days of receiving notice from the Issuer of the excess payment and (ii) upon the occurrence of a Subordination Event and so long as such Subordination Event continues, such holder shall not exercise any right to set off any liabilities of the Issuer under such Note which become so payable on or after the date on which the Subordination Event occurs against any liabilities of such holder owed to the Issuer unless, until and only in such amount as the liabilities of the Issuer under such Note become payable pursuant to the proper application of these subordination provisions.

In addition, a holder of a Subordinated Note by its acceptance thereof or its interest therein shall be deemed to have waived, and agreed not to exercise, any right as a creditor to require the Issuer to redeem such Subordinated Note or provide collateral with respect thereto that may arise pursuant to Article 527-5, Paragraph 3 and Article 232 of the Korean Commercial Code in connection with a merger of the Issuer with another entity.

In these Conditions:

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

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

a "**Rehabilitation Event**" shall mean a court of competent jurisdiction in Korea having adjudicated the Issuer to be subject to the rehabilitation proceedings pursuant to the provisions of the Debtor Rehabilitation and Bankruptcy Act or any successor legislation thereto;

"**Senior Indebtedness of the Issuer**" shall mean all deposits and other liabilities of the Issuer (other than (x) those which are subject to provisions equivalent to the payment conditions in paragraph (i), (ii), (iii) or (iv) above and (y) those which rank or are expressed to rank *pari passu* with or junior to the Subordinated Notes); and

a "**Subordination Event**" shall mean any Bankruptcy Event, Rehabilitation Event, or Foreign Event.

4. Negative Pledge

(a) *Negative Pledge*

So long as any Senior Note remains outstanding (as defined in the Agency Agreement), the Issuer will not create or permit to be outstanding 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 obligations in respect of any such International Investment Securities,

without, in any such case and at the same time, according to the Senior Notes 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 an Extraordinary Resolution (as defined in the Agency Agreement) of the holders of Senior Notes.

For the avoidance of doubt, notwithstanding the foregoing, under the Act on Issuance of Covered Bonds, which was enacted on 14 January 2014 and became effective on 15 April 2014, in Korea, the issuance of Covered Bonds (as defined below) by the Issuer and any arrangement relating to the segregation or "ring-fencing" of any part of the Issuer's property, assets or revenues (whether present or future) for the purpose thereof shall be permitted, provided that such Covered Bonds are issued and such arrangement is entered into, respectively, in compliance with the Act on Issuance of Covered Bonds (or any amendment or supplemental legislation in connection thereof) and that such property, assets and revenues are intended to form part of the pool of the assets in respect of which a priority of claim in favour of the holders of the Covered Bonds may be given.

(b) ***Interpretation***

In these Conditions:

(i) "**International Investment Securities**" means notes, bonds, debentures, certificates of deposit or investment securities of any Person which (1) by their terms either are payable, or confer a right to receive payment, in any currency other than Won or are denominated in Won and more than 50 per cent. of the aggregate principal amount of which is initially distributed outside Korea by or with the authorisation of the Issuer; (2) 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; and (3) are not (A) securities issued in accordance with a securitisation plan pursuant to the Asset-Backed Securitisation Act of Korea (or other similar laws of Korea); or (B) securities or instruments serviced primarily by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite period and which are commonly regarded as asset-backed securities;

(ii) "**Covered Bonds**" means debt securities (including, without limitation, any notes, bonds, debentures, certificates of deposit or investment securities) backed by cash flows generated from an underlying investment pool consisting of mortgage loans, public sector assets, cash, cash equivalents and/or other financial assets or otherwise issued in compliance with the Act on Issuance of Covered Bonds; and

(iii) "**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state, agency of a state or other entity, whether or not having a separate legal personality.

5. Interest

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

(I) In the case of Fixed Rate Notes where Conditions 5(a)(I) is specified as being applicable in the applicable Pricing Supplement, the following provisions will apply instead of Condition 5(a)(II):

Each Fixed Rate Note bears interest on its nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Issue Date (or, if otherwise specified in the applicable Pricing Supplement, the Interest Commencement Date) at the rate(s) per annum equal to the Fixed Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year and on the Maturity Date if that does not fall on an Interest Payment Date.

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

Where a Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

In these Conditions:

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 5(a):

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

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

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

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

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

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

In this Condition 5(a)(I):

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

"**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date; and

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

(II) *In the case of Fixed Rate Notes where Conditions 5(a)(II) is specified as being applicable in the applicable Pricing Supplement, the following provisions will apply instead of Condition 5(a)(I):*

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest. If any Interest Payment Date would otherwise fall on a day which is not a business day (as defined below), it shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding day. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

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

Where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the actual number of days in the Fixed Interest Period concerned divided by 365, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

In this Condition 5(a)(II):

"**business day**" means a day (other than a Saturday, Sunday or public holiday) upon which commercial banks and foreign exchange markets are generally open for business and settlement of Renminbi payments in Hong Kong and are not authorised or obligated by law or executive order to be closed; and

"**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date; and

"**sub-unit**" means, with respect to Renminbi, the lowest amount of such currency that is available as legal tender in the People's Republic of China.

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

(i) *Interest Payment Dates*

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

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

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

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

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

(1) in any case where Specified Periods are specified in accordance with Condition 5(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below of this subparagraph (1) shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

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

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

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

In these Conditions, "**Business Day**" means a day which is both:

(A) a day on which commercial banks and foreign exchange markets settle payments in London and, in the case of an issue of Notes cleared through the CMU Service, Hong Kong, and any Additional Business Centre specified in the applicable Pricing Supplement; and

(B) either (1) in relation to any sum payable in a Specified Currency other than Euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the country of the relevant Specified Currency (if other than London and Hong Kong, as applicable, and any Additional Business Centre) and which, if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in Euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the "**TARGET2 System**") is open or (3) in relation to any sum payable in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets are open for business and settle Renminbi payments in Hong Kong.

(ii) *Rate of Interest*

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

(A) ISDA Determination for Floating Rate Notes

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

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

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

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

For the purposes of this sub-paragraph (A), (i) "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions, (ii) the definition of "**Banking Day**" in the ISDA Definitions shall be amended to insert after the words "are open for" in the second line the word "general" and (iii) "**Euro-zone**" means the region comprised of Member States of the European Union that adopt or have adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union.

When this sub-paragraph (A) applies, in respect of each relevant Interest Period the Agent will be deemed to have discharged its obligations under Condition 5(b)(iv) in respect of the determination of the Rate of Interest if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this sub-paragraph (A).

(B) Screen Rate Determination for Floating Rate Notes

(1) Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations, (expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR or Hong Kong time, in the case of HIBOR) on the second business day before the beginning of each Interest Period (each an "**Interest Determination Date**") in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

(2) If the Relevant Screen Page is not available or, if in the case of Condition 5(b)(ii)(B)(1)(A) above, no such offered quotation appears or, in the case of Condition 5(b)(ii)(B)(1)(B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph the Principal Paying Agent shall request each of the Reference Banks (as defined below) to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR, or Hong Kong time, in the case of HIBOR) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Principal Paying Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

(3) If on any Interest Determination Date one only or none of the Reference Banks provides the Principal Paying Agent with such offered quotations as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Principal Paying Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Principal Paying Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR, or Hong Kong time, in the case of HIBOR) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) or the Hong Kong inter-bank market (if the

Reference Rate is HIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Principal Paying Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR, or Hong Kong time, in the case of HIBOR) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Principal Paying Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) or the Hong Kong inter-bank market (if the Reference Rate is HIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

(4) "**Reference Banks**" means, in the case of Condition 5(b)(ii)(B)(1)(A) above, those banks whose offered rates were used to determine such quotation when such quotation last appeared on the Relevant Screen Page and, in the case of Condition 5(b)(ii)(B)(1)(B) above, those banks whose offered quotations last appeared on the Relevant Screen Page when no fewer than three such offered quotations appeared.

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

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

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

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

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

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

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest for any Interest Period:

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

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

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

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

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

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

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

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30;

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

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30.

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

Provided that the Calculation Agent has notified the Principal Paying Agent, the Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and notice thereof to be published in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth Relevant Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 15. For purposes of this paragraph, the expression "**Relevant Business Day**" means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business in London or, if the specified currency is Renminbi, Hong Kong.

(vi) *Certificates to be Final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5(b), whether by the Principal Paying Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Principal Paying Agent, the Registrar, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability of the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) ***Dual Currency Notes***

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Pricing Supplement.

(d) ***Partly Paid Notes***

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

(e) ***Accrual of Interest***

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

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

(2) the date on which the full amount of the moneys payable has been received by the Agent and notice to that effect has been given in accordance with Condition 15.

6. Payments

(a) *Method of Payment*

Subject as provided below:

(i) payments in a Specified Currency other than Euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars, New Zealand dollars or Renminbi, shall be Sydney, Auckland or Hong Kong, respectively); and

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

Payments 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 9 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, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto ("**FATCA**"). References to "**Specified Currency**" will include any successor currency under applicable law.

(b) *Payments in respect of Definitive Bearer Notes*

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against surrender of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against surrender of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)) and in each case payments will not be made by a transfer of funds to an account maintained by the payee in the United States or mailed to an address in the United States.

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

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

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

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

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

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes or Index Linked Redemption Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 9) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter. Upon any Fixed Rate Note becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

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

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

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

Payments of principal and interest (if any) in respect of Bearer Notes represented by any global Bearer Note will (subject as provided below) be made in the manner provided in paragraph (a) above and otherwise in the manner specified in the relevant global Bearer Note (i) in the case of a global Bearer Note lodged with the CMU Service, at the direction of the bearer to the CMU Accountholders, or (ii) in the case of a global Bearer Note not lodged with the CMU Service, against presentation or surrender, as the case may be, of such global Bearer Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of such global Bearer Note, distinguishing between any payment of principal and any payment of interest, will be made on such global Bearer Note (in the case of a global Bearer Note not lodged with the CMU Service) by such Paying Agent or in the records of Euroclear and Clearstream, Luxembourg, as applicable or (in the case of a global Bearer Note lodged with the CMU Service) on withdrawal of such global Bearer Note by the CMU Lodging Agent, and in such case such record shall be prima facie evidence that the payment in question has been made.

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

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

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note (whether or not in global form) will be made in the manner specified in paragraph (a) to the holder (or the first named of joint holders) of the Registered Note appearing in the Register (i) where in global form, at the close of the business day (being for this purpose (i) (x) in respect of Notes clearing through Euroclear and/or Clearstream, Luxembourg, a day on which Euroclear and Clearstream, Luxembourg are open for business, (y) in respect of Notes clearing through the CMU Service, a day on which the CMU Service is open for business and (z) in respect of Notes clearing through the DTC, a day on which the DTC is open for business) immediately prior to the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such day is a business day) prior to the relevant due date (the "**Record Date**") at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

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

If payment in respect of any Registered Notes is required by transfer as referred to in paragraph (a) above, application for such payment must be made by the holder to the Registrar not later than the relevant Record Date.

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

In the case of Registered Notes (whether or not in global form) held in the CMU Service, payment of all amounts payable to the CMU Service or its sub-custodian as registered holder of a Registered Note (whether or not in global form) will be made at the direction of the registered holder to the CMU Accountholders and such payment shall discharge the obligations of the Issuer in respect of that payment.

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

(e) ***General provisions applicable to payments***

The holder of a Global Note (if the Global Note is not lodged with the CMU Service), or the CMU Accountholder at the direction of the holder of a Global Note (if the Global Note is lodged with the CMU Service), shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg, the CMU Service or DTC as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg, the CMU Service or DTC, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note. No person other than the holder of such Global Note shall have any claim against the Issuer in respect of any payments due on such Global Note.

(f) ***Payment Day***

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a **Payment Day**, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay unless as otherwise specified in these Conditions or the Pricing Supplement. For these purposes, "**Payment Day**" means any day which is:

(i) 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:

(A) the relevant place of presentation;

(B) London; and

(C) any Additional Financial Centre specified in the applicable Pricing Supplement;

(ii) either (1) in relation to any sum payable in a Specified Currency other than Euro, 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 principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars, New Zealand dollars, Renminbi shall be Sydney, Auckland or Hong Kong, respectively) or (2) in relation to any sum payable in Euro, a day on which the TARGET2 System is open; and

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

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

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

(i) any additional amounts which may be payable with respect to principal under Condition 9;

(ii) the Final Redemption Amount of the Notes;

(iii) the Early Redemption Amount of the Notes;

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

(v) in relation to Notes redeemable in instalments, the Instalment Amounts;

(vi) in relation to Zero Coupon Notes, the Amortised Face Amount; and

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

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9.

(h) ***Renminbi Currency Event***

If "**Renminbi Currency Event**" is specified in the applicable Pricing Supplement and a Renminbi Currency Event, as determined by the Issuer acting in good faith, exists on a date for payment of any amount in respect of any Note, Receipt or Coupon, the Issuer's obligation to make a payment in Renminbi under the terms of the Notes may be replaced by an obligation to pay such amount in the Relevant Currency (selected by the Issuer, if applicable, and converted at the Alternate Settlement Rate as of a time selected by the Alternate Settlement Rate Determination Agent as specified in the applicable Pricing Supplement).

Upon the occurrence of a Renminbi Currency Event, the Issuer shall give notice not less than five days nor more than 30 days prior to the due date for payment to the Noteholders in accordance with Condition 15 stating the occurrence of the Renminbi Currency Event, giving details thereof and the action proposed to be taken in relation thereto.

For the purposes of this Condition 6(h) and unless stated otherwise in the applicable Pricing Supplement:

"**Alternate Settlement Rate**" means the spot rate, determined by the Alternate Settlement Rate Determination Agent, between Renminbi and the Relevant Currency, taking into consideration all available information which the Alternate Settlement Rate Determination Agent deems relevant (including, but not limited to, the pricing information obtained from the Renminbi non-deliverable market outside the People's Republic of China and/or the Renminbi exchange market within the People's Republic of China);

"**Governmental Authority**" means any de facto or de jure government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of Hong Kong;

"**Relevant Currency**" means United States dollars or such other currency as may be specified in the applicable Pricing Supplement;

"**Renminbi Currency Event**" means any one of Renminbi Illiquidity, Renminbi Non-Transferability and Renminbi Inconvertibility;

"**Renminbi Illiquidity**" means the general Renminbi exchange market in Hong Kong becoming illiquid as a result of which the Issuer cannot obtain sufficient Renminbi in order to satisfy its obligation to pay interest or principal (in whole or in part) in respect of the Notes, as determined by the Issuer acting in good faith and in a commercially reasonable manner following consultation with two independent foreign exchange dealers of international repute active in the Renminbi exchange market in Hong Kong;

"**Renminbi Inconvertibility**" means the occurrence of any event that makes it impossible for the Issuer to convert any amount due in respect of the Notes in the general Renminbi exchange market in Hong Kong, other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Issue Date of the first Tranche of the relevant Series and it is impossible for the Issuer, due to an event beyond the control of the Issuer, to comply with such law, rule or regulation); and

"**Renminbi Non-Transferability**" means the occurrence of any event that makes it impossible for the Issuer to deliver Renminbi between accounts inside Hong Kong or from an account inside Hong Kong to an account outside Hong Kong or from an account outside Hong Kong to an account inside Hong Kong (including where the Renminbi clearing and settlement system for participating banks in Hong Kong is disrupted or suspended), other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Issue Date of the first Tranche of the relevant Series and it is impossible for the Issuer due to an event beyond the control of the Issuer, to comply with such law, rule or regulation).

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9.

7. Redemption and Purchase

(a) *At Maturity*

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

(b) ***Redemption for Tax Reasons***

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Principal Paying Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), if:

(i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Korea or, if the Issuer is acting through a particular branch (as specified in the applicable Pricing Supplement (the "**Specified Branch**")), the country where that branch is located (the "**Specified Country**"), or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including the cessation of tax exemptions presently applicable), which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Notes; and

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

provided that (1) in the case of Subordinated Notes, the prior approval of the Financial Supervisory Service of Korea (the "**FSS**") or such other relevant regulatory authorities in Korea shall have been obtained, if necessary, and (2) no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Principal Paying Agent a certificate signed by two duly authorised officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers or tax consultants of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

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

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

(i) not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 15; and

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

(which notices shall be irrevocable), redeem all or some of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date; *provided*, *however*, that in the case of Subordinated Notes, such redemption shall be subject to the prior approval of the FSS pursuant to regulations of the Financial Services Commission of Korea (the "**FSC**") in effect at the applicable time relating to, *inter alia*, capital adequacy ratios, replacement capital and interest rates. Any such redemption must be of a nominal amount equal to the Minimum Redemption Amount or a Higher Redemption Amount. In the case of a partial redemption of Notes, the Notes to be redeemed

("**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg and/or, as the case may be, DTC, in the case of Redeemed Notes represented by a global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a Global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant Global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this sub-paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 15 at least 5 business days prior to the Selection Date.

(d) ***Redemption of the Senior Notes only at the Option of the Noteholders ("Investor Put")***

If Investor Put is specified in the applicable Pricing Supplement with respect to any Series of Senior Notes only, upon the holder of any Senior Note giving to the Issuer in accordance with Condition 15 not less than 30 nor more than 45 days' notice or such other period of notice as is specified in the applicable Pricing Supplement, the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, in whole (but not in part), such Senior Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition in any multiple of their lowest specified denomination.

If this Senior Note is in definitive form, to exercise the right to require redemption of this Senior Note the holder of this Senior Note must deliver such Senior Note at the specified office of any Paying Agent (in the case of a Bearer Note) or any Transfer Agent (in the case of a Registered Note) at any time during normal business hours of such Paying Agent or Transfer Agent, as the case may be, falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or Transfer Agent (a "**Put Notice**") and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition.

Any Put Notice given by a holder of any Senior Note pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Senior Note forthwith due and payable pursuant to Condition 11.

Each Senior Note should be presented for redemption together with all unmatured Coupons relating to it, failing which such Senior Note will be redeemed only against provision of such indemnity as the Issuer may require. Upon the date on which any Senior Note falls due for redemption or is purchased for cancellation, all unmatured Coupons appertaining thereto will become void and no payment will thereafter be made in respect thereto.

(e) ***Early Redemption Amounts***

For the purpose of paragraph (b) above and Condition 11, the Notes will be redeemed at the Early Redemption Amount calculated as follows:

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

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

(iii) in the case of Zero Coupon Notes, at an amount (the "**Amortised Face Amount**") equal to the sum of:

(A) the Reference Price; and

(B) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made on the basis of a 360-day year consisting of 12 months of 30 days each or such other calculation basis as may be specified in the applicable Pricing Supplement.

(f) ***Instalments***

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

(g) ***Partly Paid Notes***

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

(h) ***Purchases***

The Issuer may at any time purchase Senior Notes and, subject to obtaining the prior approval of the FSS or such other relevant authorities in Korea, if necessary, Subordinated Notes at any price (provided that, in the case of Bearer Notes in definitive form, these are purchased together with all unmatured Receipts, Coupons and Talons appertaining thereto) in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent, the Registrar or the CMU Lodging Agent for cancellation.

(i) ***Cancellation***

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to paragraph (h) above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent (and the CMU Lodging Agent if applicable) which shall notify the Registrar of such cancelled Notes in the case of Registered Notes and such Notes cannot be reissued or resold.

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

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

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

(ii) the date on which the full amount of the moneys payable has been received by the Principal Paying Agent, the Registrar or the CMU Lodging Agent, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 15.

(k) ***Obligation to redeem***

Upon the expiry of any notice as is referred to in paragraph (b), (c) or (d) above, the Issuer shall be bound to redeem the Notes to which the notice referred at the relevant redemption price applicable at the date of such redemption together with, if appropriate, interest accrued to (but excluding) the relevant redemption date.

8. Loss Absorption Upon a Trigger Event in Respect of Subordinated Notes

(a) ***Write-off on a Trigger Event***

Effective as of the third Korean Business Day from the occurrence of a Trigger Event, each Subordinated Note, including the then outstanding principal amount thereof and any accrued but unpaid interest thereon, shall be irrevocably cancelled in whole, without the need for the consent of the holders of the Subordinated Notes (such cancellation being referred to herein as a "**Write-off**," and "**Written-off**" shall be construed accordingly). Once the principal amount of, and any accrued but unpaid interest under, the Subordinated Notes has been Written-off, such amounts will not be restored in any circumstances, including where the relevant Trigger Event ceases to continue.

The Issuer shall provide a Trigger Event Notice to the holders of the Subordinated Notes, but such Write-off shall be effective irrespective of whether the Issuer has provided such Trigger Event Notice.

For the avoidance of doubt, any Write-off pursuant to this Condition 8(a) will not constitute an Event of Default under the Notes.

(b) ***Interpretation***

In these Conditions and unless stated otherwise in the applicable Pricing Supplement:

a "**Korean Business Day**" means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business in Seoul, Korea;

a "**Trigger Event**" means the designation of the Issuer as an "insolvent financial institution" pursuant to the Act on the Structural Improvement of the Financial Industry; and a "**Trigger Event Notice**" means the notice specifying that a Trigger Event has occurred, which shall be issued by the Issuer not more than two Korean Business Days after the occurrence of a Trigger Event to the holders of the Subordinated Notes and the Principal Paying Agent in accordance with Condition 15 and which shall state in reasonable detail the nature of the relevant Trigger Event. Notwithstanding any provisions of Condition 15 to the contrary, any such notice shall be effective as of the date of its issuance by the Issuer.

9. **Taxation**

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or other government charges and any interest, penalties or other liabilities with respect thereto ("**Taxes**") imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the amounts which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to:

(i) any Taxes with respect to a Note, Receipt or Coupon presented for payment (where presentation is required) in Korea (solely to the extent such Taxes would not have been imposed if such Note, Receipt or Coupon, as the case may be, were presented at an office of a Paying Agent outside Korea); or

(ii) any withholding or deduction imposed on a payment received by or on behalf of a holder of a Note, Receipt or Coupon who is liable for such Taxes by reason of such holder of the Note (or fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over the relevant holder, if the relevant holder is an estate, nominee, trust or corporation) being or having been connected with a Tax Jurisdiction (as defined below) otherwise than merely by holding such Note, Receipt or Coupon, or enforcing rights thereunder; or

(iii) any Taxes with respect to a Note, Receipt or Coupon presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to additional amounts on presenting the same for payment on any date during such 30-day period; or

(iv) any withholding or deduction required to be made pursuant to European Union Directive 2003/48/EC (or any other directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000) or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(v) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or

(vi) presented for payment by or on behalf of a holder of such Note, Receipt or Coupon who, at the time of such presentation, is able to avoid such withholding or deduction by making a declaration of non-residence or other similar claim for exemption and does not make such declaration or claim; or

(vii) any withholding or deduction is imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof or any law implementing an intergovernmental approach thereto; or

(viii) any combination of paragraphs (i), (ii), (iii), (iv), (v), (vi) or (vii) above;

nor will additional amounts be paid with respect to any payment on a Note, Receipt or Coupon to a holder who is a fiduciary, a partnership, a limited liability company or a holder other than the sole beneficial owner of that payment to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership, an interest holder in such a limited liability company or the beneficial owner of the payment would not have been entitled to the additional amounts had the beneficiary, settlor, member or beneficial owner been the holder of such Note, Receipt or Coupon.

As used herein:

(ix) "**Tax Jurisdiction**" means Korea or any political subdivision or any authority thereof or therein having power to tax or, in addition, if the Issuer is acting through a Specified Branch, the Specified Country, or any political subdivision or any authority thereof or therein having power to tax; and

(x) the "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 15.

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

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

10. Prescription

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 9) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6(b) or any Talon which would be void pursuant to Condition 6(b).

11. Events of Default

(a) *Applicable to Senior Notes only*

If any of the following events (each an "**Event of Default**") occurs and is continuing:

(i) Non-payment: default is made in the payment of any amount of principal or interest in respect of the Senior Notes on the due date for payment thereof and such default remains unremedied for ten days or, in the case of default in the payment of interest, 15 days thereafter; or

(ii) Breach of other obligations: default is made in the performance or observance of any other material obligation of the Issuer under or in respect of the Senior Notes and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer by any holder of Senior Notes, has been delivered to the Issuer; or

(iii) Cross-acceleration: any Indebtedness (as defined below) in aggregate exceeding U.S.$20,000,000 (or its equivalent in one or more other currencies) of the Issuer either (1) becoming due and payable prior to the due date for payment thereof by reason of acceleration following a default by the Issuer or (2) not being repaid by the Issuer at, and remaining unpaid after, maturity (as extended by an originally applicable period of grace, if any) applicable thereto, or any guarantee given by the Issuer in respect of Indebtedness of any other person not being honoured and remaining dishonoured after becoming due and called; provided that, in the case of (1) above, if any such default under any such Indebtedness shall be cured or waived, then the default under the Notes shall be deemed not to have occurred; or

(iv) the Issuer becomes insolvent or unable to pay its debts when due or commits or permits any act of bankruptcy which terms shall include (1) the filing of a petition in any bankruptcy, reorganisation, winding-up or liquidation proceeding or other proceedings analogous in purpose or effect and the failure by the Issuer to have any such petition filed by another party discharged within 30 days, (2) the appointment of a receiver or trustee for the bankruptcy, reorganisation, winding-up or liquidation of the Issuer and such appointment is not discharged within thirty days, (3) the making by the Issuer of an assignment or an arrangement or composition with or for the benefit of its creditors, (4) the admission in writing by the Issuer of its inability to pay its debts as they fall due, (5) the entry of any court order or judgement confirming the bankruptcy or insolvency of the Issuer or, as the case may be, in relation to a substantial portion of its properties or assets, or (6) the Issuer takes corporate action to authorise or give effect to any of the foregoing; or

(v) a moratorium is agreed or declared in respect of any Indebtedness of the Issuer or any governmental agency or authority confiscates or seizes or compulsorily purchases or expropriates all or a material part of the assets or capital of the Issuer,

then the holders of not less than 25% in aggregate principal amount of the Senior Notes outstanding may, by written notice addressed to the Issuer and delivered to the Issuer or to the Principal Paying Agent in accordance with Condition 15, declare such Note to be immediately due and payable whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further action or formality. Any such notice shall specify the serial number of each Note in respect of which it is given.

The Issuer shall fully indemnify each Noteholder from and against any reasonable costs, expenses, liabilities and losses which such Noteholder may suffer or incur as a direct result of the occurrence of any Event of Default (including, but without limitation, any expenses incurred in connection with legal proceedings to enforce repayment of such Note).

Nothing contained in these Conditions shall prevent the Issuer from, without the consent of the Noteholders, Receiptholders or Couponholders, consolidating with, or merging into, or selling, transferring, leasing or conveying its assets as an entirety or substantially as an entirety to any corporation organised under the laws of the respective jurisdiction of its incorporation; provided that (i) any successor corporation either (a) expressly assumes the applicable obligations of the Issuer under the Notes and the Agency Agreement or (b) succeeds to the applicable obligations of the Issuer under the Notes and the Agency Agreement by way of universal succession, (ii) after giving effect to the transaction, with respect to the Issuer or any such successor corporation, no Event of Default and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing, and (iii) the Issuer has delivered to the Principal Paying Agent a certificate executed by a duly authorised officer of the Issuer and an opinion of counsel as to matters of law stating that such consolidation, merger, sale, transfer, lease or conveyance and, if a supplemental agency agreement is required in connection with such transaction, such supplemental agency agreement comply with the Agency Agreement and the Notes and that all conditions precedent herein provided for relating to such transaction have been complied with.

(b) ***Applicable to Subordinated Notes only***

(i) If any Bankruptcy Event or the liquidation of the Issuer shall occur and be continuing (and provided that a Trigger Event has not occurred) then, in any such event, the holder of any Subordinated Note may by written notice to the Issuer declare such Note to be forthwith due and payable upon receipt of such notice by the Issuer whereupon such Note shall become due and repayable at its principal amount plus accrued interest (if any).

(ii) Except as expressly provided in this Condition 11(b), no holder of any Subordinated Note shall have any right to accelerate any payment of principal or interest in respect of the Subordinated Notes.

(iii) The only action the holder of a Subordinated Note may take in Korea against the Issuer on acceleration of the Subordinated Notes is to prove claims in the liquidation or other applicable proceedings in respect of the Issuer in Korea.

(c) ***Interpretation***

In these Conditions "**Indebtedness**" means any obligation or obligations (whether present or future, actual or contingent) for the payment or repayment of money borrowed and/or interest thereon.

12. **Replacement of Notes, Receipts, Coupons and Talons**

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

13. **Principal Paying Agent, Registrar, Exchange Agent, Paying and Transfer Agents**

The names of the initial Principal Paying Agent, the other initial Paying Agents, the initial Exchange Agent, the initial Registrar and the other initial Transfer Agents and their initial specified offices are set out below.

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

(i) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent and, if appropriate, a Registrar and Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange;

(ii) there will at all times be a Paying Agent and a Transfer Agent with a specified office in a city in continental Europe;

(iii) there will at all times be a Registrar and a Transfer Agent each having a specified office in New York City;

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

(v) there will at all times be a Principal Paying Agent;

(vi) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(vii) so long as the Notes are listed on the Singapore Exchange Securities Trading Limited (the "**Singapore Stock Exchange**") and the rules of the Singapore Stock Exchange so require, if the Notes are issued in definitive form, there will at all times be a Paying Agent in Singapore unless the Issuer obtains an exemption from the Singapore Stock Exchange.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the second paragraph of Condition 6(b). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 15.

In acting under the Agency Agreement, the Principal Paying Agent, the Registrar, the Exchange Agent, the other Paying Agents and the Transfer Agents act solely as agents of the Issuer and do not assume any obligation or trust for or with any Noteholders.

14. **Exchange of Talons**

On and after the Fixed Interest Date or the Interest Payment Date, as appropriate, on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bearer Note to which it appertains) a further Talon, subject to the provisions of Condition 10. Each Talon shall, for the purposes of these Terms and Conditions, be deemed to mature on the Fixed Interest Date or the Interest Payment Date (as the case may be) on which the final Coupon comprised in the relative Coupon sheet matures.

15. **Notices**

Notices to holders of Registered Notes will be deemed to be validly given (i) if sent by first class mail or (if posted to an overseas address) by air mail to them at their respective addresses as recorded in the Register and (ii) if and for so long as the Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, if published in a daily newspaper of general circulation in Singapore. Any such notice will be deemed to have been validly given on the latter of the fourth day after the date of such mailing and, if applicable, the date of such first publication.

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

Until such time as any definitive Notes are issued, there may (provided that, in the case of Notes listed on a stock exchange, the rules of the stock exchange allow for and further provided that, for so long as the Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, notices will always be published in a daily newspaper of a general circulation in Singapore), so long as the Global Note(s) is or are held in its/their entirety on behalf of (i) Euroclear and/or Clearstream, Luxembourg or DTC, be substituted for such publication in such newspaper(s), the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg or DTC for communication by them to the holders of the Notes and (ii) the CMU Service, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU Service on the second business day preceding the date of dispatch of such notice as holding interests in the relevant Global Note and, in addition, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a manner specified by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg or DTC or the persons shown in the relevant CMU Instrument Position Report.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Principal Paying Agent. While any of the Notes are represented by a Global Note, such notice or demand may be given or made by any holder of a Note to the Principal Paying Agent or, the Registrar through Euroclear, Clearstream, Luxembourg and/or DTC or, in the case of Notes lodged with the CMU Service, by delivery by such holder of such notice to the CMU Lodging Agent in Hong Kong, as the case may be, in such manner as the Principal Paying Agent and Registrar and Euroclear, Clearstream, Luxembourg, the CMU Service and/or DTC, as the case may be, may approve for this purpose.

16. Meetings of Noteholders, Modification and Waiver

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or Noteholders holding not less than ten per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, Receipts or Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereof, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, Receipts or Coupons), the quorum shall be one or more persons holding or representing not less than 75 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing a clear majority, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

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

(i) any modification (except as mentioned above) of any of the provisions of the Notes, the Receipts, the Coupons, the Conditions, the Deed of Covenant or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or

(ii) any modification of the Notes, the Receipts, the Coupons, the Conditions, the Deed of Covenant or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 15 as soon as practicable thereafter.

17. **Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Noteholders, Receiptholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes, provided that such further issuance constitutes a qualified reopening for U.S. federal income tax purposes.

18. **Provision of Information**

The Issuer has covenanted in the Deed Poll for the benefit of the Noteholders, Receiptholders and Couponholders that for so long as any Notes remain outstanding and are "**restricted securities**" (as defined in Rule 144(a)(3) under the Securities Act), the Issuer shall, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available to any Noteholder, Receiptholder or Couponholder of, or beneficial owner of an interest in, such Notes, Receipts or Coupons in connection with any resale thereof and to any prospective purchaser designated by such Noteholder, Receiptholder, Couponholder or beneficial owner, in each case upon request, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

19. **Governing Law and Submission to Jurisdiction**

(a) The Agency Agreement, the Deed of Covenant, the Deed Poll, the Notes, the Receipts and the Coupons and all non-contractual obligations arising out of or in connection with such agreements and deeds are governed by English law, except that in the case of Subordinated Notes Condition 3(b) is governed by, and shall be construed in accordance with, Korean Law.

(b) The Issuer agrees, for the exclusive benefit of the Noteholders, the Receiptholders and the Couponholders that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Agency Agreement, the Deed of Covenant, the Deed Poll, the Notes, the Receipts and/or the Coupons and that accordingly any suit, action or proceedings (together referred to as "**Proceedings**") arising out of or in connection with the Agency Agreement, the Deed of Covenant, the Deed Poll, the Notes, the Receipts and the Coupons may be brought in such courts. The Issuer hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agrees that a judgement in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction. Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not. The Issuer appoints KEB Hana Bank, London Branch at its registered office for the time being, currently at 8 Old Jewry, London EC2R 8DN, United Kingdom as its agent for service of process, and undertakes that, in the event of it ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law. The Issuer hereby irrevocably and unconditionally waives with respect to the Agency Agreement, the Deed of Covenant, the Deed Poll, the Notes, the Receipts and/or the Coupons any right to claim immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgement made or given in connection with any proceedings.

20. **Contracts (Rights of Third Parties) Act 1999**

Unless expressly provided to the contrary in the terms of the Notes, any third party may not enforce any of the terms of the Notes notwithstanding the provisions in the Contracts (Rights of Third Parties) Act 1999.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes or as may otherwise be disclosed in the applicable Pricing Supplement.

EXCHANGE RATES

The table below sets out, for the periods and dates indicated, information concerning the Market Average Exchange Rate, which is rounded to the nearest tenth of one Won. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all.

Year ended 31 December	Low	High	Average[(1)]	Period-end
		(Won per U.S.$1.00)		
2011	1,049.5	1,199.5	1,108.1	1,153.3
2012	1,071.1	1,181.8	1,126.9	1,071.1
2013	1,051.5	1,159.1	1,095.0	1,055.3
2014	1,008.9	1,118.3	1,053.2	1,099.2
2015	1,068.1	1,203.1	1,131.5	1,172.0
2016 (through 8 January)	1,172.0	1,199.7	1,187.5	1,199.7

Source: Seoul Money Brokerage Services, Ltd.

Note:

(1) Represents the average of the daily Market Average Exchange Rate over the relevant period.

INVESTMENT CONSIDERATIONS

Prospective purchasers of Notes should carefully review the information contained in this Offering Circular, including the following matters.

Risks Relating to Our Business

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

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

While the rate of deterioration of the global economy since the commencement of the global financial crisis in 2008 has slowed, with some signs of stabilisation and improvement in recent years, the overall prospects for the Korean and global economy remain uncertain. Starting in the second half of 2011, the global financial markets have experienced significant volatility as a result of, among other things:

- the financial difficulties affecting many governments worldwide, in particular in southern Europe and Latin America;
- the slowdown of economic growth in China and other major emerging market economies; and
- geopolitical and social instability in various parts of the Middle East, including Iraq, Syria and Yemen, as well as in Ukraine and Russia.

These or other developments could potentially trigger another financial and economic crisis. Furthermore, many governments worldwide are implementing or have announced plans to implement "exit strategies", in the form of reduced government spending, higher interest rates or otherwise, with respect to the economic stimulus measures adopted in response to the global financial crisis. Such strategies may, for reasons related to timing, magnitude or other factors, have the unintended consequence of prolonging or worsening global economic and financial difficulties. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on our business, financial condition and results of operations.

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

In addition, changes in foreign currency exchange rates, particularly in the Won to U.S. dollar exchange rates, affect the value of our assets and liabilities denominated in foreign currencies, the reported earnings of our non-Korean subsidiaries and income from foreign exchange dealings, and substantial and rapid fluctuations in exchange rates may cause difficulty in obtaining foreign currency-denominated financing in the international financial markets on commercial terms acceptable to us or at all. The performance of financial markets may affect bond and equity prices and, therefore, cause changes in the value of our investment and trading portfolios. While we have implemented risk management systems to mitigate and control these and other market risks to which we are exposed, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects such changes could have on our business, financial condition and results of operations.

Korea Exchange Bank's recent merger with Hana Bank may result in risks and challenges, including difficulties in integrating the operations and cultures of the two banks and potential loss of overlapping customers.

In February 2012, Hana Financial Group completed the purchase of 51.02 per cent. of the issued and outstanding shares of common stock of Korea Exchange Bank from an affiliate of the Lone Star funds and an additional 6.25 per cent. from the Export-Import Bank of Korea, for an aggregate purchase price of approximately ₩4.4 trillion. On 26 April 2013, the common stock of Korea Exchange Bank, which had been listed on the Korea Composite Stock Price Index Market of the Korea Exchange ("**KRX KOSPI Market**") since 1994, was delisted following Hana Financial Group's acquisition of the remaining 42.73 per cent. stake in Korea Exchange Bank through a share swap at an exchange rate of one share of Hana Financial Group to 0.1894302 share of Korea Exchange Bank. Effective 1 September 2015, Hana Bank merged with and into Korea Exchange Bank and Korea Exchange Bank changed its name to KEB Hana Bank. See "*KEB Hana Bank—Integration and Merger*".

Realignment and/or expansion of our business activities in connection with and following the Merger have exposed and/or may expose us to a number of risks and challenges, including, among others, the following:

- we may experience difficulties in integrating Korea Exchange Bank's existing operations with those of Hana Bank, including divergent standards, policies and procedures, overlapping personnel and branch and subsidiary networks, and inconsistent information technology ("**IT**") systems and management and administrative functions;

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

- the necessity of coordinating the operations and personnel of the two organisations and addressing possible differences in corporate cultures and business practices may lead to a delay in the integration process; and

- the integration of Korea Exchange Bank's operations and those of Hana Bank will likely require a significant amount of time, financial resources and management attention.

Although both Korea Exchange Bank and Hana Bank had been operating under common control of Hana Financial Group for over two years prior to the Merger, the Merger will likely have a material impact on our business, corporate structure, financial condition and results of operations. In addition, the successful implementation of the post-Merger integration involves significant uncertainties and is also dependent on several factors including factors beyond our control. The integration process may disrupt our businesses and, if implemented ineffectively or if impacted by unforeseen negative economic or market conditions or other factors, we may not realise the full anticipated benefits of the Merger, including cost savings or growth opportunities.

There can be no assurance that we will be able to accomplish the objectives of the Merger successfully and in a timely manner and the realisation of any of the risks described above could affect our ability to implement our business strategy effectively, which could, in turn, have a material adverse effect on our business, financial conditions and results of operations.

Our exposure to large Korean conglomerates, known as "chaebols", could have an adverse effect on us.

One of our core banking businesses has historically been and continues to be lending to large corporations. As of 30 September 2015, on a separate basis, our exposure to our 10 largest borrowers was ₩13.4 trillion, which represented 5.4 per cent. of our total exposures, and a majority of such borrowers were named in the "Main Debtor Group", as identified and designated by the FSS. The Main Debtor Group is a list of companies maintained by the FSS which sets forth those companies whose outstanding credit amount to a financial institution exceeds 0.1 per cent. of the total credit provided by such financial institution, and includes most of the Korean conglomerates, or *chaebols*. Our largest single credit (based on outstanding balances), on a separate basis, to a *chaebol* member company as of 30 September 2015 was ₩5.0 trillion, which represented 2.4 per cent. of our total credits. See "*Description of Assets and Liabilities — Loan Concentrations*". As of 30 September 2015, our 10 largest credits were all classified as normal. However, if any of our large credits were to become non-performing, the quality of our total loan portfolio could be adversely affected and additional provisions may be required. In addition, we may have to reduce or freeze the amount of credit available to certain large conglomerates in order to avoid excessive credit concentration in any single borrower or related group of borrowers, which may have an adverse impact on our profitability.

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

We provide an extensive range of loan products and other banking services to small- and medium-sized enterprises ("**SMEs**"). As of 30 September 2015, our total loans denominated in Won to SMEs (after allowance for loan losses and net deferred loan fees and costs) amounted to ₩58.4 trillion, representing 27.8 per cent. of our total loan portfolio as of such date.

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

As of 30 September 2015, on a separate basis, our delinquent loans (which represent loans the principal amount of which is past due for one day or more to SMEs were ₩453.7 billion, representing delinquency ratios (net of charge-offs and loan sales) of 0.72 per cent. As of 31 December 2013 and 2014, on a separate basis, Korea Exchange Bank's delinquent loans to SMEs were ₩111.2 billion and ₩152.6 billion, respectively, representing delinquency ratios (net of charge-offs and loan sales) of 0.64 per cent. and 0.76 per cent., respectively. As of the same dates, on a separate basis, Hana Bank's delinquent loans to SMEs were ₩179.9 billion and ₩298.9 billion, respectively, representing delinquency ratios (net of charge-offs and loan sales) of 0.52 per cent. and 0.80 per cent., respectively. Financial difficulties experienced by SMEs as a result of, among other things, economic difficulties in Korea and globally, as well as aggressive marketing and intense competition among banks to lend to this segment, may lead to deterioration in the asset quality of our loans to this segment.

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

We have significant exposure through our lending and other activities to a number of industries, including construction, shipbuilding and shipping industries, and financial difficulties of any companies within these industries may adversely impact us.

Many Korean companies, including certain of our borrowers, are currently facing financial difficulties. In particular, our borrowers in the construction, shipbuilding and shipping sectors have been experiencing significant challenges following the difficult macroeconomic conditions and volatility of the global credit markets. The construction industry in Korea has experienced a downturn in recent years, due to excessive investment in residential property development projects, stagnation of real property prices and reduced demand for residential property, especially in areas outside of Seoul, resulting from the deterioration of the Korean economy. The shipbuilding and shipping industries in Korea have also experienced a severe downturn in recent years due to a significant decrease in ship orders and shipments, primarily due to adverse conditions in the global economy and the resulting slowdown in global trade, as well as increased competition from companies in the emerging countries, including China.

As of 30 September 2015, on a separate basis, we had loans of ₩3.2 trillion and ₩2.6 trillion to borrowers in the construction sector and the shipbuilding sector, respectively, which represented 1.6 per cent. and 1.3 per cent., respectively, of our total loans. And as of the same date, we had set aside an allowance for possible loan losses in the amount of ₩197.5 billion and ₩158.5 billion for our general loans to borrowers in the construction sector and the shipbuilding sector, respectively. In addition to our general loan exposures, we have other exposures to such borrowers, in the form of guarantees extended for the benefit of such borrowers and debt and equity securities of such borrowers held by us. As of 30 September 2015, our largest single credit to these sectors was to Daewoo Shipbuilding & Marine Engineering Co., Ltd., which amounted to ₩795 billion on a separate basis. As of the same date, we had allowances of ₩31.6 billion in respect of such exposure.

In June 2010, FSC and FSS announced that, following credit risk evaluations conducted by six creditor financial institutions (including Korea Exchange Bank and Hana Bank) of companies in Korea with outstanding debt of ₩50 billion or more, 65 companies were selected by such financial institutions for restructuring in the form of workout, liquidation or court receivership. Of such 65 companies, 16 were construction companies, three were shipbuilding companies and one was a shipping company. In July 2012, FSC and FSS announced the results of subsequent credit risk evaluations conducted by creditor financial institutions (including Korea Exchange Bank and Hana

Bank) of companies in Korea, in which 36 companies with outstanding debt of ₩50 billion or more (17 of which were construction companies, one of which was a shipbuilding company and one of which was a shipping company) were selected by such financial institutions for restructuring in the form of workout, liquidation or court receivership. Most recently, in July 2015, the "Results of the 2015 Periodic Review of the Credit Risk of Large Enterprises" published by the FSS indicated that 35 enterprises were designated as targets for restructuring, among which 13 were constructions companies and two were companies in the shipbuilding/shipping sector. However, there is no assurance that the restructuring efforts will be successful in stabilising the Korean construction, shipbuilding and shipping industries.

The corporate restructuring and reorganisations of Korean companies in the construction, shipbuilding and shipping sectors will likely affect the amount of non-performing credits with respect to our exposure to such companies, and our ability to make recoveries may be compromised as a result of such restructuring or reorganisation. There can be no assurance that we will not be required to allocate additional reserves for our exposures to such companies, or that losses from non-performing credits to such companies will not exceed the amounts that we have reserved against such losses, either of which could have a material adverse effect on us.

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

The allowances that we have established against our loan exposures to Korean companies in the above described industries may be insufficient to cover all future losses arising from our exposures. If the credit quality of our exposures to such Korean companies declines, we may be required to take substantial additional loan loss provisions, which could adversely impact our results of operations and financial condition. Furthermore, although a portion of our loans to such Korean companies may be secured by collateral, such collateral may be insufficient to cover uncollectible amounts in respect of such loans.

The asset quality of our household loan portfolio may deteriorate.

In recent years, consumer debt, including lending to small unincorporated businesses, has continued to increase in Korea. Our portfolio of household loans is comprised of two principal product types, namely secured household loans (which are primarily comprised of housing loans secured by real estate) and general purpose household loans (which are unsecured loans and tend to carry a higher credit risk). As of 30 September 2015, our household loan portfolio (after allowance for loan losses and net deferred loan fees and costs) was ₩86.0 trillion, or 41.3 per cent. of our total loans outstanding. As of 31 December 2013 and 2014, Korea Exchange Bank's household loan portfolio (excluding credit card receivables in the case of 31 December 2013 and after allowance for loan losses and net deferred loan fees and costs) was ₩22.6 trillion and ₩22.0 trillion, respectively, representing 30.6 per cent. and 29.3 per cent., respectively, of its total loans outstanding. As of the same dates, Hana Bank's household loan portfolio (after allowance for loan losses and net deferred loan fees and costs) was ₩54.7 trillion and ₩57.8 trillion, respectively, representing 45.1 per cent. and 45.4 per cent., respectively, of its total loans outstanding.

Our large exposure to consumer debt means that we are exposed to changes in economic conditions affecting Korean consumers. For example, a rise in unemployment or an increase in interest rates in Korea could adversely affect the ability of consumers to make payments and increase the likelihood of potential defaults. Economic difficulties in Korea that hurt consumers could result in increasing delinquencies and a decline in the asset quality of our household loan portfolio, which would in turn require us to record increased provisions for credit loss and charge-offs and may materially and adversely affect our financial condition and results of operations.

In light of adverse conditions in the Korean economy affecting consumers, in March 2009, the FSC requested Korean banks, including Korea Exchange Bank and Hana Bank, to establish a "pre-workout programme," including a credit counselling and recovery service, for retail borrowers with outstanding short-term debt. The pre-workout programme has been in operation since April 2009 and, following successive extensions by the Government, is expected to continue indefinitely. Under the pre-workout programme, maturity extensions and/or interest reductions are provided for retail borrowers with total loans of less than ₩500 million who are in arrears on their payments for more than 30 days but less than 90 days. In addition, in March 2015, in response to increasing levels of consumer debt and amid concerns over the debt-servicing capacity of retail borrowers if interest rates were to rise, the Government launched, and requested Korean banks to participate in, a mortgage loan refinancing programme aimed at reducing the payment burden on and improving the asset quality of outstanding mortgage loans. Under such refinancing programme, for which the application period has ended, qualified retail borrowers may convert their outstanding non-amortising floating-rate mortgage loans from Korean commercial banks into long-term amortising fixed-rate mortgage loans with lower interest rates. The aggregate principal amount of mortgage funds that may be refinanced under such programme is ₩34 trillion for all commercial banks, of which our share is ₩4.75 trillion. Our participation in such refinancing programme may lead to a decrease in our interest income on our outstanding mortgage loans, as well as in our overall net interest margin. More generally, our participation in such government-led initiatives to provide financial support to retail borrowers may lead us to offer credit terms for such borrowers that we would not otherwise offer in the absence of such initiatives, which may have an adverse effect on our results of operations and financial condition.

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

As of 30 September 2015, our loans to companies that were in restructuring (in the form of either workout or rehabilitation) amounted to ₩726.6 billion, representing approximately 0.4 per cent. of our total loans on a separate basis. Our allowances for losses on these loans may not be sufficient to cover all future losses arising from our exposure to these companies. Furthermore, we have other exposure to such companies, in the form of guarantees extended for the benefit of such companies and debt and equity securities of such companies held by us (including equity securities we acquired as a result of debt-to-equity conversions). With respect to those companies that are in or may in the future enter into a workout or liquidation proceedings, we may not be able to make any recoveries against such companies. We may, therefore, experience future losses with respect to those loans. In addition, in the case of borrowers that are or become subject to workout, we may be forced to restructure our credits pursuant to restructuring plans approved by other creditor financial institutions or to dispose of our credits to other creditors on unfavourable terms, which may adversely affect our results of operations and financial condition.

In furtherance of policy objectives, the Government may promote lending and financial support to certain types of institutions to which we would not lend or invest absent such policies, and such lending or other forms of support may negatively impact our financial condition.

Through its policies and recommendations, the Government has promoted, and as a matter of policy, may continue to attempt to promote, lending by the Korean financial industry to particular types of borrowers. For example, the Government has in the past provided and may continue to provide policy loans, which encourage lending to particular types of borrowers. The Government has generally done this by identifying sectors of the economy it wishes to promote and making low-interest funding available to financial institutions that may voluntarily choose to lend to these sectors. For example, the Government has taken and is taking various initiatives to support SMEs and low-income individuals, who were disproportionately affected by the downturn in the Korean and global economy in the late 2000s and have yet to fully recover. The Government may implement similar or other initiatives in the future to spur the overall economy or encourage the growth of targeted industries or relief to certain segments of the population.

All loans or credits we choose to make pursuant to these policy loans would be subject to review in accordance with our credit approval procedures. However, the availability of policy loans may influence us to lend to certain sectors or in a manner in which we otherwise would not in the absence of such policy initiatives from the Government, and the policy-driven lending may create enhanced difficulties for us in terms of risk management and may lead to deterioration of our asset quality and reduced earnings.

In addition, the Government has requested and may in the future request financial institutions in Korea, including us, to make investments in or provide other forms of financial support to particular sectors of the Korean economy as a matter of policy, which such financial institutions, including us, may decide to accept. We may incur costs or losses as a result of providing such financial support.

Competition in the Korean banking industry is intense and may further intensify.

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

In addition, a number of significant mergers and acquisitions in the industry have taken place in Korea over the past decade, including the acquisition of Hanmi Bank by an affiliate of Citibank in 2004, Standard Chartered Bank's acquisition of Korea First Bank in 2005, Chohung Bank's merger with Shinhan Bank in 2006, and Hana Financial Group's acquisition of Korea Exchange Bank in 2012 and the resulting Merger. Moreover, in 2014, pursuant to the implementation of the Government's privatisation plan with respect to Woori Finance Holdings and its former subsidiaries, Woori Financial, Woori Asset Management and Woori F&I were acquired by KB Financial Group, Kiwoom Securities and Daishin Securities, respectively, and Woori Investment & Securities, Woori Aviva Life Insurance and Woori FG Savings Bank were acquired by NongHyup Financial Group. In addition, in October 2014, the Government's ownership interest in the holding companies of Kwangju Bank and Kyongnam Bank were acquired by JB Financial Group and BS Financial Group (now BNK Financial Group), respectively. We expect that such consolidation in the financial industry will continue. Other financial institutions may seek to acquire or merge with other entities, and the financial institutions resulting from such consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for us. Increased competition and continuing consolidation may lead to decreased margins, resulting in a material adverse impact on our future profitability.

Regulatory reforms and the general modernisation of business practices in Korea have also led to increased competition among financial institutions in Korea. Starting in early 2009, financial investment companies with a dealing license and/or brokerage license are allowed to provide secondary services in connection with securities investments such as settlement and remittance services relating to customer deposits. As a result, we may face difficulties in increasing or retaining our deposits, which in turn may result in an increase in our cost of funding, and a decrease in our settlement and remittance service fee revenue. In addition, in the second half of 2015, the FSC began to take steps to adopt the Account Switch Service, which allow customers to manage their automatic transfer payment accounts in a more convenient way. In July 2015, as the first step of implementing the Account Switch Service, the FSC introduced the Integrated Automatic Transfer Payment Management System through the Korea Financial Telecommunications & Clearings Institute (www.payinfo.or.kr), which enables customers to check their registered automatic transfer payment status and cancel any unnecessary items at will. In October 2015, the second step to the Account Switch Service was taken, which enabled customers to use the Integrated Automatic Transfer Payment Management System to switch the bank account from which the automatic transfer payments are made with the responsible party for the change being the banks should the customer decides to switch banks. Prior to the introduction of the Account Switch Service, customers had the onus of making arrangements with each of the involved banks to make the change. Under the new system, it is expected that customers will find it easier to switch from one bank to another. Currently, the switches can only be made regarding large scale institutions as automatic payment transferees, but the FSC is planning to expand the service with respect to all institutions to which money is transferred by June 2016. As the reform of the financial sector continues, competition may become more intense among existing banks, insurance companies, securities companies and other financial organisations, and may lead to significant changes in the current Korean financial market.

Furthermore, as the Korean economy further develops and new business opportunities arise, more competitors may enter the Korean banking and other financial services industry. For example, as online service providers and technology companies with large-scale user networks, such as Daum Kakao, NAVER and Samsung Electronics, recently make significant inroads in providing virtual payment services through a system based on a growing convergence of financial services and technology commonly referred to as "fintech", competition for online customers is growing not just among commercial banks, but also from mobile payment service providers. In addition, the Government recently announced its plans to grant permission to open Internet-only banks. As of the date of this Offering Circular, two business consortiums, Kakao consortium and KT consortium, have been granted preliminary permission by the Government for Internet-only banks. The consortiums will apply for final permission during early 2016. After final permission by the Government, the Internet-only banks are expected to start operations as early as the first half of 2016. Internet-only banks may have advantages over traditional banks as the former can pass savings in labour and overhead costs to their customers by offering higher interest rates on deposit accounts, lower loan costs and reduced service fees. Accordingly, commercial banks are facing increasing pressure to upgrade their service platforms to attract and maintain online users, which represents a growing customer base compared to traditional customers who have primarily conducted banking in-person at physical banking branches. In addition, other large non-financial institutions, such as mobile telecommunications companies, which on a combined basis service most of the Korean population, may expand entry into the consumer finance business by way of convergence with the existing and future mobile telephone networks.

There can be no assurance that we will be able to compete effectively in the face of such increased competition. Increased competition in the Korean banking industry may make it difficult for us to grow the size of our loan portfolio and deposit base and maintain or improve our margins, which could have a material adverse effect on our results of operations and financial condition.

Changes in interest rates could hurt our net interest margin due to a mismatch in our assets and liabilities structures and other factors, which could have a material adverse effect on our asset quality and profitability.

Since the onset of the global financial crisis in the second half of 2008, Korea, like many other countries, has experienced a low interest rate environment despite some marginal fluctuations, in part due to the Government's policy to stimulate the economy through active rate-lowering measures. Between 2009 and 2014, the base interest rate set by the Bank of Korea remained within the band between 2.00 per cent. and 3.25 per cent. In an effort to support Korea's economy in light of the recent slowdown in Korea's growth and uncertain global economic prospects, the Bank of Korea reduced the base interest rate to 1.75 per cent. in March 2015 and further reduced such rate to the historic low of 1.50 per cent. in June 2015. Most recently, on 10 December 2015, the Bank of Korea decided to maintain the base interest rate at 1.50 per cent.

Interest rate movements, in terms of magnitude and timing as well as their relative impacts on our assets and liabilities, have a significant impact on our net interest margin and profitability, particularly with respect to our financial products that are sensitive to such movements. For example, if the interest rates applicable to our loans (which are recorded as assets) increase at a slower pace or by a thinner margin than the interest rates applicable to our deposits (which are recorded as liabilities), our net interest margin will shrink and our profitability will be negatively affected. In addition, the relative size and composition of our variable rate loans and deposits (as compared to our fixed rate loans and deposits) may also impact our net interest margin. Furthermore, the difference in the average term of our interest-earning assets (primarily loans) compared to our interest-bearing liabilities (primarily deposits) may also impact our net interest margin. For example, since our deposits tend to have longer terms, on average, than those of our loans, our deposits are on average less sensitive to movements in the base interest rates on which our deposits and loans tend to be pegged, and therefore, a decrease in the base interest rates tend to decrease our net interest margin while an increase in the base interest rates tend to have the opposite effect. While we continually manage our assets and liabilities to minimise our exposure to interest rate volatility, such efforts may not mitigate the impact of interest rate volatility in a timely or effective manner, and our net interest margin, and in turn our financial condition and results of operations, could suffer significantly.

We cannot assure when and to what extent the Government will in the future adjust the base interest rate, to which the market interest rate correlates. A decision to adjust the base interest rate is subject to many policy considerations as well as market factors, including the general economic cycle, inflationary levels, interest rates in other economies and foreign currency exchange rates, among others. In general, a decrease in interest rates adversely affects our interest income due to the different maturity structure for our assets and liabilities as discussed above. In contrast, if there were to be a significant or sustained increase in interest rates, all else being equal, such movement would lead to a decline in the value of traded debt securities and could also raise our funding costs, while reducing loan demand, especially among retail customers. Rising interest rates may therefore require us to re-balance our assets and liabilities in order to minimise the risk of potential mismatches in our asset liability management and to maintain our profitability. In addition, rising interest rates may adversely affect the Korean economy and the financial condition of our corporate and retail borrowers, which in turn may lead to deterioration of asset quality for our credit portfolio. Since most of our retail and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rates will increase the funding costs of our borrowers and may adversely affect their ability to make payments on their outstanding loans.

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

A substantial portion of our home and mortgage loans are secured by borrowers' homes, other real estate or other securities and guarantees (which are principally provided by the Government and other financial institutions), and a large portion of our corporate loans are also secured, including by real estate. The secured portion of our loans amounted to ₩106.8 trillion, or 52.9 per cent. of our total loans, as of 30 September 2015, on a separate basis. We cannot assure that the collateral value of such loans may not materially decline in the future. Our general policy for home and mortgage loans is to lend up to 70 per cent. of the appraised value of the collateral and to periodically re-appraise the value of the collateral. However, in light of the recent downturn in the real estate market in Korea, the value of the collateral may fall below the outstanding principal balance of the underlying loans. Declines in real estate prices reduce the value of the collateral securing our mortgage and home equity loans, and such reduction in the value of the collateral may result in our inability to recover a portion of the value of our secured loans. A decline in the value of the real estate or other collateral securing our loans, or our inability to obtain additional collateral in the event of such declines, may result in the deterioration of our asset quality and require us to take additional loan loss provisions. In Korea, foreclosure on collateral generally requires a written petition to a Korean court. Foreclosure procedures in Korea typically take ten to fourteen months from initiation to collection depending on the nature of the collateral, and foreclosure applications may be subject to delays and administrative requirements, which may result in a decrease in the recovery value of such collateral. We cannot assure that we will be able to realise the full value of the collateral as there can be, among other factors, delays in foreclosure proceedings, defects in the perfection of the collateral and general declines in the collateral value. Our failure to recover the expected value of the collateral could expose us to significant losses.

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

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

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

In the normal course of our banking activities, we make various commitments and incur certain contingent liabilities in the form of guarantees and acceptances, which are recorded as off-balance sheet items in the notes to our financial statements. As of 30 September 2015, we had aggregate guarantees and acceptances of ₩24.0 trillion, for which we provided allowances for losses of ₩41.2 billion. No assurance can be given that such allowance will be sufficient to cover any actual losses resulting in respect of these instruments.

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

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

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

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

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

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

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

In the course of our operations, we must manage a number of risks, such as credit risks, market risks and operational risks. We seek to monitor and manage our risk exposure through a comprehensive risk management platform, encompassing centralised risk management organisation and credit evaluation systems, reporting and monitoring systems, early warning systems and other risk management infrastructure, using a variety of risk management strategies and techniques. See "*Risk Management*". Although we devote significant resources to developing and improving our risk management policies and procedures and expect to continue to do so in the future, our risk management techniques may not be fully effective at all times in mitigating risk exposures in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Management of credit, market and operational risk requires, among other things, policies and procedures to properly record and verify a large number of transactions and events, and we cannot assure that these policies and procedures will prove to be fully effective at all times against all the risks that we face.

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

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

We are subject to cyber security risk.

We are subject to a risk of cyber-attacks, the nature of which is continually evolving. Cyber security risks include unauthorised access, through system-wide "hacking" or other means, to privileged and sensitive customer information, including passwords and account information and illegal use thereof. Cyber security risk is generally on the rise as a growing number of our customers increasingly rely on Internet- and mobile phone-based banking services for various types of financial transactions. While we vigilantly protect customer data through encryption and other security programmes and have made substantial investments to build and upgrade our systems to address the growing threats from cyber-attacks, there is no assurance that such data will not be subject to future security breaches as a result of illegal activities by our employees, outside consultants or hackers, or otherwise.

We have not experienced any material security breaches in the past. However, major financial institutions in Korea have fallen victim to cyber security attacks in the past, and given the unpredictable and continually evolving nature of cyber security threats due to advances in technology or other reasons, there is no assurance that, notwithstanding our best efforts at maintaining the best-in-class cyber security systems, we will not be vulnerable to major cyber security attacks in the future.

The public is developing heightened awareness about the importance of keeping their personal data private and the financial regulators are placing greater emphasis on data protection by financial service providers. As such, in light of the various incidents of security breaches involving financial institutions, the Government has implemented heightened consumer protection measures. For example, under the Personal Information Protection Act, as amended in July 2015, financial institutions, as personal information manager, may not collect, store, maintain, utilise or provide resident registration numbers of their customers, unless other laws or regulations specifically request or permit the management of resident registration numbers. Further, under the Use and Protection of Credit Information Act, as amended in March 2015, a financial institution has a higher duty to protect all information that it collects from its customers and to treat such information as credit information. A financial information's ability to transfer or provide the information to its affiliate or holding company is considerably restricted. Treble damages can be imposed on a financial institution for a leakage of such information. In addition, under the Electronic Financial Transaction Act, as amended in October 2014, a financial institution is primarily responsible for compensating its customers harmed by the financial institution's cyber security breach, even if the breach is not directly attributable to the financial institution.

If a cyber or other security breach were to happen, it may result in litigation by affected customers or other third parties (including class action), compensation for any losses suffered by victims of cyber security attacks, reputational damage, loss of customers, heightened regulatory security and related sanctions, more stringent compliance with the present and future regulatory restrictions, and other costs related to damage control, reparation and reinforcement of information security systems, any of which may have a material adverse effect on our business, financial conditions and results of operations.

We may be required to raise additional capital if our capital adequacy ratio deteriorates or the applicable capital requirements change in the future, but we may not be able to do so on favourable terms or at all.

Pursuant to the capital adequacy requirements of the FSC, we are required to maintain a minimum common shares capital adequacy ratio of 4.5 per cent., a minimum Tier I capital adequacy ratio of 6.0 per cent. and a combined Tier I and Tier II capital adequacy ratio of 8.0 per cent. as of the date hereof. Tier II capital is included in calculating the combined Tier I and Tier II capital adequacy ratio up to 100.0 per cent. of Tier I capital. On a separate basis, our Tier I capital adequacy ratio and our combined Tier I and Tier II capital adequacy ratio were 11.64 per cent. and 14.60 per cent., respectively, as of 30 September 2015, each of which exceeded the minimum levels required by the FSC. See "*Capitalisation — Capital Adequacy*". However, our capital base and capital adequacy ratio may deteriorate in the future if the results of our operations or financial condition deteriorates for any reason, including as a result of a deterioration in the asset quality of our loans to households, SMEs and/or large conglomerates, or if we are not able to deploy our funding into suitably low-risk assets.

In addition, we may face increased capital requirements under the new Basel Capital Accord. Beginning on 1 January 2008, the FSS implemented the new Basel Capital Accord ("**Basel II**") in Korea, which has substantially affected the way risk is measured among Korean financial institutions, including us. Building upon the initial Basel Capital Accord of 1988, which focused primarily on credit risk and market risk and on capital adequacy and asset soundness as measures of risk, Basel II has expanded this approach to contemplate additional areas of risk such as operational risk. In addition, under Basel II, banks are permitted to follow either a standardised approach or an internal ratings-based approach with respect to calculating credit risk capital requirements. In December 2009, the Basel Committee on Banking Supervision introduced a new set of measures to supplement Basel II which include, among others, a requirement for higher minimum capital, introduction of a leverage ratio as a supplementary measure to the capital adequacy ratio and flexible capital requirements for different phases of the economic cycle. Additional details regarding such new measures, including an additional capital conservation buffer and countercyclical capital buffer, liquidity coverage ratio and other supplemental measures, were announced by the Group of Governors and Heads of Supervision of the Basel Committee on Banking Supervision in September 2010. After further impact assessment and observation periods, the Basel Committee on Banking Supervision began phasing in the new set of measures, referred to as "**Basel III**", starting from 2013. In July 2013 and September 2013, the FSC promulgated amended regulations implementing Basel III, pursuant to which Korean banks were required to maintain a minimum ratio of Tier I common equity capital (which principally includes equity capital, capital surplus and retained earnings less reserve for credit losses) to risk-weighted assets of 3.5 per cent. and Tier I capital to risk-weighted assets of 4.5 per cent. from 1 December 2013, which minimum ratios increased to 4.0 per cent. and 5.5 per cent., respectively, from 1 January 2014 and increased further to 4.5 per cent. and 6.0 per cent., respectively, from 1 January 2015. Such requirements would be in addition to the existing requirement for a total minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8.0 per cent., which remains unchanged. The regulations also contemplate an additional capital conservation buffer of 0.625 per cent. starting in 2016, with such buffer to increase to 1.25 per cent. in 2017, 1.875 per cent. in 2018 and 2.5 per cent. in 2019, respectively. The implementation of Basel III in Korea may have a significant effect on the capital requirements of Korean financial institutions, including us.

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

We are a heavily regulated entity and operate in a legal and regulatory environment that is subject to change, and violations could result in penalties and other regulatory actions.

As a financial services provider, we are subject to a number of regulations that are designed to maintain the safety and soundness of Korea's financial system, to ensure our compliance with economic and other obligations and to limit our risk exposure. These regulations may limit our activities, and changes in these regulations may increase our costs of doing business. Regulatory agencies frequently review regulations relating to our business and implement new regulatory measures, including increasing the minimum required provisioning levels or capital adequacy ratios applicable to us from time to time. We expect the regulatory environment in which we operate to continue to change. Changes in regulations applicable to us and our business or changes in the implementation or interpretation of such regulations could affect us in unpredictable ways and could adversely affect our business, results of operations and financial condition.

Upon implementation of the Government-proposed Financial Consumer Protection Act (currently pending at the National Assembly's subcommittee for review of the bill), banks as financial instrument distributors will be subject to heightened investor protection measures, including stricter distribution guidelines, improved financial dispute resolution system, increased liability for damages borne by direct financial instrument distributors and newly imposed penalty surcharges. We may also become subject to other restrictions on our operations as a result of future changes in laws and regulations, including more stringent liquidity requirements under Basel III, which will be adopted in phases in Korea in consideration of, among other things, the pace and scope of international adoption of such requirements. Any of these regulatory developments may have a material adverse effect on our ability to expand operations or adequately manage our risks and liabilities.

In addition, violations of law and regulations could expose us to significant liabilities and sanctions. For example, the FSC conducts periodic audits on banks and, from time to time, both Korea Exchange Bank and Hana Bank have received institutional warnings from the FSC. If the FSC determines as part of such audit or otherwise that our financial condition is unsound or that we have violated applicable law or regulations, including FSC orders, or if we fail to meet the applicable requisite capital ratio or the capital adequacy ratio, as the case may be, set forth under Korean law, the FSC may order, among other things, capital increases or reductions, suspension of officers from performing their duties and appointment of custodians, stock cancellations, consolidations, transfers of business, sales of assets, closures of branch offices, mergers with other financial institutions and/or suspensions of a part or all of our business operations. If any of such measures is imposed on us as a result of unsound financial condition or failure to comply with minimum capital adequacy requirements or for other reasons, it will have a material adverse effect on our business, financial condition and results of operations.

For further details on the principal laws and regulations applicable to us, see *"Regulation and Supervision"*.

Incidents of fraud and adverse publicity associated with certain of our loans could have a material adverse effect on our business and reputation.

We have extended loans to certain borrowers who were found to have forged documents to receive loans. Each of Hana Bank and Korea Exchange Bank discovered that it was affected by the following incidents of fraud:

- Between 2008 and 2014, an employee of KT ENS Corporation ("**KT ENS**") and several companies, some of which were KT ENS's subcontractors, worked together to forge documents, including a forged proof of accounts receivable, to incur borrowings in over 460 transactions from 16 banks, including Hana Bank. Hana Bank was the largest creditor to KT ENS with aggregate unpaid loans totalling ₩161.4 billion, a portion of which was guaranteed by two financial institutions. After police investigations, the KT ENS employee and seven other persons involved in the incident were found guilty of criminal charges and were given prison sentences of varying terms. The banks that provided the loans have demanded that KT ENS be held liable for the repayment of the loans. However, KT ENS disclaimed any responsibility for the employee's personal misconduct and the transactions, and claimed that the banks should be held responsible for failing to detect the fraud while screening the loan applications. In March 2014, KT ENS filed for court receivership with the Seoul Central District Court, following which Hana Bank wrote off all of the unguaranteed portion of the outstanding loans to KT ENS and separately filed a lawsuit against the guarantors to recover the guaranteed loans. On 3 September 2014, the trial court ruled in favour of the guarantors invalidating the guarantee. As of 30 September 2015, on a separate basis, the amount of our outstanding loans to KT ENS was ₩34.0 billion, with reserves in the amount of ₩11.5 billion. Separately, the FSS conducted an investigation over the lending and loan review processes of various financial institutions including Hana Bank, as a result of which, in February 2015, an institutional warning was imposed on Hana Bank and other penalties were also imposed on certain officers of Hana Bank.

- Between 2009 and 2014, the CEO of Moneual Inc. ("**Moneual**"), a now bankrupt home appliance company, forged documents to overstate Moneual's export performance in order to receive loans from 10 banks, including Korea Exchange Bank. As of 30 September 2015, on a separate basis, our aggregate loans to Moneual totalled ₩108.1 billion, ₩94.3 billion of which was guaranteed by the Korea Trade Insurance Corporation ("**K-Sure**"). Following Moneual's bankruptcy in December 2014, Korea Exchange Bank wrote off substantially all of the unguaranteed portion of the outstanding loans and set aside a reserve representing 50 per cent. of the outstanding guaranteed loans. K-Sure disclaimed its obligations under the guarantee, claiming that the guarantee is invalid because it was obtained by fraud and Korea Exchange Bank failed to detect the fraud. As of the date of this Offering Circular, we are exploring options to recover unpaid loans to Moneual, including seeking recovery in the bankruptcy proceeding and filing a lawsuit against K-Sure to enforce its guarantees. In December 2015, the FSS issued an institutional warning to us, and we voluntarily imposed penalties of varying severity on the employees involved in the incident.

There can be no assurance that we will be able to collect on any of our outstanding loans to KT ENS or Moneual either from the borrowers or their respective guarantors. Furthermore, sanctions and penalties that have been or may be imposed by the FSS on us or our employees, as well as adverse publicity regarding us generated by incidents of frauds, could have a material adverse effect on our business and reputation.

We may be assessed additional taxes in respect of prior periods as a result of tax audits by Korean tax authorities.

From time to time, we are subject to tax audits by Korean tax authorities. Most recently, the Seoul Regional Tax Office conducted a tax audit of Korea Exchange Bank in 2012 and of Hana Bank in 2014, neither of which resulted in any material findings or penalties. Although we believe that we have complied with our obligations under applicable Korean tax laws and regulations in all material respects, there can be no assurance that we will not be involved in disputes with, or will not be assessed additional income or other taxes with respect to prior periods or in connection with the Merger by, Korean tax authorities as a result of tax audits of us. Any such additional taxes assessed against us, if significant, may have an adverse effect on our results of operations and financial condition.

We engage in limited activities with sanctions targets in the Republic of the Union of Myanmar ("Myanmar") and in the Russian Federation ("Russia"), which subjects us to legal and reputational risks.

The U.S. Department of the Treasury's Office of Foreign Assets Control ("**OFAC**") administers and enforces certain laws and regulations ("**OFAC Sanctions**") that impose restrictions upon U.S. persons with respect to dealings with or related to certain countries, governments, entities and individuals that are the subject of OFAC Sanctions, including Myanmar and Russia, and maintains a list of specially designated nationals (the "**SDN List**"), whose assets are blocked and with whom U.S. persons are generally prohibited from dealing. OFAC also publishes a Sectoral Sanctions Identifications ("**SSI**") list to identify certain persons operating in sectors of the Russian economy identified by the Secretary of the Treasury pursuant to Executive Order 13662 and the four directives issued thereunder. Depending on the directive implicated, U.S. persons are prohibited from engaging in certain activities with those entities designated on the SSI list. Non-U.S. persons can be held liable for violations of OFAC Sanctions on various legal grounds, such as causing violations by U.S. persons by engaging in transactions completed in part in the United States. The European Union ("**EU**") also enforces certain laws and regulations that impose restrictions upon nationals and entities of, and business conducted in, member states with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of such laws and regulations. The United Nations Security Council and other governmental entities also impose similar sanctions.

With regard to our Myanmar dealings, in October 2012, Hana Bank established a liaison office in Yangon, Myanmar, where we currently have one employee stationed at the office to conduct liaison activities. In addition, in November 2012, Hana Bank entered into a memorandum of understanding with Ayeyarwady Bank, which outlines the terms of an ongoing strategic alliance between Hana Bank and Ayeyarwady Bank. In August 2014, Hana Bank established Hana Micro Finance Ltd. in Myanmar, after receiving a microfinancing license from the Myanmar Microfinance Supervisory Committee in May 2014. In August 2014, Hana Bank began providing microfinancing services involving loans of less than U.S.$500 in the Dar Go Township located near Yangon, Myanmar, to acquire a better understanding of the local retail banking market and to enhance its name recognition through global corporate social responsibility activities.

In February 2013, OFAC added Ayeyarwady Bank to the SDN List and also published General License Number 19, which authorised most transactions with Ayeyarwady Bank, other than new investment and several other specified activities. General License 19 was removed following the reissuance of the Burmese Sanctions Regulations and 31 CFR §537.531 currently contains an authorisation for most transactions involving Ayeyarwady Bank, other than new investment, as defined in 31 CFR §537.311, and several other specified activities. Despite the authorisation contained in 31 CFR §537.531, Ayeyarwady Bank remains on the SDN List. It is possible that the authorisation regarding Ayeyarwady Bank could be modified at some point in the future.

From May 2013 to June 2013, Hana Bank provided a one-time employee training programme for Ayeyarwady Bank. In October 2013, Ayeyarwady Bank opened a U.S. dollar account with Hana Bank, to facilitate the transfer of money from Korea to Myanmar by Myanmar workers in Korea. Other than the foregoing, there have been no business transactions or dealings between us and Ayeyarwady Bank since February 2013, and no financial arrangements were included in the scope of the memorandum of understanding.

We believe that our activities relating to Ayeyarwady Bank specifically, as well as to Myanmar generally, are not sanctionable under the OFAC Sanctions or other applicable sanctions laws of relevant jurisdictions. However, there is no guarantee that such activities will not be found to violate applicable sanctions laws. Moreover, future changes in law concerning either Ayeyarwady Bank specifically or Myanmar generally could also adversely affect us. Accordingly, our activities relating to Myanmar subjects us to legal and reputational risks.

With regard to our Russian dealings, we engage in certain dealings with Sberbank and VTB Bank. Both Sberbank and VTB Bank are targets of OFAC sanctions pursuant to Directive 1 (as amended), issued under Executive Order 13662 and they are included on OFAC's SSI list. Under Directive 1, certain activities by U.S. persons or conducted within the United States relating to debt or equity of certain SSI targets are prohibited. We believe our activities relating to Sberbank and VTB Bank are not sanctionable under the OFAC sanctions. Sberbank and VTB Bank are also targets of restrictive measures under Council Regulation (EU) 833/2014 ("**Regulation 833/2014**"). We believe our activities relating to Sberbank and VTB Bank are not sanctionable under Regulation 833/2014. However, there is no guarantee that such activities will not be found to violate applicable sanctions laws. Moreover, future changes in law concerning Sberbank or VTB Bank specifically or Russia generally could also adversely affect us. Accordingly, our activities relating to Russia subject us to legal and reputational risks.

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

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

Risks Relating to Korea

Adverse developments in Korea may have adverse effects on us.

We are incorporated in Korea, where most of our assets are located and most of our income is generated. As a result, our performance and successful fulfilment of our operational strategies are necessarily dependent on the overall Korean economy. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future growth of the economy is subject to many factors beyond our control.

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

Developments that could have an adverse impact on Korea's economy include:

- continued volatility or deterioration in Korea's credit and capital markets;
- difficulties in the financial sectors in Europe, China and elsewhere and increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;
- declines in consumer confidence and a slowdown in consumer spending and corporate investments;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, the Euro or the Yen exchange rates or revaluation of the Chinese Renminbi), interest rates, inflation rates or stock markets;
- increasing levels of household debt;
- increasing delinquencies and credit defaults by retail and SME borrowers;
- continuing adverse conditions in the economies of countries and regions that are important export markets for Korea, such as the United States, Europe, Japan and China, or in emerging market economies in Asia or elsewhere;
- the economic impact of any pending or future free trade agreements;
- social and labour unrest;
- further decreases in the market prices of Korean real estate;

- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
- geopolitical 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, including the recent Ebola and Middle East Respiratory Syndrome outbreaks;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy;
- political uncertainty or increasing strife among or within political parties in Korea, and political gridlock within the government or in the legislature, which prevents or disrupts timely and effective policy making;
- hostilities involving oil-producing countries in the Middle East and North Africa and any material disruption in the supply of oil or increase in the price of oil; and
- the occurrence of natural or man-made disasters in Korea (such as the sinking of the Sewol ferry in April 2014, which significantly dampened consumer sentiment in Korea for months) and other parts of the world, particularly in trading partners, such as the earthquake and tsunami that occurred in the northeast part of Japan in March 2011 and any resulting releases of radiation from damaged nuclear power plants in the area.

Escalations in tensions with North Korea could have an adverse effect on us and the market value of the Notes.

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, there continues to be uncertainty regarding the long-term stability of North Korea's political leadership since the succession of Kim Jong-un to power following the death of his father in December 2011, which has raised concerns with respect to the political and economic future of the region.

In addition, there continues to be heightened security tension in the region stemming from North Korea's hostile military and diplomatic actions, including in respect of its nuclear weapons and long-range missile programmes. Some examples from recent years include the following:

- On 6 January 2016, North Korea announced that it had successfully conducted its first hydrogen bomb test, hours after international monitors detected a 5.1 magnitude earthquake near a known nuclear testing site in the country. The claims have not been verified independently. The alleged test followed a statement made in the previous month by Kim Jong-un, who claimed that North Korea had developed a hydrogen bomb.
- In August 2015, two Korean soldiers were injured in a landmine explosion near the South Korean demilitarised zone. Claiming the landmines were set by North Koreans, the South Korean army re-initiated its propaganda programme toward North Korea utilising loudspeakers near the demilitarised zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas. High-ranking officials from North and South Korea subsequently met for discussions, and entered into an agreement on 25 August 2015 intending to deflate military tensions.
- From time to time, North Korea has fired short to medium-range missiles from the coast of the Korean peninsula into the sea. Most recently in March 2015, North Korea fired seven surface-to-air missiles into waters off its east coast in apparent protest of annual joint military exercises being held by Korea and the United States.

- In December 2014, North Korea allegedly hacked into Sony's network to prevent the airing of the movie "The Interview" which unfavourably portrays the North Korean leader, which has prompted the United States to consider implementing additional economic sanctions against North Korea.

- In December 2013, Jang Sung-taek, a relative of Kim Jong-un, who was widely speculated to be the second in command after Kim Jong-un, was executed on charges of sedition. There are reports that such development may cause further political and social instability in North Korea and/or adoption of more hostile policies that could engender further friction with North Korea and the rest of the world.

- North Korea blocked South Koreans from entering the industrial complex in the border city of Kaesong in April 2013 until agreement was reached to reopen the inter-Korean industrial complex in early August 2013. In the same month, the United States deployed nuclear-capable carriers in the South Korean air and sea space. In September 2013, however, Korea and North Korea reached an agreement and resumed operation of the Kaesong Industrial Complex, and have since made efforts to improve the business environment of the complex, including by building radio frequency identification data transfer systems and launching internet service, among others. In February 2014, the U.S. Congressional Research Service reported that Korea's approach toward the expansion and internationalisation of the Kaesong Industrial Complex could conflict with U.S. legislative efforts to expand its sanctions on North Korea, and there is no assurance that the Government will not reverse or reduce such efforts at detente.

- In March 2013, North Korea stated that it had entered "a state of war" with Korea, declaring the 1953 armistice invalid, and put its artillery at the highest level of combat readiness to protest the Korea-United States allies' military drills and additional sanctions imposed on North Korea for its missile and nuclear tests.

- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 to February 2013, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council unanimously passed resolutions that condemned North Korea for the nuclear tests and expanded sanctions against North Korea, most recently in March 2013.

- In December 2012, North Korea launched a satellite into orbit using a long-range rocket, despite concerns in the international community that such a launch would be in violation of the agreement with the United States as well as United Nations Security Council resolutions that prohibit North Korea from conducting launches that use ballistic missile technology.

North Korea's economy also faces severe challenges, including severe inflation and food shortages, which may further aggravate social and political tensions within North Korea. In addition, reunification of Korea and North Korea could occur in the future, which would entail significant economic commitment and expenditure by Korea that may outweigh any resulting economic benefits of reunification.

There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future or that the political regime in North Korea may not suddenly collapse. Any further increase in tension or uncertainty relating to the military, political or economic stability in the Korean peninsula, including a breakdown of diplomatic negotiations over the North Korean nuclear programme, occurrence of military hostilities, heightened concerns about the stability of North Korea's political leadership or its actual collapse, a leadership crisis, a breakdown of high-level contacts or accelerated reunification could have a material adverse effect on our business, financial condition and results of operations, as well as well as a downgrade in the credit rating of Korea, us or the Notes.

We are generally subject to Korean accounting, regulatory, corporate governance and disclosure standards, which differ from those applicable to banks in other countries.

Banks in Korea, including us, are subject to Korean accounting standards and disclosure requirements, which may differ in significant respects from those applicable to banks in certain other countries, including the United States. Our financial statements are prepared in accordance with K-IFRS, which may differ in certain respects from IFRS applied in other countries. In addition, we are subject to corporate governance standards applicable to Korean banks, which differ in many respects from standards applicable in other countries. There may also be less publicly available information about Korean banks, such as us, than is regularly made available by public or non-public companies in other countries. Such differences in accounting and corporate governance standards as well as less available public information could result in less than satisfactory corporate governance practices or disclosure to investors in certain countries.

Risks Relating to the Notes

Capitalised terms used but not defined in this section shall have the meanings given to them in the "*Terms and Conditions of the Notes*".

The Notes are unsecured obligations.

Because the Notes are unsecured obligations, their repayment may be compromised if:

- we enter into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under our future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of our indebtedness.

If any of these events occurs, our assets may not be sufficient to pay amounts due on any of the Notes.

The Notes may have limited liquidity.

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

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

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

The Notes are subject to transfer restrictions.

The Notes will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States, except to certain persons in offshore transactions in reliance on Regulation S, or, if available, pursuant to another exemption from, or in another transaction not subject to, the registration requirements of the Securities Act and, in each case, in accordance with applicable state securities laws. For a further discussion of the transfer restrictions applicable to the Notes, see "*Subscription and Sale and Transfer and Selling Restrictions*".

The Notes that are Subordinated Notes are subordinated and have only limited rights of acceleration.

The relevant Pricing Supplement may specify that the Notes will be Subordinated Notes (as defined in "*Terms and Conditions of the Notes — Status of the Notes — Status of Subordinated Notes*"), which will be our subordinated obligations. Payments on the Subordinated Notes will be subordinate in right of payment upon the occurrence of a Subordination Event (as defined in "*Terms and Conditions of the Notes — Status of the Notes — Status of Subordinated Notes*") to the prior payment in full of all deposits and other liabilities of us, except those liabilities which rank equally with or junior to the Subordinated Notes. As a consequence of these subordination provisions, if any of such events should occur, the holders of the Subordinated Notes may recover proportionately less than the holders of our deposit liabilities or the holders of its other unsubordinated liabilities.

Only those limited events described herein regarding our bankruptcy or rehabilitation will permit a holder of Subordinated Notes to accelerate payment of such Subordinated Notes. In such event, the only action the holder may take in Korea against us is to make a claim in our liquidation or other applicable proceeding. Furthermore, if our indebtedness were to be accelerated, our assets may be insufficient to repay in full borrowings under all such debt instruments, including the Notes.

Holders of Notes that are Subordinated Notes will have no creditor objection rights in connection with our future merger with another entity.

Under the Korean Commercial Code, a Korean company that has resolved to merge with another entity is required to provide notice of the impending merger to its creditors and, if any creditor raises an objection to the merger during the applicable creditor objection period, to either repay the relevant debt owed to such creditor or provide adequate collateral to secure such debt. However, pursuant to Condition 3(b) of the Terms and Conditions of the Notes, holders of Subordinated Notes will be deemed to have waived, and agreed not to exercise, any such creditor objection rights that may arise in connection with our merger with another entity. Accordingly, holders of Subordinated Notes will have no creditor objection rights in connection with our future merger.

The Notes that are Subordinated Notes may be fully written off upon the occurrence of certain trigger events, in which case holders of the Notes will lose all of their investment.

The Subordinated Notes will be subject to loss absorption provisions pursuant to which we will irrevocably effect a full write-off of the outstanding principal amount and accrued but unpaid interest on the Subordinated Notes (without the need for the consent of the holders) upon the occurrence of certain trigger event tied to our performance and viability. The trigger event would be (i) the adoption of certain measures by the FSC to improve our management conditions pursuant to Article 36 of the Regulation on Supervision of the Banking Business in consideration that without such write-off we would be no longer viable or (ii) the designation of us as an "insolvent financial institution" pursuant to the Act on Structural Improvement of the Financial Industry. Such write-off will be in effect on the third business day in Korea from the date of occurrence of such trigger event.

Under Article 2 of the Act on Structural Improvement of the Financial Industry, an "insolvent financial institution" is defined as a financial institution that is:

- determined by the FSC or the Deposit Insurance Committee (the "**DIC**") established within the Korea Deposit Insurance Corporation (the "**KDIC**"), based on an actual survey of such financial institution's business operations as (i) having liabilities that exceed its assets (each as valued and calculated in accordance with standards established by the FSC), or (ii) facing apparent difficulty in its normal operations because its liabilities exceed its assets (each as valued and calculated in accordance with standards established by the FSC) as a result of the occurrence of a major financial scandal or the accrual of non-performing loans;

- subject to a suspension of payment of claims (including deposits) or repayment of money borrowed from other financial institutions; or

- determined by the FSC or the DIC to be unable to make payments of claims (including deposits) or repayments of money borrowed, without external support or additional borrowings (other than borrowings accruing from ordinary course financial transactions).

In the event that the Subordinated Notes are written off, such written-off amount will be irrevocably lost and holders of the Subordinated Notes will cease to have any claims for any principal amount and accrued but unpaid interest on the Subordinated Notes. See "*Terms and Conditions of the Notes—Loss Absorption upon a Trigger Event in Respect of Subordinated Notes*".

Potential investors should consider the risk that, due to the existence of such loss absorption features, a holder of Subordinated Notes may lose all of its investment in such Subordinated Notes in the event that a trigger event occurs.

The applicable Korean laws and regulations relating to the trigger event and loss absorption features of Tier II capital instruments like the Subordinated Notes are relatively new and have yet to be tested. There is considerable uncertainty as to the circumstances under which the relevant Korean regulatory authorities will decide to effect a trigger event with respect to a particular financial institution. The occurrence of a trigger event with respect to us is therefore inherently unpredictable and is subject to factors that are outside our control, which will make it difficult for investors to anticipate when, if at all, a write-off of the Subordinated Notes will take place. Accordingly, the trading behaviour with respect to the Subordinated Notes may not follow trading behaviour associated with other types of securities of us or other issuers. Any indication that we are trending towards a possible trigger event could have a material adverse effect on the market price of the Subordinated Notes. A potential investor should not invest in the Subordinated Notes unless it has knowledge and expertise to evaluate how the Subordinated Notes will perform under changing market conditions and the resulting effect on the likelihood of a write-down and on the market value of the Notes.

Under Article 38 of the Depositor Protection Act, the KDIC (upon a resolution by the DIC) may provide financial assistance to an insured financial institution (such as us) or a financial holding company holding the insured financial institution that becomes an "insolvent or similar financial institution" (including an "insolvency-threatened financial institution") in the following circumstances: (i) there is a request to the KDIC for financial support in merging, receiving business transfer from, or receiving assignment of agreement from an insolvent or similar financial institution or from a financial holding company holding such institution or such financial assistance is deemed necessary for an orderly merger etc. of an insolvent or similar financial institution, (ii) the improvement of the financial structure of such institution is deemed necessary for the protection of depositors and the preservation of order in credit transactions, or (iii) there is a request from the FSC pursuant to Article 12(1) of the Act on Structural Improvement of the Financial Industry in consideration that the insolvent or similar financial institution can no longer continue its business due to deteriorated financial structure. An "insolvency-threatened financial institution" is defined under

Article 2 of the Depositor Protection Act as a financial institution determined by the DIC as having a high possibility of becoming an insolvent financial institution due to its weak financial standing. The financial assistance to be provided can take the form of a loan or deposit of funds, a purchase of assets, a guarantee or assumption of obligations and an equity injection or contribution.

In addition, upon the issuance of a management improvement demand with respect to a financial institution (the "**Subject Financial Institution**") pursuant to Article 11 of the Act on Structural Improvement of the Financial Industry and Article 35 of the Regulation on Supervision of Banking Business, the FSC may demand that the Subject Financial Institution merge with another financial institution, and the KDIC may provide financial assistance or arrangements to the financial institution acquiring the Subject Financial Institution pursuant to such demand.

Pursuant to Article 8 of the Act on Structural Improvement of the Financial Industry, even where the Subject Financial Institution has not become subject to such a demand for merger from the FSC, if the Subject Financial Institution voluntarily merges with another financial institution for the improvement of its financial structure, the Government may provide financial assistance to the merged financial institution through: (i) the KDIC, (ii) the purchase by the Government's Public Capital Management Fund of certain government bonds held by the merged financial institution (such as bonds issued by the Government or local governments or bonds guaranteed by the Government), and (iii) a capital injection by the Government of state-owned assets into the merged financial institution.

In light of our size and scale and our relative importance to the Korean banking system, it is possible that, prior to the occurrence of a trigger event that leads to a write-off of the Subordinated Notes, we will be classified as an insolvency-threatened financial institution and receive some form of financial assistance from the KDIC, or that the Government will decide to provide other forms of financial assistance or capital support to us. However, since the provision of any such financial assistance or capital support would be at the discretion of the KDIC or the Government, as applicable, there is no guarantee that we will receive any financial assistance or capital support prior to the occurrence of a trigger event or that any such financial assistance or capital support received by us will be sufficient to prevent the occurrence of a trigger event leading to a write-off of the Subordinated Notes.

Pursuant to the Conditions, we will issue a Trigger Event Notice not more than two Korean Business Days after the occurrence of a Trigger Event, confirming that a Trigger Event has occurred. Although we will notify the Principal Paying Agent and the holders of the Subordinated Notes not more than two Korean Business Days after the occurrence of a Trigger Event, there may be a delay between a Trigger Event and the time that the clearing systems and the holders of the Subordinated Notes are notified of the occurrence of the relevant Trigger Event. Such delay may exceed several days during which trading and settlement in the Subordinated Notes may continue. Any such delay will not change or delay the effect of a Trigger Event or our obligations under the Subordinated Notes or the rights of the Subordinated Noteholders. We will provide at least five Business Days advance notice to the clearing systems and the Principal Paying Agent of any mark down of the Notes.

The clearing systems are expected to suspend all clearance and settlement of transfers of the Subordinated Notes by the Subordinated Noteholders following receipt of a Trigger Event Notice, and any transfer of Subordinated Notes which are scheduled to settle after commencement of such suspension is expected to be rejected by clearing systems and will not be settled within the clearing systems.

It is possible that transfers that are initiated prior to any suspension following receipt by the clearing systems of a Trigger Event Notice and scheduled to settle on a date before the clearing systems commence such suspension will be settled through the clearing system even though such transfers were initiated after the Trigger Event. In such circumstances, transferees of the Subordinated Notes may be required to pay consideration through the clearing systems even though, upon the occurrence of a Trigger Event, no amounts under the Subordinated Notes will thereafter become due, and such transferees will have no rights whatsoever under the Conditions or the Subordinated Notes to take any action or enforce any rights whatsoever against us. The settlement of the Subordinated Notes following a Trigger Event will be subject to procedures of the clearing system for the time being in effect.

The Agency Agreement contains certain protections and disclaimers as applicable to the Agents in relation to Condition 8. Each holder of Subordinated Notes shall be deemed to have authorised, directed and requested the taking of any and all necessary action to give effect to any loss absorption feature and any Write-off following the occurrence of the Trigger Event.

Risks Relating to Notes Denominated in Renminbi

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

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

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

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

Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are developing gradually. In recent years, the People's Bank of China ("**PBoC**") and the Ministry of Commerce of the PRC have issued circulars providing guidance on simplifying certain remittance requirements for settlement of capital account items. However, such circulars are relatively new and are subject to interpretation and application by the relevant authorities in the PRC.

In the event that we decide to remit some or all of the proceeds into the PRC in Renminbi, our ability to do so will be subject to obtaining all necessary approvals from, and/or registration or filing with, the relevant PRC government authorities. Investors may be required to provide certifications and other information (including Renminbi account information) in order to be allowed to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Hong Kong, Singapore and Taiwan. However, there is no assurance that the necessary approvals from, and/or registration or filing with, the relevant PRC government authorities will be obtained at all or, if obtained, they will not be revoked or amended in the future.

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

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

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While the PBoC has entered into settlement agreements on the clearing of Renminbi business with financial institutions in a number of financial centres and cities (the "**Renminbi Clearing Banks**"), including but not limited to Hong Kong and is in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions (the "**Settlement Arrangements**"), the current size of Renminbi-denominated financial assets outside the PRC is limited.

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

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

Investment in the Renminbi Notes is subject to exchange rate risks.

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

Investment in the Renminbi Notes is subject to interest rate risks.

The PRC Government has gradually liberalised its regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. Consequently, the trading price of the Renminbi Notes will vary with the fluctuations in the Renminbi interest rates. If holders of the Renminbi Notes propose to sell their Notes before their maturity, they may receive an offer lower than the amount they have invested.

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

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

Gains on the transfer of the Renminbi Notes may be subject to income tax under PRC tax laws.

Under the New Enterprise Income Tax Law and its implementation rules, any gains realised on the transfer of Renminbi Notes by holders who are deemed under the New Enterprise Income Tax Law as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. However, there remains uncertainty as to whether the gains realised from the transfer of the Renminbi Notes would be treated as income derived from sources within the PRC and be subject to PRC tax. This will depend on how the PRC tax authorities interpret, apply or enforce the relevant laws and rules. According to an arrangement between the PRC and Hong Kong, for the avoidance of double taxation, noteholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Renminbi Notes.

Therefore, if a noteholder, being a non-resident enterprise, is required to pay any PRC income tax on gains on the transfer of the Renminbi Notes (such enterprise income tax is currently levied at the rate of 10 per cent. of the gross proceeds, unless there is an applicable tax treaty between the PRC and the jurisdiction in which such non-resident enterprise holders of Renminbi Notes reside that reduces or exempts the relevant tax), the value of their investment in the Renminbi Notes may be materially and adversely affected.

Similarly, if a noteholder, as a non-resident individual holder, is required to pay any PRC income tax on gains on the transfer of the Renminbi Notes (such individual income tax is currently levied at the rate of 20 per cent. of the gross proceeds, unless there is an applicable tax treaty between the PRC and the jurisdiction in which the relevant non-resident individual holder of the Renminbi Notes resides that reduces or exempts the relevant tax), the value of such noteholder's investment in the Renminbi Notes may be affected.

Investors should contact their own financial, legal, accounting and tax advisers about the risks associated with an investment in the Renminbi Notes, the appropriate tools to analyse that investment, and the suitability of the investment in each investor's particular circumstances. No investor should purchase the Renminbi Notes unless that investor understands and has sufficient financial resources to bear the price, market liquidity, structure and other risks associated with an investment in the Renminbi Notes.

Before entering into any transaction, investors should ensure that they fully understand the potential risks and rewards of that transaction and independently determine that the transaction is appropriate given their objectives, experience, financial and operational resources and other relevant circumstances. Investors should consider consulting with such advisers as they deem necessary to assist them in making these determinations.

CAPITALISATION

The following table shows our capitalisation, which is equal to the sum of borrowings, debentures and total shareholders' equity, as of 30 September 2015. This information has been extracted from our unaudited interim consolidated financial statements as of 30 September 2015.

	As of Sept 30, 2015
	(In billions of Won)
Indebtedness[1]	
Borrowings	₩18,854
Debentures	18,560
Total indebtedness	₩37,414
Shareholders' equity	
Common stock	₩5,360
Capital surplus	9,668
Hybrid equity securities	180
Capital adjustments	(26)
Accumulated other comprehensive income	177
Retained earnings	6,347
Equity attributable to equity holders of the parent	₩21,705
Non-controlling shareholders' equity	40
Total shareholders' equity	₩21,745
Total capitalisation	₩59,159

Note:

(1) See "*Description of Assets and Liabilities — Other Funding Sources*" for further details on our borrowings and debentures.

There have been no material changes to our capitalisation since 30 September 2015.

Capital Adequacy

We are subject to FSC capital adequacy requirements applicable to Korean banks. The requirements applicable prior to December 2013 were formulated based on Basel II, which was first published by the Basel Committee on Banking Supervision, Bank for International Settlements in 2004. The requirements applicable commencing in December 2013 pursuant to amended FSC regulations promulgated in July 2013 were formulated based on Basel III, which was first introduced by the Basel Committee on Banking Supervision, Bank for International Settlements in December 2009. Under the amended FSC regulations, all banks in Korea are required to maintain certain minimum ratios of Tier I common equity capital, total Tier I capital and total Tier I and Tier II capital to risk-weighted assets. See "*Investment Considerations — Risks Relating to Our Business — We may be required to raise additional capital if our capital adequacy ratio deteriorates or the applicable capital requirements change in the future, but we may not be able to do so on favourable terms or at all*" and "*Regulation and Supervision — Principal Regulations Applicable to Banks — Capital Adequacy and Allowances*".

Pursuant to the capital adequacy requirements of the FSC as of the date hereof, we are required to maintain a minimum common shares capital adequacy ratio of 4.5 per cent., a minimum Tier I capital adequacy ratio of 6.0 per cent. and a combined Tier I and Tier II capital adequacy ratio of 8.0 per cent.

The following table sets out a summary of our capital base and capital adequacy ratios, on a consolidated basis and calculated in accordance with the standards set by the FSC, as of 30 September 2015.

	As of Sept 30, 2015
	(In billions of Won)
Common equity capital	₩19,458
Tier I capital	
Paid-in capital	₩5,360
Capital surplus	9,668
Retained earnings	4,437
Hybrid securities	180
Deductions	(2)
Total Tier I capital	₩19,642
Tier II capital	
Provisions	₩1,073
Subordinated debts	3,911
Others	5
Deductions	—
Total Tier II capital	₩4,989
Total Tier I and Tier II capital	₩24,632
Risk-weighted assets ("**RWA**")(1)	₩168,732
Credit risk RWA	154,174
Market risk RWA	6,418
Operating risk RWA	8,140
Common shares capital adequacy ratio	11.53%
Combined Tier I and Tier II capital adequacy ratio	14.60%
Tier I capital adequacy ratio	11.64%
Tier II capital adequacy ratio	2.96%

Note:

(1) Based on market risks.

There have been no material changes to our capital base and capital adequacy ratios since 30 September 2015.

SELECTED FINANCIAL INFORMATION

The following tables set forth selected financial data in respect of the Bank as of 30 September 2015 and for the nine months ended 30 September 2014 and 2015 and as of and for the years ended 31 December 2013 and 2014 and, in respect of Hana Bank, as of and for the years ended 31 December 2013 and 2014. The selected financial data set forth below have been derived from the unaudited interim consolidated financial statements of the Bank as of 30 September 2015 and for the nine months ended 30 September 2014 and 2015 and the audited annual consolidated financial statements of Korea Exchange Bank and Hana Bank, respectively, as of and for the years ended 31 December 2013 and 2014, each included elsewhere in this Offering Circular.

Any statement of financial position data of the Bank as of 30 September 2015 represent the financial position of the Bank as of such date giving effect to the Merger, which was consummated effective 1 September 2015. Any statement of comprehensive income data of the Bank for the nine months ended 30 September 2015 represent the results of the Bank (giving effect to the Merger) from 1 September 2015 to 30 September 2015 and those of Korea Exchange Bank (prior to the Merger) from 1 January 2015 to 31 August 2015, and any statement of comprehensive income data of the Bank for the nine months ended 30 September 2014 represent the results of Korea Exchange Bank (prior to the Merger) for such period. The financial data of the Bank as of and for the years ended 31 December 2013 and 2014 set forth below have been derived from Korea Exchange Bank's audited consolidated financial statements included herein, which represent the financial position and the results of Korea Exchange Bank prior to the Merger, as of such dates and for such periods. Consequently, the financial data of the Bank as of and for the nine months ended 30 September 2015 may not be directly comparable to those of prior dates or periods.

The unaudited interim consolidated financial statements of the Bank as of 30 September 2015 and for the nine months ended 30 September 2014 and 2015 have been reviewed by Ernst & Young Han Young, whose reports thereon are included elsewhere in this Offering Circular. The audited annual consolidated financial statements of Korea Exchange Bank and Hana Bank, respectively, as of and for the years ended 31 December 2013 and 2014 have been audited by Ernst & Young Han Young, whose reports thereon are included elsewhere in this Offering Circular. The financial statements included in this Offering Circular have been prepared in accordance with K-IFRS.

Our results of operations for the nine months ended 30 September 2015 may not be indicative of our result of operations for any future interim period or for the full year 2015.

Consolidated Statement of Comprehensive Income Data

KEB Hana Bank

	Year Ended 31 December		Nine Months Ended 30 September	
	2013(1)	2014(1)	2014(1)	2015(2)
	(in billions of Won, except for per share data)			
Interest income	₩3,400	₩3,413	₩2,571	₩2,651
Interest expenses	(1,620)	(1,522)	(1,150)	(1,128)
Net interest income	1,780	1,891	1,421	1,523
Fee and commission income	422	432	312	399
Fee and commission expenses	(78)	(83)	(60)	(73)
Net fee and commission income	344	350	252	326
Net gain on financial instruments at FVTPL(3)	80	6	4	165
Net gain on derivative financial instruments used for hedging purposes	4	3	(2)	3
Net gain on available-for-sale financial assets	80	170	147	196
Net gain on held-to-maturity investments	—	—	0	—
Impairment loss	(456)	577	(381)	(331)
General and administrative expenses	(1,452)	(1,423)	(1,041)	(1,246)
Net other operating income	108	158	132	(151)
Net operating income	487	578	531	484
Non-operating income	20	30	14	130
Non-operating expenses	(44)	(182)	(23)	(43)
Net non-operating income (expenses)	(24)	(152)	(8)	87
Net income from continuing operations before income tax expense	463	426	523	571
Income tax expense from continuing operations	(98)	(74)	(89)	(111)
Net income from discontinued operation	79	25	25	—
Net income	444	376	458	460
Other comprehensive expenses	(29)	(38)	(24)	(65)
Total comprehensive income	₩415	₩338	₩434	₩394
Equity holders of the parent	₩416	₩328	₩430	₩392
Non-controlling interests	(1)	10	4	2
Continuing and discontinued operations:				
Basic and diluted earnings per share	₩660	₩582	₩657	₩764
Discontinued operation:				
Basic and diluted earnings per share	₩122	₩41	₩39	—

Notes:

(1) Represents the results of Korea Exchange Bank prior to the Merger.

(2) Represents the results of KEB Hana Bank from 1 September 2015 (the effective date of the Merger) to 30 September 2015 and those of Korea Exchange Bank from 1 January 2015 to 31 August 2015.

(3) Fair value through profit or loss.

Hana Bank

	Year Ended 31 December	
	2013	2014
	(in billions of Won, except for per share data)	
Net interest income		
Interest income	₩6,146	₩5,843
Interest expense	(3,528)	(3,217)
	2,618	2,626
Net fees and commission income		
Fees and commission income	453	439
Fees and commission expense	(101)	(100)
	353	338
Net gain on financial instruments at FVTPL[1]	145	125
Net gain (loss) on derivative financial instruments used for hedging	(41)	3
Net gain on other financial assets	188	361
Gain on foreign currency translation and transactions	(24)	(26)
Total operating income	3,238	3,427
Impairment losses on financial assets	(567)	(604)
Net operating income	2,671	2,823
General and administrative expenses	(1,544)	(1,628)
Other operating income	53	101
Other operating expenses	379	383
Operating income	801	913
Non-operating income		
Gain on valuation of equity method investment, net	76	92
Other non-operating income	51	162
Other non-operating expenses	(53)	(75)
Net income before income tax expense	875	1,093
Income tax expense	(166)	(237)
Net income	709	856
Other comprehensive income (expenses) for the period, net of tax	(197)	182
Total comprehensive income	512	1,039
Equity holders of the parent	517	1,037
Non-controlling interests	5	2
Earnings per share		
Basic and diluted earnings per share	₩3,213	₩3,895

Note:

(1) Fair value through profit or loss.

Consolidated Statement of Financial Position Data

KEB Hana Bank

	As of 31 December		As of 30 September
	2013[1]	2014[1]	2015
	(In billions of Won)		
Assets			
Cash and due from banks	₩8,247	₩9,346	₩19,551
Financial assets at FVTPL[2]	2,134	2,305	9,681
Derivative assets used for hedging purposes	23	37	123
Available-for-sale financial assets	9,204	12,613	31,141
Held-to-maturity investments	2,331	1,949	5,630
Loans receivable	73,684	75,056	208,361
Property and equipment.	1,220	1,166	2,492
Other assets[3]	9,791	9,868	23,771
Total assets	₩106,634	₩112,340	₩300,750
Liabilities			
Deposits	69,777	73,075	202,862
Financial liabilities at FVTPL[2]	1,287	1,621	7,888
Derivative liabilities used for hedging purposes.	13	6	23
Borrowings	6,833	9,914	18,854
Debentures	6,770	4,977	18,560
Other liabilities[4]	12,371	13,719	30,818
Total liabilities	₩97,051	₩103,313	₩279,005
Equity			
Issued capital	₩3,225	₩2,585	₩5,360
Capital surplus	1	1	9,668
Hybrid equity securities	430	180	180
Capital adjustments	(19)	(27)	(26)
Accumulated other comprehensive income	149	112	177
Retained earnings	5,797	6,052	6,347
Non-controlling shareholders' equity	2	124	40
Total equity	₩9,583	₩9,027	₩21,745
Total liabilities and equity	₩106,634	₩112,340	₩300,750

Notes:

(1) Represents the financial position of Korea Exchange Bank prior to the Merger.

(2) Fair value through profit or loss.

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

(4) Includes provisions, current income tax liabilities, deferred income tax liabilities, other liabilities and merchant banking account liabilities.

Hana Bank

	As of 31 December	
	2013	2014
	(in billions of Won)	
Assets:		
Cash and due from banks	₩9,641	₩10,868
Financial assets held-for-trading	3,666	4,711
Available-for-sale financial assets	18,506	19,728
Held-to-maturity financial assets	2,161	2,112
Loans and receivables	121,316	127,341
Derivative assets used for hedging	72	51
Investments in associates	705	957
Property and equipment	1,355	1,374
Investment properties	285	239
Intangible assets	102	92
Deferred income tax assets	6	18
Prepaid income tax payments	1	4
Other assets	5,079	4,960
Total assets	₩162,895	₩172,455
Liabilities:		
Financial liabilities held-for-trading	₩1,888	₩3,071
Deposits	116,075	126,904
Borrowings	10,108	8,938
Debentures	14,356	12,357
Derivative liabilities used for hedging	125	39
Severance and retirement benefits, net	102	90
Provisions	121	118
Deferred income tax liabilities	4	157
Income taxes payable	41	10
Other liabilities	8,630	8,012
Total liabilities	₩151,449	₩159,696
Equity:		
Common stock	₩1,147	₩1,147
Capital surplus	2,764	2,875
Capital adjustment	(1)	0
Accumulated other comprehensive income	79	260
Retained earnings	7,431	8,116
Non-controlling shareholder's equity	25	362
Total equity	₩11,445	₩12,760
Total liabilities and equity	₩162,895	₩172,455

Selected Ratios (separate basis)

KEB Hana Bank

	As of or for the year ended 31 December		As of or for the nine months ended 30 September	
	2013[1]	2014[1]	2014[1]	2015[2]
	(in per cent.)			
Average return on assets[3]	0.36%	0.37%	0.55%	0.38%
Average return on equity[4]	3.65	4.00	5.82	4.60
Net interest margin[5]	1.93	1.90	1.91	1.69
Net interest spread[6]	1.97	1.77	1.88	1.26
Cost-to-income ratio[7]	61.08	54.87	53.07	61.36
Equity to total assets[8]	9.31	8.21	8.21	7.43
Non-performing loans/total loans[9]	1.20	1.42	1.36	1.10
Allowance/non-performing loans[10]	162.24	134.83	142.12	99.04[11]

Notes:

(1) Calculated based on the financial position and results of Korea Exchange Bank prior to the Merger, on a separate basis.

(2) Calculated based on the financial position of the Bank giving effect to the Merger (in the case of period end data) and results or daily balances of the Bank from 1 September 2015 (the effective date of the Merger) to 30 September 2015 and those of Korea Exchange Bank from 1 January 2015 to 31 August 2015, each on a separate basis.

(3) Defined as net income (annualised for interim periods) divided by the average of the daily ending balances of total assets (calculated in accordance with FSS reporting guidelines).

(4) Defined as net income (annualised for interim periods) divided by the average of the daily ending balances of total equity (calculated in accordance with FSS reporting guidelines).

(5) Defined as net interest income (annualised for interim periods) divided by the average of the daily ending balances of interest earning assets (calculated in accordance with FSS reporting guidelines).

(6) Represents the difference between the average yield (annualised for interim periods) on interest-earning assets and the average cost (annualised for interim periods) of interest-bearing liabilities (calculated in accordance with FSS reporting guidelines).

(7) Calculated as the ratio of general and administrative expenses to operating income (prior to deducting general and administrative expenses and impairment losses on financial instruments).

(8) Represents the ratio of total equity to total assets.

(9) Represents the ratio of non-performing loans to total loans. Non-performing loans are defined as those loans that are classified as substandard or below based on the FSC's asset classification criteria. See "*Asset Quality—Asset Quality of Loans—Loan Loss Provisioning Policy*".

(10) Represents the ratio of the sum of allowance for possible loan losses and reserve for bad debts to non-performing loans.

(11) Prior to the Merger, Hana Bank had reserve for bad debts disposed as retained earnings in the amount of ₩1,177 billion. In connection with the Merger, this amount was replaced with capital surplus and thus not classified as reserve for bad debts of the Bank as of 30 September 2015.

Hana Bank

	As of or for the year ended 31 December	
	2013	2014
	(in per cent.)	
Average return on assets[(1)]	0.42%	0.51%
Average return on equity[(2)]	5.84	7.24
Net interest margin[(3)]	1.82	1.76
Net interest spread[(4)]	1.82	1.76
Cost-to-income ratio[(5)]	52.01	50.99
Equity to total assets[(6)]	7.11	7.30
Non-performing loans/total loans[(7)]	1.50	1.19
Allowance/non-performing loans[(8)]	120.37	133.19

Notes:

(1) Defined as net income divided by the average of the daily ending balances of total assets (calculated in accordance with FSS reporting guidelines).

(2) Defined as net income divided by the average of the daily ending balances of total equity (calculated in accordance with FSS reporting guidelines).

(3) Defined as net interest income divided by the average of the daily ending balances of interest earning assets (calculated in accordance with FSS reporting guidelines).

(4) Represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities (calculated in accordance with FSS reporting guidelines).

(5) Calculated as the ratio of general and administrative expenses to operating income (prior to deducting general and administrative expenses and impairment losses on financial instruments).

(6) Represents the ratio of total equity to total assets.

(7) Represents the ratio of non-performing loans to total loans. Non-performing loans are defined as those loans that are classified as substandard or below based on the FSC's asset classification criteria. See "*Description of Assets and Liabilities—Loan Classifications*".

(8) Represents the ratio of the sum of allowance for possible loan losses and reserve for bad debts to non-performing loans.

Integration and Merger

In February 2012, Hana Financial Group completed the purchase of 51.02 per cent. of the issued and outstanding shares of common stock of Korea Exchange Bank from an affiliate of the Lone Star funds and an additional 6.25 per cent. from the Export-Import Bank of Korea, for an aggregate purchase price of approximately ₩4.4 trillion. In April 2013, Hana Financial Group acquired the remaining 42.73 per cent. of such shares pursuant to a share exchange offer at an exchange ratio of one share of Hana Financial Group to 0.1894302 share of Korea Exchange Bank, and became the beneficial owner of 100 per cent. of the issued and outstanding share capital of Korea Exchange Bank. Following such acquisition, common shares of Korea Exchange Bank were de-listed from the KRX KOSPI Market.

Hana Financial Group had initially announced that it intended to maintain and operate Korea Exchange Bank and Hana Bank as separate entities for a period of time after the acquisition. However, internal discussions among members of the senior management of Hana Financial Group as well as of Korea Exchange Bank and Hana Bank subsequently took place about the integration of the two banks' operational systems, processes and organisational structures, for the purposes of the eventual merger between Korea Exchange Bank and Hana Bank.

In July 2014, the board of directors of Korea Exchange Bank and Hana Bank officially initiated the discussion of a merger of the two banks. After three months of deliberation and negotiations, on 29 October 2014, Korea Exchange Bank and Hana Bank entered into a merger agreement (the "**Merger Agreement**"), pursuant to which Hana Financial Group agreed to merge Hana Bank with and into Korea Exchange Bank by exchanging each common share of Hana Bank for 2.9707919 common shares of Korea Exchange Bank. The exchange ratio was revised on 10 July 2015 to one common share of Hana Bank to 2.5250728 common shares of Korea Exchange Bank, to reflect the updated financials.

Pursuant to the terms of the Merger Agreement, an integration implementation committee was established consisting of three members from Hana Financial Group, including the committee chair, two members from Hana Bank and two members from Korea Exchange Bank. Under the supervision of the integration implementation committee, a comprehensive integration plan was developed to integrate the operations of the two banks, including IT, credit evaluation and risk management systems, to unify marketing, product development and distribution processes and to harmonise employee compensation and benefit plans, among other things.

The proposed Merger initially encountered opposition from the labour union of Korea Exchange Bank, which filed for a preliminary injunction with the Seoul Central District Court to block the Merger. The management of Hana Financial Group engaged in a series of dialogues with the labour union of Korea Exchange Bank, and on 13 July 2015, an agreement was reached, providing that the labour union would no longer seek the injunction and that the Merger would take place subject to the satisfaction of certain conditions, such as the inclusion of "KEB" in the name of the merged bank, retention of the employees and sharing of synergies expected to be achieved from the Merger. Subsequently, both the FSC and Hana Financial Group approved the Merger, which finally became effective on 1 September 2015. Upon the completion of the Merger, Korea Exchange Bank as the surviving entity changed its name to KEB Hana Bank.

Introduction

We are the largest commercial bank in Korea in terms of total assets. As of 30 September 2015, we had total assets, total net loans (after allowance for loan losses and net deferred loan fees and costs) after deducting allowance for loan losses), total deposits and shareholders' equity of ₩300.8 trillion, ₩208.4 trillion, ₩202.9 trillion and ₩21.7 trillion, respectively.

As a full-service financial institution, we operate an extensive nationwide and overseas banking network consisting of 932 domestic branches and sub-branches, as well as 17 international branches, 93 international sub-branches, five overseas representative offices and ten overseas subsidiaries located in 24 countries outside of Korea as of 30 September 2015. We also operated over 5,086 automated teller machines ("**ATMs**") throughout Korea as of 30 September 2015, and offer Internet and telephone banking services. Through this nationwide and global network, we serve corporate and retail customers with a full complement of banking and financial services. We continue to hold strong market positions in the business segments where we have historically maintained competitive strengths, such as large corporate banking, foreign exchange and trade financing, and following the Merger, we have also gained a leading position in other business areas, such as retail banking, private banking and wealth management. Our leading presence in the market has been widely recognised by a number of significant industry awards over the years. Most recently, in December 2015, we became the first Korean bank to receive the "Bank of the Year in Asia-Pacific" award by The Banker magazine.

History of Korea Exchange Bank

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

Following the loss of its monopoly in trade financing and foreign exchange, Korea Exchange Bank expanded its operations and diversified its activities to include a full range of commercial banking services, through expansion of its branch network and diversification of its customer base and financial product and service offerings. Korea Exchange Bank was privatised in 1989 with the repeal of the Korea Exchange Bank Act, and its shares were first offered for public ownership in 1991. Its common stock, which was listed on the KRX KOSPI Market in 1994, was delisted in April 2013 when Hana Financial Group acquired the remaining 42.73 per cent. stake in Korea Exchange Bank and became the beneficial owner of 100 per cent. of its issued and outstanding share capital. Until the Merger, Korea Exchange Bank remained independent from other member companies of Hana Financial Group with respect to its business, including its brand, employment and wage systems.

As of 31 December 2014, Korea Exchange Bank had total assets, total net loans (after allowance for loan losses and net deferred loan fees and costs), total deposits and shareholders' equity of ₩112.3 trillion, ₩75.1 trillion, ₩73.1 trillion and ₩9.0 trillion, respectively.

History of Hana Bank

Hana Bank was founded in 1971 as Korea's first short-term finance and investment company. It obtained a commercial banking license in 1991 and evolved into a full service commercial bank, serving on a nationwide basis the three principal Korean banking market segments: large corporates, SMEs and households. Hana Bank expanded its operations, assets and deposit and customer bases primarily through mergers and acquisitions. It acquired certain assets and liabilities of Chungchong Bank in June 1998 and merged with Boram Bank in January 1999. Through the merger with Boram Bank, Hana Bank also strengthened its leading position in the high net-worth individuals market segment. Hana Bank continued its expansion by merging with Seoul Bank, then one of the largest commercial banks in Korea, in December 2002. Following the introduction of the Financial Holding Companies Act of Korea, Hana Financial Group was established in December 2005 and Hana Bank became the wholly-owned principal banking subsidiary of the group. See "*Hana Financial Group*".

As of 31 December 2014, Hana Bank had total assets, total net loans (after allowance for loan losses and net deferred loan fees and costs), total deposits and shareholders' equity of ₩172.5 trillion, ₩127.3 trillion, ₩126.9 trillion and ₩12.8 trillion, respectively.

Business

Corporate Banking

Overview

We provide comprehensive commercial banking services in Korea to corporate customers, ranging from SMEs to large corporations, including the member companies of Korea's major *chaebols*. Our corporate banking operations include lending to and taking deposits from our corporate customers, mostly in Won currency. As of 30 September 2015, our corporate loans (comprising loans to large companies, SMEs and public sector and other; after allowance for loan losses and net deferred loan fees and costs) amounted to ₩122.3 trillion, accounting for approximately 58.7 per cent. of our total loans. We also provide our corporate customers with a variety of fee and commission based services, such as investment banking and foreign exchange transactions. Since 2013, we have made continuous efforts to improve our asset quality by increasing our corporate exposure to so called "blue-chip" companies with low credit risk profiles, regardless of their size, and decreasing our corporate exposure to the companies with high credit risk profiles.

The following tables set forth the balances and percentages of the total loans (after allowance for loan losses and net deferred loan fees and costs) attributable to each category of corporate lending business of us, Korea Exchange Bank and Hana Bank as of the dates indicated.

KEB Hana Bank

	As of 30 September 2015	
	Amount	%
	(In billions of Won, except percentages)	
Large companies	₩43,919	35.9%
SMEs	65,041	53.2%
Public sector and others	13,380	10.9%
Total corporate loans	₩122,340	100.0%

Korea Exchange Bank

	As of 31 December			
	2013		2014	
	Amount	%	Amount	%
	(In billions of Won, except percentages)			
Large companies	₩22,938	47.2%	₩22,707	42.8%
SMEs	19,294	39.7%	22,046	41.6%
Public sector and others	6,326	13.0%	8,285	15.6%
Total corporate loans	₩48,558	100.0%	₩53,038	100.0%

Hana Bank

	As of 31 December			
	2013		2014	
	Amount	%	Amount	%
	(In billions of Won, except percentages)			
Large companies	₩26,863	40.4%	₩26,545	38.1%
SMEs	35,905	53.9%	38,973	56.0%
Public sector and others	3,803	5.7%	4,070	5.8%
Total corporate loans	₩66,571	100.0%	₩69,588	100.0%

Large Corporate Banking

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

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

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

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

Small- and Medium-Sized Enterprise Banking

The SME segment of the corporate banking market has grown significantly in recent years, primarily as a result of the Government's measures to encourage lending to those enterprises. As of 30 September 2015, our corporate loans denominated in Won to SMEs (after allowance for loan losses and net deferred loan fees and costs) amounted to ₩65.0 trillion, accounting for approximately 53.2 per cent. of our total corporate loans denominated in Won. We pursue a selective loan strategy that focuses on identifying and marketing to SME borrowers with low credit risk profiles based on our internal credit risk assessment.

Retail Banking

Overview

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

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

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

The following tables set forth the deposit portfolio of us, Korea Exchange Bank and Hana Bank as of the dates indicated.

KEB Hana Bank

	As of 30 September 2015
	(In billions of Won)
Demand deposits in Korean won	₩7,721
Time deposits in Korean Won	162,956
Demand deposits denominated in foreign currency	19,530
Time deposits in foreign currencies	11,973
Certificate of deposits	682
Total deposits	₩202,862

Korea Exchange Bank

	As of 31 December	
	2013	2014
	(In billions of Won)	
Demand deposits in Korean won	₩18,239	₩20,556
Time deposits in Korean Won	33,758	34,046
Demand deposits denominated in foreign currency	10,400	11,581
Time deposits in foreign currencies	7,127	6,728
Certificate of deposits	253	165
Total deposits	₩69,777	₩73,075

Hana Bank

	As of 31 December	
	2013	2014
	(In billions of Won)	
Demand deposits in Korean won	₩3,614	₩4,083
Time deposits in Korean Won	103,576	111,192
Demand deposits denominated in foreign currency	2,807	3,403
Time deposits in foreign currencies	5,534	7,465
Certificate of deposits	544	761
Total deposits	₩116,075	₩126,904

We offer various types of household loans to individuals and small unincorporated businesses. Our household loans (after allowance for loan losses and net deferred loan fees and costs) as of 30 September 2015 amounted to ₩85.1 trillion, on a separate basis, ₩28.5 trillion, or 33.5 per cent., of which were unsecured loans. As of 31 December 2013 and 2014, on a separate basis, Korea Exchange Bank's household loans (after allowance for loan losses and net deferred loan fees and costs) were ₩21.9 trillion and ₩21.3 trillion, respectively, of which ₩7.7 trillion and ₩7.2 trillion, respectively, were unsecured loans. As of the same dates, on a separate basis, Hana Bank's household loans (after allowance for loan losses and net deferred loan fees and costs) were ₩54.7 trillion and ₩57.7 trillion, respectively, of which ₩21.8 trillion and ₩21.8 trillion, respectively, were unsecured loans.

Private Banking Operations

We offer private banking services to high net-worth retail customers. Through our private banking network, we offer diversified, packaged products and services such as standard retail banking, loan products, brokerage, bancassurance, investment products, real estate and estate management services. These products and services, along with customer relationship management, continue to be a focal point of our retail banking growth strategy. We opened our first "VIP Centre" in Seoul in 1992 to serve the needs of high net-worth customers, advising them on tax matters and asset management. Our strength in private banking has been recognised by the industry and media through numerous awards, including the "Best Private Bank in Korea" award (given to Hana Bank) from Euromoney in February 2015. With the rising number of high net-worth retail customers, we believe the Korean wealth management market offers potential for significant growth.

In order to meet the enhanced expectations and sophisticated needs of our high net-worth retail customers, we pursue a "total financial service package" approach which encompasses a wide range of services from traditional banking to advanced asset-allocation. Following the Merger, we have further strengthened our private banking business platform by combining the resources and expertise of Korea Exchange Bank and Hana Bank, and creating a new Wealth Management Group solely focused on providing value-added and high-quality products and services to high net-worth customers. As of 30 September 2015, we had 347 professionals dedicated to private banking and wealth management services, working in two Wealth Management Centres (targeted for high net-worth customers with more than ₩1 billion in total relationship balance), 23 Gold Clubs (targeted for high net-worth customers with more than ₩500 million in total relationship balance) and 247 in-branch VIP Clubs (targeted for high net-worth customers with more than ₩100 million in total relationship balance).

With the Merger, we have also expanded our private banking operations to provide private banking and wealth management services to customers that have more than ₩30 million in total relationship balance. As of 30 September 2015, we had approximately 1,700 qualified professionals serving such customers at approximately 850 retail branches across the nation.

Trust Management Services

We offer our customers a variety of money trust products and manage the funds that they invest in money trusts, on a fee basis. We generally manage money trusts that allow investors to share in the investment performance of the trust in proportion to the amount of their investment in the trust. We also offer property trust management services, where we manage non-cash assets for a fee. The trust management services that we offer include (i) money trusts, consisting of pension trusts, specific money trusts and retired pension trusts, and (ii) property trusts, consisting of real estate collateral trusts and money receivable trusts.

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

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

Investment Banking and Capital Markets

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

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

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

Foreign Exchange and Trade Financing

We are one of the leaders in the Korean foreign exchange market and believe that we continue to hold the largest market share of any Korean bank with respect to customer-related foreign exchange transactions, with numerous awards from industry journals. In 2015, Korea Exchange Bank was named the "Best Domestic Provider of Foreign Exchange Services" and "Best Local Currency Cash Management Services" by Asiamoney, the "Best Trade Finance Bank in Korea" by Global Finance, and the "Best Trade Finance Bank in Korea" by The Asset.

The foreign exchange services we offer include purchases and sales of foreign currencies in the spot and forward markets on behalf of customers, which enable them to satisfy payment obligations, hedge currency exposures and meet other needs for foreign currency. In 2014, the foreign exchange transaction volumes handled by Korea Exchange Bank and Hana Bank amounted to U.S.$193.6 billion and U.S.$30.2 billion, respectively, which we estimate represented market shares of approximately 43.1 per cent. and 6.7 per cent., respectively. We also provide international trade financing services, including documentary letters of credit, bankers' acceptances and other forms of trade financing, to meet the complex needs of our customers in the export and import business. In 2014, Korea Exchange Bank's export and import volumes totalled to U.S.$191.4 billion and U.S.$160.3 billion, respectively, representing market shares of approximately 29.6 per cent. and 29.7 per cent., respectively, according to our internal estimates. During the same period, Hana Bank's export and import volumes amounted to U.S.$48.4 billion and U.S.$58.6 billion, respectively, which we estimate accounted for approximately 7.5 per cent. and 10.9 per cent., respectively, of the market. We believe we hold the largest market shares of any Korean bank with respect to the foreign exchange business and the financing of export-import transactions.

Merchant Banking

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

- commercial paper discounting, which entails purchasing at a discount notes that are issued, endorsed or guaranteed by companies to supply them with short-term working capital; and

- payment guarantees, which entail issuing guarantees in respect of notes, corporate bonds and other Won and foreign currency payment obligations in return for fees.

Bancassurance

Following the liberalisation of the bancassurance market in Korea, we have worked with third party insurance companies to offer insurance products through our branch network since 2003. We primarily offer our customers third-party insurance products, including the following:

- annuity insurance, which generally pays a fixed amount yearly or monthly during an insured's lifetime and for a fixed period after death;

- long-term savings insurance, which compensates for physical injury or disease occurring during the coverage period and reimburses the insured for premiums paid and interest accrued at the end of such coverage period; and

- travel and leisure insurance, which compensates for physical injury or disease, as well as loss of personal property incurred during travel.

We believe our focus on providing a wide variety of bancassurance products, rather than focusing on one product, allows us to better meet individual customer needs, increases customer satisfaction and drives increased sales. In addition, due to the tax favourable nature of our bancassurance products, we are seeing increased interest from high net-worth individuals, professionals and high income self-employed persons. As of 30 September 2015, our bancassurance business had alliances with 17 life insurance companies and 11 non-life insurance companies.

Spin-off of Credit Card Business

On 1 September 2014, we spun off our credit card business into a separate company in an effort to ensure greater focus on our core banking businesses and better align the businesses within Hana Financial Group. On 1 December 2014, our credit card business was merged with Hana SK Card Co., Ltd., the existing credit card subsidiary of Hana Financial Group.

Domestic Branch Network and Electronic Banking

Domestic Branch Network

As of 30 September 2015, we maintained 851 domestic branches and 81 domestic sub-branches, most of which are located in Seoul and the surrounding provinces. The domestic sub-branches are "compact" branches opened to produce higher returns on investment with relatively lower operating costs, based on facility design, efficient staffing and location in relatively affluent areas. Our branch network is designed to provide one-stop banking services tailored to their respective target customers. We have grouped our branches based on regional characteristics and classified them into retail and corporate groups. Decisions as to whether to open, close or merge a branch office are based on considerations of profitability, growth potential in the branch's surrounding area, competitive concerns and impact on our branch network, among other factors.

The following table presents the geographical distribution of our domestic branch network as of 30 September 2015, according to major metropolitan areas.

	Number of Domestic Branches		
	Branch	**Sub-branch**	**Total**
Seoul metropolitan area	399	33	432
Gyeonggi Province	161	11	172
Six major cities:			
Incheon	31	6	37
Busan	52	5	57
Gwangju	12	1	13
Daegu	30	1	31
Ulsan	11	6	17
Daejeon	51	5	56
Sub-total	747	68	815
Others	104	13	117
Total	851	81	932

Electronic Banking

Since 1975, we have established an extensive network of ATMs in branches and unmanned outlets to maximise customer access to our products and services. As of 30 September 2015, we had 5,086 ATMs, including cash dispensers.

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

Our electronic delivery systems services include balance and transaction inquiries, money transfers, loan applications, bill payment and foreign exchange transactions. We utilise our Internet banking services to complement our branch network. As of 30 September 2015, we had approximately 12.8 million customers using our Internet banking services, 6.9 million customers using our mobile banking services and 4.6 million customers using our phone banking services.

As of the end of 2014, Korea had over 40 million smart-phone users. This dramatic growth in the mobile user base has brought many changes to the country's financial industry, including the emergence of "smart" banking. We responded to this challenge by launching a number of smart-phone-based financial services that can be accessed by both Koreans and non-Koreans. For instance, we became the first player in the country's financial industry to offer a multi-lingual smart-phone banking service called "KEB Global Banking", which helped attract non-Korean workers and students living in Korea, as well as members of multi-cultural families. KEB Global Banking was replaced mid-2015 with a new service called "KEB Smart Bank", currently available in 12 languages including Korean. Another financial service that we pioneered is the "Smart Exchange Rate" application, which provides customers with up-to-the-minute exchange rate information and coupons that entitle them to lowered charge for foreign exchange. This application service is also multi-lingual.

In October 2015, we introduced a new mobile application named "Hana Members", through which users (whether they have an account with us or not) can convert the reward points they earned from purchases at various merchants into "Hana Points" and use them like cash at over two million KEB Hana Card member stores across Korea. We plan to launch additional smart-phone-based products and build an open, web-based Internet banking platform that supports a number of operating systems and web browsers, strengthening our customers' access to our services on mobile devices. In addition, we are developing technologies to increase our level of support for people who have difficulty using computers and/or accessing the Internet.

Overseas Network

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

As of 30 September 2015, our overseas network consisted of 125 business units in 24 countries (19 in Americas, 10 in Europe and Middle East and 96 in Asia). Specifically, we had 10 subsidiaries, 17 branches, five representative offices and 93 sub-branches located overseas.

We have over 45 years of experience operating in many high-growth regions of the world. For the nine months ended September 30, 2015 (which includes the results of KEB Hana Bank from 1 September 2015 (the effective date of the Merger) to 30 September 2015 and those of Korea Exchange Bank from 1 January 2015 to 31 August 2015), on a separate basis, we earned an operating income of ₩73.8 billion from our offshore operations, which represented 18.0 per cent. of our total operating income for the same period. As of 30 September 2015, on a separate basis, we had total overseas assets of ₩12.5 trillion.

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

The table below sets forth our overseas subsidiaries, branches (not including sub-branches) and representative offices as of 30 September 2015.

Business Unit	Location	Year Established
Subsidiaries:		
Americas		
KEB Hana Bank Canada	Canada	1981
Banco KEB Hana do Brasil S.A.	Brazil	1998
KEB Hana NY Financial Corp.	United States	2004
KEB Hana LA Financial Corp.	United States	2004
Europe and Middle East		
KEB Hana Bank (D) AG	Germany	1992
Korea HNB Rus LLC	Russia	2014
Asia		
KEB Hana Bank (China) Co., Ltd	China	2007
KEB Hana Global Finance Limited	Hong Kong	2009
PT. Bank KEB Hana Indonesia	Indonesia	2014
KEB Hana Micro Finance Ltd.	Myanmar	2014
Branches:		
Americas		
New York Agency	United States	1978
Panama Branch	Panama	1980
Europe and Middle East		
London Branch	United Kingdom	1968
Paris Branch	France	1974
Amsterdam Branch	Netherlands	1979
Bahrain Branch	Bahrain	1977
Abu Dhabi Branch	United Arab Emirates	2012

Business Unit	Location	Year Established
Asia		
Tokyo Branch	Japan	1967
Osaka	Japan	1967
Hong Kong Branch	Hong Kong	1967
Singapore Branch	Singapore	1973
Manila Branch	Philippines	1983
Hanoi Branch	Vietnam	1999
Clark Branch	Philippines	2013
Sydney Branch	Australia	2014
Ho Chi Minh City Branch	Vietnam	2015
Chennai Branch	India	2015
Representative Offices:		
Americas		
Mexico City Representative Office	Mexico	2015
Europe and Middle East		
Dubai Office	United Arab Emirates	2003
Istanbul Representative Office	Turkey	2013
Asia		
Ho Chi Minh City Representative Office	Vietnam	2002
Yangon Representative Office	Myanmar	2012

Competition

We compete principally with other national banks in Korea, but also face competition from a number of other institutions. Our competitors include regional banks, specialised banks and subsidiaries and branches of foreign banks and financial institutions operating in Korea, as well as various other types of financial service institutions, including savings institutions (such as mutual savings and finance companies, credit unions and credit cooperatives), investment institutions (such as merchant banking corporations) and life insurance companies. For additional information on certain banks in Korea, see "*The Korean Banking Industry*" below.

Competition in the Korean financial services industry has been, and is likely to remain, intense. In particular, in recent years, competition has increased significantly in the SME and household lending business, as most Korean banks have sought to attract retail and SME customers and an increasing number of players, such as non-bank private lenders, have recently entered the market. In addition, many Korean banks have increased their exposure to large corporate borrowers and have been focusing on developing fee income businesses, including bancassurance and investment products, as increasingly important sources of revenue. Furthermore, in recent years, Korean banks, including us, have increasingly focused on stable asset growth based on quality credit, such as corporate borrowers with high credit ratings, loans to "small office, home office" with high levels of collateralisation, and mortgage and home equity loans within the limits of the prescribed loan-to-value ratios and debt-to-income ratios. This largely shared shift in focus toward stable growth based on less risky assets has intensified competition as banks compete for the same pool of quality credit by engaging in price competition or by other means.

Regulatory reforms, including the FSCMA, and the general modernisation of business practices in Korea have also led to increased competition among financial institutions in Korea. Under the current regime, financial investment companies with a dealing license and/or brokerage license are allowed to provide secondary services such as settlement and remittance services relating to customer deposits, and we may face difficulties in increasing or retaining its deposits, which in turn may result in an increase in our cost of funding and a decrease in our service fee revenue.

In addition, a number of significant mergers and acquisitions in the industry have taken place in Korea over the past decade, including the acquisition of Koram Bank by an affiliate of Citibank in 2004, the acquisition of Korea First Bank by Standard Chartered Bank in April 2005, Chohung Bank's merger with Shinhan Bank in April 2006, and Hana Financial Group's acquisition of a controlling interest in Korea Exchange Bank in 2012 and the resulting Merger. Moreover, in 2014, pursuant to the implementation of the Government's privatisation plan with respect to Woori Finance Holdings and its former subsidiaries, Woori Financial, Woori Asset Management and Woori F&I were acquired by KB Financial Group, Kiwoom Securities and Daishin Securities, respectively, and Woori Investment & Securities, Woori Aviva Life Insurance and Woori FG Savings Bank were acquired by NongHyup Financial Group. In addition, in October 2014, the Government's ownership interest in the holding companies of Kwangju Bank and Kyongnam Bank were acquired by JB Financial Group and BS Financial Group (now BNK Financial Group), respectively. We expect that consolidation in the financial industry will continue. In particular, the Government is in the process of disposing of or reducing its controlling interest in Woori Finance Holdings Co., Ltd. and its subsidiaries, including Woori Bank. Other financial institutions may seek to acquire or merge with other entities, and the financial institutions resulting from such consolidation may, by virtue of their increased size and business scope, provide greater competition for us.

Information Technology

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

We continuously allocate considerable resources to improve the capacity and reliability of our IT infrastructure in our business divisions, which we believe is crucial to supporting our operations management and providing high-quality customer service. In addition, in connection with the Merger, we are currently in the process of integrating the IT systems of Korea Exchange Bank and Hana Bank and establishing a centralised IT platform, including a unified data centre. The IT integration process is expected to be completed by June 2016.

Properties

Our principal establishment is our self-owned headquarters building located in Seoul, Korea, which has a total floor area of approximately 74,834 square metres. We also own a building located in Seoul, Korea with a total floor area of approximately 53,944 square metres, which used to be the headquarters of Hana Bank prior to the Merger. In addition, we own or lease various land and buildings for our branches.

Legal Proceedings

We are involved in various legal actions arising from the normal course of our business. As of 30 September 2015, the aggregate amounts of claims brought against us totalled ₩365.4 billion (relating to 183 cases), for which we recorded a provision of ₩52 billion. As of the same date, the aggregate amounts of claims brought by us totalled ₩349.4 billion (relating to 192 cases).

In 2008, Olympus Capital KEB Cards Ltd., together with other entities, brought claims against Korea Exchange Bank and other parties affiliated with Lone Star Funds ("**Lone Star**") before the Court of International Arbitration (the "**COIA**"), seeking compensation totalling U.S.$300 million for breach of the shareholders' agreement in connection with Korea Exchange Bank's merger of its credit card unit in 2003. On 21 December 2011, the COIA ruled in favour of the plaintiffs, finding Korea Exchange Bank and Lone Star jointly liable, in the amount of approximately U.S.$64.8 million, which includes interest and the plaintiffs' legal fees. Lone Star made full payment of the award to the plaintiffs, and subsequently filed an arbitration claim against Korea Exchange Bank in the Singapore International Arbitration Centre demanding full contribution of the amount it paid. On 23 December 2014, the Singapore International Arbitration Centre ordered Korea Exchange Bank to pay U.S.$37.75 million to Lone Star, which payment was made by Korea Exchange Bank on 9 January 2015. As of the date of this Offering Circular, we are not aware of any outstanding claims or other contingent liabilities associated with the matter.

As of the date of this Offering Circular, we are not involved in any litigation, arbitration or administrative proceedings relating to claims which could have a significant effect on our financial condition or results of our operations, or financial condition or results of operations of ourselves and our consolidated subsidiaries, and we are not aware of any such litigation, arbitration or administrative proceedings that are pending or threatened.

DESCRIPTION OF ASSETS AND LIABILITIES

The tables below and accompanying discussions provide selected financial highlights regarding our assets and liabilities as well as those of Korea Exchange Bank and Hana Bank prior to the Merger. Unless otherwise specified, the information provided below is presented on a consolidated basis.

Average Balance Sheets and Related Interest

The following tables set forth the average balances of assets and liabilities of us, Korea Exchange Bank and Hana Bank, each on a separate basis, for the periods indicated. For interest-earning assets and interest-bearing liabilities, the tables provide the amount of interest earned or paid and the average rate (annualised for interim periods) of such interest. For the purposes of these tables, average balance has been determined based upon the average of the daily ending balances.

KEB Hana Bank

	Nine Months Ended 30 September 2015		
	Average Balance(1)	Interest(2)	Yield/Rate (annualised)
	(In billions of Won, except percentages)		
Interest earning assets			
Loans	₩87,392	₩1,961	3.0%
Won	67,859	1,723	3.4%
Foreign currency	19,532	238	1.6%
Due from banks	6,742	26	0.5%
Won	3,415	16	0.6%
Foreign currency	3,326	11	0.4%
Securities	15,855	268	2.3%
Won	13,868	239	2.3%
Foreign currency	1,987	30	2.0%
Other	1,066	9	1.1%
Won	1,066	9	1.1%
Foreign currency	—	—	—
Total interest earning assets	₩111,055	₩2,265	2.7%
Non-interest earning assets	18,092	—	0.0%
Total assets	₩129,147	₩2,265	2.3%
Interest bearing liabilities			
Deposits	₩83,139	₩892	1.4%
Won	66,495	840	1.7%
Foreign currency	16,643	52	0.4%
Borrowings	10,423	65	0.8%
Won	973	41	5.7%
Foreign currency	9,450	23	0.3%
Debenture	6,556	122	2.5%
Won	2,828	62	2.9%
Foreign currency	3,728	61	2.2%
Other	3,684	37	1.4%
Won	3,345	36	1.5%
Foreign currency	339	1	0.4%
Total interest bearing liabilities	₩103,802	₩1,116	1.4%
Non-interest bearing liabilities and stockholders' equity	25,345	—	0.0%
Total liabilities and stockholders' equity	₩129,147	₩1,116	1.2%

Notes:

(1) Calculated based on the average of the daily ending balances of KEB Hana Bank from 1 September 2015 (the effective date of the Merger) to 30 September 2015 and those of Korea Exchange Bank from 1 January 2015 to 31 August 2015.

(2) Represents the amounts of interest earned or paid by KEB Hana Bank from 1 September 2015 to 30 September 2015 and those by Korea Exchange Bank from 1 January 2015 to 31 August 2015.

Korea Exchange Bank

	Year Ended 31 December					
	2013			2014		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
	(In billions of Won, except percentages)					
Interest earning assets						
Loans	₩69,888	₩3,084	4.4%	₩73,543	₩2,834	3.9%
Won	52,655	2,782	5.3	54,671	2,528	4.6
Foreign currency	17,233	302	1.8	18,872	315	1.7
Due from banks	3,420	28	0.8	3,993	41	1.0
Won	799	20	2.5	1,213	30	2.5
Foreign currency	2,621	8	0.3	2,780	11	0.4
Securities	11,071	340	3.1	11,950	329	2.8
Won	10,515	331	3.1	10,969	311	2.8
Foreign currency	556	9	1.6	981	18	1.8
Other	42	6	15.2	13	9	71.5
Won	29	6	20.7	—	—	—
Foreign currency	13	0	3.1	13	0	2.3%
Total interest earning assets	₩84,421	₩3,458	4.1%	₩89,499	₩3,213	3.6%
Non-interest earning assets	15,437	—	—	15,619	—	—
Total assets	₩99,858	₩3,458	3.5%	₩105,118	₩3,213	3.1%
Interest bearing liabilities						
Deposits	₩63,807	₩1,315	2.1%	₩67,489	₩1,441	2.1%
Won	49,418	1,234	2.5	52,269	1,369	2.6
Foreign currency	14,389	81	0.6	15,220	72	0.5
Borrowings	7,427	101	1.4	9,228	102	1.1
Won	2,310	53	2.3	3,228	69	2.1
Foreign currency	5,117	48	0.9	6,000	33	0.6
Debenture	6,182	224	3.6	5,723	174	3.0
Won	4,082	173	4.2	3,098	116	3.7
Foreign currency	2,100	51	2.4	2,625	58	2.2
Other	1,556	40	2.6	1,599	37	2.3
Total interest bearing liabilities	₩78,972	₩1,680	2.1%	₩84,039	₩1,754	2.1%
Non-interest bearing liabilities and stockholders' equity	20,886	—	—	21,079	—	—
Total liabilities and stockholders' equity	₩99,858	₩1,680	1.7%	₩105,118	₩1,754	1.7%

Hana Bank

	Year Ended 31 December					
	2013			2014		
	Average Balance	Interest income/ expenses(1)	Average yield/ average cost	Average Balance	Interest income/ expenses(1)	Average yield/ average cost
	(in billions of Won, except percentages)					
Assets:						
Due from banks	₩2,447	₩52	2.1%	₩2,843	₩54	1.9%
Loans	116,236	4,956	4.3	121,313	4,694	3.9
Corporate loans	58,840	2,419	4.1	61,510	2,299	3.7
Household loans	53,876	2,421	4.5	55,907	2,274	4.1
Public sector and others	2,173	104	4.8	2,256	101	4.5
Call loans	1,159	10	0.9	1,048	14	1.3
Inter-bank loans	188	2	1.1	592	6	1.0
Securities	18,278	640	3.5	19,447	623	3.2
Financial assets held-for-trading	1,179	33	2.8	1,485	38	2.6
Available-for-sale financial assets	15,122	508	3.4	15,800	486	3.1
Held-to-maturity financial assets	1,977	99	5.0	2,162	99	4.6
Total average interest-earning assets	₩136,961	₩5,648	4.1%	₩143,603	₩5,371	3.7%
Total average non-interest-earning assets	₩19,040	—	—	₩20,084	—	—
Total average assets	₩156,001	₩5,648	3.6%	₩163,687	₩5,371	3.3%
Liabilities:						
Deposit liabilities	₩107,274	₩2,833	2.6%	₩113,238	₩2,619	2.3%
Demand deposits	4,664	9	0.2	5,280	8	0.2
Time and savings deposits	101,917	2,805	2.8	107,228	2,593	2.4
Certificates of deposits	693	19	2.7	730	18	2.5
Borrowings	8,965	128	1.4	9,885	140	1.4
Bonds	14,369	533	3.7	13,032	434	3.3
Others	2,694	67	2.5	2,945	69	2.3
Total average interest-bearing liabilities	₩133,302	₩3,561	2.7%	₩139,100	₩3,262	2.3%
Total average non-interest-bearing liabilities	11,486	—	—	12,945	—	—
Total equity	11,213	—	—	11,642	—	—
Total average liabilities and equity	₩156,001	₩3,561	2.3%	₩163,687	₩3,262	2.0%

Note:

(1) Interest income figures include cash interest received on non-accrual loans.

Loan Portfolio

As of 30 September 2015, the balance of our total loan portfolio before allowance for loan losses and net deferred loan fees and costs was ₩209,946 billion, 82.2 per cent. of which was denominated in Won and 17.8 per cent. of which was denominated in other currencies, principally in U.S. dollars. As of 31 December 2013 and 2014, the balance of Korea Exchange Bank's total loan portfolio before allowance for loan losses and net deferred loan fees and costs was ₩74,374 billion and ₩75,696 billion, respectively, 72.5 per cent. and 71.2 per cent., respectively, of which was denominated in Won and 27.5 per cent. and 28.8 per cent., respectively, of which was denominated in other currencies. As of 31 December 2013 and 2014, the balance of Hana Bank's total loan portfolio before allowance for loan losses and net deferred loan fees and costs was ₩122,292 billion and ₩128,268 billion, respectively, 89.4 per cent. and 87.4 per cent., respectively, of which was denominated in Won and 10.6 per cent. and 12.6 per cent., respectively, of which was denominated in other currencies.

As of 30 September 2015 our total loans after allowance for loan losses and net deferred loan fees and costs were ₩208,361 billion. As of 31 December 2013 and 2014, Korea Exchange Bank's total loans portfolio after allowance for loan losses and net deferred loan fees and costs were ₩73,684 billion and ₩75,056 billion, respectively. As of 31 December 2013 and 2014, Hana Bank's total loans portfolio after allowance for loan losses and net deferred loan fees and costs were ₩121,316 billion and ₩127,341 billion, respectively.

Guarantees are not categorised as loans unless and until we have made a payment on behalf of a customer in relation to the guarantee.

Borrower Types

The tables below set forth summaries of loans by type of borrower (after allowance for loan losses and net deferred loan fees and costs) of us, Korea Exchange Bank and Hana Bank as of the dates indicated.

KEB Hana Bank

	As of 30 September 2015	
	Amount	%
	(In billions of Won, except percentages)	
Large companies	₩43,919	21.1%
SMEs	65,041	31.2
Households	86,021	41.3
Public sector and others	13,380	6.4
Total	₩208,361	100.0%

Korea Exchange Bank

	As of 31 December			
	2013		2014	
	Amount	%	Amount	%
	(In billions of Won, except percentages)			
Large companies	₩22,938	31.1%	₩22,707	30.3%
SMEs	19,294	26.2	22,046	29.4
Households	22,563	30.6	22,018	29.3
Credit card[1]	2,563	3.5	—	—
Public sector and others	6,327	8.6	8,285	11.0
Total	₩73,684	100.0%	₩75,056	100.0%

Note:

(1) Korea Exchange Bank spun off its credit card business in September 2014.

Hana Bank

	As of 31 December			
	2013		2014	
	Amount	%	Amount	%
	(In billions of Won, except percentages)			
Large companies	₩26,863	22.1%	₩26,545	20.8%
SMEs	35,905	29.6	38,973	30.6
Households	54,745	45.1	57,753	45.4
Public sector and others	3,803	3.1	4,070	3.2
Total	₩121,316	100.0%	₩127,341	100.0%

Loan Types

The following tables present the loans by type (after allowance for loan losses and net deferred loan fees and costs) of us, Korea Exchange Bank and Hana Bank as of the dates indicated.

KEB Hana Bank

	As of 30 September 2015
	(In billions of Won)
Loans in Korean Won	₩168,935
Loans denominated in foreign currencies	23,034
Bills purchased in Korean Won	336
Bills purchased denominated in foreign currencies	6,948
Call loans	3,566
Bonds purchased under resale agreements	1,100
Others	6,027
Allowance for loan losses	₩(1,803)
Deferred loan fees and costs	219
Total loans	₩208,361

Korea Exchange Bank

	As of 31 December	
	2013	2014
	(In billions of Won)	
Loans in Korean Won	₩49,542	₩51,800
Loans denominated in foreign currencies	10,168	12,098
Bills purchased in Korean Won	91	70
Bills purchased denominated in foreign currencies	5,300	5,246
Call loans	1,318	1,781
Credit card loans[1]	2,650	—
Bonds purchased under resale agreements	700	400
Others	4,604	4,301
Allowance for loan losses	(725)	(677)
Deferred loan fees and costs	36	37
Total loans	₩73,684	₩75,056

Note:

(1) Korea Exchange Bank spun off its credit card business in September 2014.

Hana Bank

	As of 31 December	
	2013	2014
	(In billions of Won)	
Loans in Korean Won	₩105,154	₩109,590
Loans denominated in foreign currencies	7,361	9,560
Bills purchased in Korean Won	447	330
Bills purchased denominated in foreign currencies	1,451	1,905
Call loans	1,711	1,518
Domestic import usance	2,375	2,720
Advance payments on acceptances and guarantees	38	21
Bonds purchased under resale agreements	1,513	1,237
Privately-placed corporate bonds	802	475
Others	1,440	911
Allowance for loan losses	(1,081)	(1,052)
Deferred loan fees and costs	105	125
Total loans	₩121,316	₩127,341

Loan Concentrations

We limit our total exposure to any single borrower as required by Korean regulations and pursuant to our internal policies. “Exposures” refer to our credits and other exposures, including debt securities held by us. “Credits” refer to our total credits (as reported to the FSC based on the FSC’s asset classification criteria), the principal components of which include the total loan portfolio of our bank accounts, loans provided from our trust accounts and merchant bank accounts, and confirmed guarantees and acceptances (which are off-balance sheet items).

We determine our exposure limit based on the borrower’s credit rating provided by our Credit Analysis System and adjust it if it would otherwise exceed the limit imposed by Korean regulations.

Ten Largest Exposures by Borrower

As of 30 September 2015, on a separate basis, our 10 largest exposures totalled ₩13,370 billion and accounted for 5.4 per cent. of our total exposures. The following table sets forth our total exposures to these top 10 borrowers as of 30 September 2015, on a separate basis.

KEB Hana Bank

	As of 30 September 2015			
	Loans and Other On-Balance Sheet Items	Confirmed Guarantees and Acceptances	Debt Securities	Total
	(in billions of Won)			
Korea Housing Finance Corporation	₩—	₩—	₩3,372	₩3,372
Hyundai Heavy Industries	306	998	—	1,304
Samsung Heavy Industries	633	668	—	1,300
Samsung Electronics	1,191	77	—	1,268
Hyundai Securities	250	—	975	1,225
KDB Daewoo Securities	800	—	342	1,142
Hana Financial Investment	280	—	854	1,134
Daewoo Shipbuilding & Marine Engineering	795	234	—	1,029
Woori Bank	709	6	216	932
NH Investment & Securities	175	—	489	664
Total	₩5,139	₩1,983	₩6,248	₩13,370

Exposure to Main Debtor Groups

As of 30 September 2015, on a separate basis, 8.0 per cent. of our total exposure was to the main debtor groups as designated by the FSS. The main debtor groups consist mostly of *chaebols*. The following table shows, as of 30 September 2015, on a separate basis, our total exposure to the 10 *chaebol* groups to which we have the largest exposure.

KEB Hana Bank

	As of 30 September 2015			
	Loans and Other On-Balance Sheet Items	Confirmed Guarantees and Acceptances	Debt Securities	Total
	(in billions of Won)			
Samsung	₩2,842	₩2,176	₩588	₩5,606
Hyundai Heavy Industries	893	2,402	284	3,579
Hyundai Motor	1,566	1,341	102	3,010
SK	1,053	773	37	1,863
LG	833	375	172	1,380
POSCO	553	632	81	1,266
Doosan	416	578	1	995
Lotte	241	520	30	791
Hanjin	620	95	—	716
GS	419	169	54	642
Total	₩9,436	₩9,062	₩1,349	₩19,846

Loan Concentration by Industry

The following table shows, as of 30 September 2015, the aggregate balances of our total loans by industry concentration. The amounts disclosed are before allowance for loan losses and net deferred loan origination fees and costs.

KEB Hana Bank

	As of 30 September 2015	
	Aggregate Loan Balance	**Percentage of Loan Balances**
	(in billions of Won, except percentages)	
Industry		
Corporate Loans		
Manufacturing	₩43,610	20.8%
Wholesale and retail	15,967	7.6%
Real estate, renting and leasing	19,628	9.3%
Financial services	12,395	5.9%
Construction	4,286	2.0%
Public sector	906	0.4%
Others	27,166	12.9%
Total	₩123,958	59.0%
Household Loans	85,988	41.0%
Total Loans	₩209,946	100.0%

Maturity Analysis (Loans in Won)

The following table sets out the scheduled maturities (time remaining until maturity) of our loan portfolio as of 30 September 2015, on a separate basis. The amounts disclosed below are before allowance for loan losses and net deferred loan origination fees and costs.

KEB Hana Bank

	As of 30 September 2015			
	1 Year of Less	**Over 1 Year but Not More Than 5 Years**	**Over 5 Years**	**Total**
	(in billions of Won)			
Corporate Loans	₩58,767	₩25,225	₩2,909	₩86,901
Household Loans	37,416	15,324	32,259	84,999
Total gross loans in Won	₩96,183	₩40,549	₩35,168	₩171,900

We may roll over our corporate loans (primarily consisting of working capital loans and facility loans) and retail loans (to the extent not payable in instalments) after we conduct our normal loan review in accordance with our loan review procedures. In general, our corporate loans may be extended for periods of up to one year for a maximum aggregate term of six years from the date the relevant loan is initially made. Facilities loans that are bullet loans may be extended for periods of up to one year for a maximum term of 10 years, with partial payment of 10% or more of the initial loan amount required for each extension. Our working capital loans may be extended on an annual basis for an aggregate term of three to five years for unsecured loans and up to five years for secured loans. Facilities loans, which are generally secured, may be extended once for a maximum term of five years from the date when the relevant loan is initially made. Retail loans may be extended for additional terms of up to 12 months for a maximum aggregate of 10 years for both unsecured loans and secured loans.

Interest Rate Sensitivity (Loans in Won)

The following table shows, on a separate basis, our loans denominated in Won by interest rate sensitivity as of 30 September 2015.

KEB Hana Bank

	As of 30 September 2015		
	Due Within 1 Year	Due After 1 Year	Total
	(in billions of Won)		
Fixed rate loans[1]	₩25,973	₩7,086	₩33,058
Variable or adjustable rate loans[2]	67,020	68,632	135,652
Total gross loans in Won	₩92,993	₩75,718	₩168,710

Notes:

(1) Fixed rate loans are loans for which the interest rate is fixed for the entire term.

(2) Variable or adjustable rate loans are for which the interest rate is not fixed for the entire term.

For additional information regarding our management of interest rate risk for our loans, see "*Risk Management — Market Risk Management — Trading Activities*".

Asset Quality of Loans

Loan Classifications

The FSC generally requires Korean financial institutions to analyse and classify their assets by quality into one of five categories. In making these classifications, we take into account a number of factors, including the financial position, profitability and transaction history of the borrower, and the value of any collateral or guarantee taken as security for the extension of credit. This classification method, and our related provisioning policy, is intended to fully reflect the borrower's capacity to repay.

The following is a summary of the asset classification criteria we apply for corporate and retail credits based on the asset classification guidelines of the FSC. We also apply different criteria for other types of credits such as loans to the Government or to government related or controlled entities, certain bills of exchange and certain receivables.

Asset Classification	Characteristics
Normal	Credits to customers that, based on our consideration of their business, financial position and future cash flows, do not raise concerns regarding their ability to repay the credits.
Precautionary	Credits to customers that: • based on our consideration of their business, financial position and future cash flows, show potential risks with respect to their ability to repay the credits, although showing no immediate default risk; or • are in arrears for one month or more but less than three months.
Substandard	Either: • credits to customers that, based on our consideration of their business, financial position and future cash flows, are judged to have incurred considerable default risks as their ability to repay has deteriorated; or • the portion that we expect to collect of total credits (1) extended to customers that have been in arrears for three months or more, (2) extended to customers that have incurred serious default risks due to the occurrence of, among other things, final refusal to pay their debt instruments, entry into liquidation or bankruptcy proceedings, or closure of their businesses, or (3) extended to customers who have outstanding credits that are classified as "doubtful" or "estimated loss".
Doubtful	Credits exceeding the amount we expect to collect of total credits to customers that: • based on our consideration of their business, financial position and future cash flows, have incurred serious default risks due to noticeable deterioration in their ability to repay; or • have been in arrears for three months or more but less than 12 months.
Estimated Loss	Credits exceeding the amount we expect to collect of total credits to customers that: • based on our consideration of their business, financial position and future cash flows, are judged to have to be accounted as a loss as the inability to repay became certain due to serious deterioration in their ability to repay; • have been in arrears for 12 months or more; or • have incurred serious risks of default in repayment due to the occurrence of, among other things, final refusal to pay their debt instruments, liquidation or bankruptcy proceedings or closure of their business.

We classify our corporate loans based on the borrower's capacity to repay in consideration of its business operations, financial position and future cash flows, the past due period (if any) of the loans and status of any bankruptcy proceedings in which the borrower is involved. Loans to small companies and to households, however, are classified not by evaluating the debt repayment capability of the borrower but by the past due period (if any) of the loans and the status of any bankruptcy proceedings in which the borrower is involved. We generally classify all credits to a single borrower in the same category of classification, but guaranteed credits or credits secured by bank deposits, real estate or other collateral may be classified differently based on the guarantor's capability to perform under its guarantee or based on the value of collateral securing the credits.

Loan Loss Provisioning Policy

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

We first assess whether objective evidence of impairment exists individually for financial assets that exceed the individual assessment threshold of ₩1 billion and are therefore considered individually significant. For financial assets that are not individually significant, we assess whether the objective evidence of impairment exists collectively. If we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, we include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment.

Impairment loss is deducted from allowance for possible losses on credits when it is considered unrecoverable. If it is subsequently recovered, allowance for possible losses on credits increases and the changes are recognised in net income.

Allowance for possible losses on credits by individual assessment

Allowance for possible losses on credits is recognised by the difference between the asset's carrying amount and the present value of future cash flows expected to be collected, considering borrower's management performance, financial position, overdue period and mortgage amount.

Allowance for possible losses on credits by collective assessment

Allowance for possible losses on credits is recognised by adjusting probability of default and loss given default from Basel III for the purpose of accounting and applying that to carrying amount. Such approach considers various elements, including borrower type, credit rating, size of portfolio, loss emergence period and collection period, and applies consistent assumptions so as to model the measurement of inbuilt loss and determine variables based on historical loss experience and current conditions.

Similar provisioning requirements apply to other types of credits such as guarantees and acceptances and loans from the trust accounts.

Allowances for Loan Losses

Analysis of Allowance for Loan Losses

The following tables present the changes in allowance for possible loan losses for us, Korea Exchange Bank and Hana Bank for the periods indicated.

KEB Hana Bank

	Nine Months Ended 30 September 2015[1]
	(In billions of Won)
Balance at the beginning of the period	₩677
Business combination under common control[2]	1,079
Total charge-offs	(266)
Total recoveries	59
Net charge-offs	(207)
Disposal of non-performing loans	(16)
Interest income from impaired loans	(29)
Other	3
Provision for possible loan losses	296
Balance at the end of the period	₩1,803

Notes:

(1) Reflects the amounts in respect of KEB Hana Bank for the period from 1 September 2015 (the effective date of the Merger) to 30 September 2015 and in respect of Korea Exchange Bank for the period from 1 January 2015 to 31 August 2015.

(2) Represents the increase in allowance for possible loan losses resulting from the Merger.

Korea Exchange Bank

	Year Ended 31 December	
	2013	2014
	(In billions of Won, except percentages)	
Balance at the beginning of the period	₩772	₩725
Total charge-offs	(555)	(438)
Total recoveries	122	97
Net charge-offs	(433)	(341)
Disposal of non-performing loans	(35)	(12)
Interest income from impaired loans	(68)	(46)
Other	(7)	(145)[1]
Provision for possible loan losses	496	495
Balance at the end of the period	₩725	₩677

Note:

(1) Includes ₩105 billion reduction of allowance resulting from the spin-off of Korea Exchange Bank's credit card business in September 2014.

Hana Bank

	Year Ended 31 December	
	2013	2014
	(In billions of Won, except percentages)	
Balance at the beginning of the period	₩1,107	₩1,081
Total charge-offs	(610)	(397)
Total recoveries	172	49
Net charge-offs	(438)	(348)
Disposal of non-performing loans	(30)	(65)
Interest income from impaired loans	(14)	(31)
Other	6	10
Provision for possible loan losses	450	405
Balance at the end of the period	₩1,081	₩1,052

The following tables set forth summaries of the precautionary and substandard and below credits of us, Korea Exchange Bank and Hana Bank, each on a separate basis and as reported to the FSS, as of the dates indicated. "Credits" refer to our total credits (as reported to the FSC based on the FSC's asset classification criteria), the principal components of which include the total loan portfolio of our bank accounts, loans provided from our trust accounts and merchant bank accounts, and confirmed guarantees and acceptances (which are off-balance sheet items).

KEB Hana Bank

	As of 30 September 2015	
	Principal Amount	% of Total Credits
	(In billions of Won, except percentages)	
Normal	₩207,850.6	98.13%
Precautionary	1,676.8	0.79
Substandard and below credits		
Substandard	1,387.6	0.66
Doubtful	491.8	0.23
Estimated loss	414.2	0.20
Total Credits	₩211,821.0	100.00%
Allowances for credit losses	1,550.2	0.73

Korea Exchange Bank

	As of 31 December			
	2013		2014	
	Principal Amount	% of Total Credits	Principal Amount	% of Total Credits
	(In billions of Won, except percentages)			
Normal	₩78,350.5	97.31%	₩79,878.3	97.79%
Precautionary	1,224.0	1.52	696.7	0.85
Substandard and below credits				
Substandard	656.2	0.82	850.8	1.04
Doubtful	170.8	0.21	143.5	0.18
Estimated loss	111.6	0.14	117.7	0.14
Total Credits	₩80,512.2	100.00%	₩81,687.0	100.00%
Allowances for credit losses	₩772.5	0.96%	₩693.5	0.85%

Hana Bank

	As of 31 December			
	2013		2014	
	Principal Amount	% of Total Credits	Principal Amount	% of Total Credits
	(In billions of Won, except percentages)			
Normal	₩119,672.0	97.49%	₩124,500.7	98.19%
Precautionary	1,276.0	1.04	801.5	0.63
Substandard and below credits				
Substandard	1,085.5	0.88	959.5	0.76
Doubtful	341.9	0.28	267.9	0.21
Estimated loss	383.0	0.31	264.2	0.21
Total Credits	₩122,758.4	100.00%	₩126,793.8	100.00%
Allowances for credit losses	₩1,107.1	0.90%	₩927.5	0.73%

Loan Aging Schedule

The following tables show the loan aging schedules, excluding accrued interest and before allowance for loan losses and net deferred loan fees and costs, for all loans of us, Korea Exchange Bank and Hana Bank, each on a separate basis, as of the dates indicated.

KEB Hana Bank

	Current		Past Due up to 3 Months		Past Due 3 to 6 Months		Past Due more than 6 Months		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount
	(In billions of Won)								
As of:									
30 September 2015	₩200,219	99.3%	₩782	0.4%	₩166	0.1%	₩556	0.3%	₩201,722

Korea Exchange Bank

	Current		Past Due up to 3 Months		Past Due 3 to 6 Months		Past Due more than 6 Months		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount
	(In billions of Won)								
As of:									
31 December 2013..........	₩69,770	99.2%	₩347	0.5%	₩62	0.1%	₩169	0.2	₩70,348
31 December 2014..........	₩71,311	99.3%	₩341	0.5%	₩62	0.1%	₩111	0.2	₩71,825

Hana Bank

	Current		Past Due up to 3 Months		Past Due 3 to 6 Months		Past Due more than 6 Months		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount
	(In billions of Won)								
As of:									
31 December 2013..........	₩117,444	99.0%	₩893	0.8%	₩91	0.1%	₩199	0.2	₩118,627
31 December 2014..........	₩122,302	99.1%	₩699	0.6%	₩170	0.1%	₩234	0.2	₩123,405

Credit Exposures to Companies in Workout and Rehabilitation

Our exposures in restructuring are managed and collected by our credit group. As of 30 September 2015, on a separate basis, 0.4 per cent. of our total loans, or ₩727 billion, was under restructuring. As of 31 December 2013 and 2014, 0.7 per cent. and 0.4 per cent, respectively, of Korea Exchange Bank's total exposure, or ₩516 billion and ₩269 billion, respectively, was under restructuring, each on a separate basis. As of 31 December 2013 and 2014, 0.4 per cent. and 0.2 per cent, respectively, of Hana Bank's total exposure, or ₩431 billion and ₩307 billion, respectively, was under restructuring, each on a separate basis. The legal form of restructurings in Korea is principally either workout or rehabilitation.

Non-Performing Loans

Non-performing loans are defined as loans past due by more than three months. These loans are generally rated "substandard" or below under the FSC guidelines.

The following tables set forth, for the dates indicated, the total non-performing loans by type of borrower of us, Korea Exchange Bank and Hana Bank, each on a separate basis.

KEB Hana Bank

	As of 30 September 2015		
	Total Loans[(2)]	Non-Performing Loans	Non-Performing Loans %
	(In billions of Won, except percentages)		
Corporate[(1)]	₩116,700	₩1,946	1.67%
Household	85,021	277	0.33
Total	₩201,722	₩2,223	1.10%

Note:

(1) Includes loans to large corporations, SMEs, and public and other.

(2) Before allowance for loan losses and net deferred loan fees and costs.

Korea Exchange Bank

	Year Ended 31 December					
	2013			2014		
	Total Loans[3]	Non-Performing Loans	Non-Performing Loans %	Total Loans[3]	Non-Performing Loans	Non-Performing Loans %
	(In billions of Won, except percentages)					
Corporate[1]	₩43,358	₩681	1.57%	₩50,497	₩945	1.87%
Household	24,340	119	0.49%	21,328	73	0.34%
Card[2]	2,650	45	1.71%	—	—	—
Total	₩70,348	₩845	1.20%	₩71,825	₩1,017	1.42%

Note:

(1) Includes loans to large corporations, SMEs, and public and other.

(2) Korea Exchange Bank spun off its credit card business in September 2014.

(3) Before allowance for loan losses and net deferred loan fees and costs.

Hana Bank

	Year Ended 31 December					
	2013			2014		
	Total Loans[2]	Non-Performing Loans	Non-Performing Loans %	Total Loans[2]	Non-Performing Loans	Non-Performing Loans %
	(In billions of Won, except percentages)					
Corporate[1]	₩63,930	₩1,528	2.39%	₩65,721	₩1,217	1.85%
Household	54,697	251	0.46	57,684	249	0.43
Total	₩118,627	₩1,778	1.50%	₩123,405	₩1,467	1.19%

Note:

(1) Includes loans to large corporations, SMEs, and public and other.

(2) Before allowance for loan losses and net deferred loan fees and costs.

10 Largest Non-Performing Loans

As of 30 September 2015, our 10 largest non-performing loans accounted for 34.2 per cent. of our total non-performing loan portfolio. The following table shows, as of 30 September 2015, certain information regarding our 10 largest non-performing loans.

	As of 30 September 2015		
	Principal Outstanding	Allowance for Loan Losses	Industry
	(In billions of Won)		
Borrower 1	₩167	₩63	Construction of highways, streets and roads
Borrower 2	101	60	General construction
Borrower 3	88	47	Construction of industrial plants
Borrower 4	71	1	Manufacture of ferro-alloys
Borrower 5	70	33	Manufacture of printing and writing paper
Borrower 6	69	—	Development and subdividing of residential buildings
Borrower 7	58	53	Manufacture of sections for ships
Borrower 8	56	38	Building of steel ships
Borrower 9	45	40	Manufacture of internal combustion piston engines
Borrower 10	36	1	Individual
Total	₩761	₩336	

Sales of Non-Performing Loans

We have also issued securities backed by non-performing loans and other assets through special purpose companies. Some of these transactions involved transfers of loans in connection with asset securitisations. The assets are not included in our balance sheet as these transactions are classified as sold under K-IFRS.

We sell non-performing loans to savings banks and the Korea Asset Management Corporation. For the nine months ended 30 September 2015, on a separate basis, the aggregate principal amount of non-performing loans we sold in connection with asset securitisation transactions was ₩101 billion (which represents such amounts of KEB Hana Bank from 1 September 2015 (the effective date of the Merger) to 30 September 2015 and those of Korea Exchange Bank from 1 January 2015 to 31 August 2015). The aggregate principal amounts of non-performing loans Korea Exchange Bank sold in connection with asset securitisation transactions in 2013 and 2014 were ₩39 billion and ₩33 billion, respectively, on a separate basis. The aggregate principal amounts of non-performing loans Hana Bank sold in connection with asset securitisation transactions in 2013 and 2014 were ₩332 billion and ₩303 billion, respectively, on a separate basis.

Non-Performing Loan Strategy

One of our primary objectives is to prevent our loans from becoming non-performing. Through our corporate credit rating system, we strive to limit or reduce our credit risk relating to future non-performing loans. Our credit rating system is designed to prevent our loan officers from extending new loans to borrowers with high credit risks based on the borrower's credit rating. Our early warning system is designed to bring any sudden increase in a borrower's credit risk to the attention of our loan officers, who then closely monitor such loans.

Notwithstanding the above, if a loan becomes non-performing, an officer at the branch level responsible for monitoring non-performing loans will commence due diligence of the borrower's assets, send a notice demanding payment or a notice that we will take legal action or prepare for legal action.

At the same time, we also initiate our non-performing loan management process, which begins with:

- identifying loans subject to a proposed sale by assessing the estimated losses from such sale based on the estimated recovery value of collateral, if any, for such non-performing loans;
- identifying loans subject to charge-off based on the estimated recovery value of collateral, if any, for such non-performing loans and the estimated rate of recovery of unsecured loans; and
- on a limited basis, identifying commercial loans subject to normalisation efforts based on the cash flow situation of the borrower.

Once the details of a non-performing loan are identified, we pursue early solutions for recovery. Actual recovery efforts on non-performing loans are handled by several of our departments or units, depending on the nature of such loans and of the borrower.

The officers or agents of the responsible departments and units use a variety of methods to resolve non-performing loans, including:

- making phone calls and paying visits to the borrower requesting payment;
- continuing to assess and evaluate assets of our borrowers; and
- if necessary, initiating legal action such as foreclosures, attachments and litigation.

In order to promote speedy recovery on loans subject to foreclosures and litigation, our policy is to permit the branch responsible for handling these loans to transfer them to the relevant unit at headquarters or regional headquarters.

Foreclosure and Collateral

Generally when a non-performing loan becomes overdue for more than three months, we foreclose on mortgages or exercise our security interests in respect of other collateral. At that time, we will petition a court to foreclose on collateral and to sell that collateral through a court-supervised auction. Under Korean law, that petition must be filed with a court that has jurisdiction over the mortgaged property, and must be filed together with a copy of the mortgage agreement and an extract of the court registry regarding the subject property. The court will then issue an order to commence the foreclosure auction, which will be registered in the court registry of the subject property. If no bidder bids at least the minimum amount set by the court on the first auction date, the court will set another date for a subsequent auction approximately one month later. Each time a new auction date is set, the minimum auction price will typically be lowered by 20.0 per cent. Korean law does not provide for non-judicial foreclosure.

Korean financial institutions, including us, maintain general policies to assess a potential customer's eligibility for loans based on that entity's credit quality, rather than requiring a particular level of collateral, especially in the case of large corporate borrowers. As a result, the ratio of our collateral to non-performing corporate loans is relatively low when compared with our total exposures. For secured household loans, however, we generally impose limits on loan amounts based on the collateral we receive.

We reflect this collateral level when we estimate the future cash flow for our loans, which we calculate using a discounted cash flow method. With respect to loans to borrowers that we do not believe will be going concerns in the future, the lower collateral ratio has a direct effect on cash flow estimates and results in a higher level of allowances. With respect to loans to borrowers that we expect to be going concerns, the lower collateral ratio has an effect on cash flow estimates, but we also consider other factors, including future operating income and future asset disposals and restructuring, in determining allowance levels. Accordingly, for these latter borrowers, the effect of lower collateral levels on allowances is mitigated by other characteristics of the borrower, and that lower collateral level will not necessarily result in a higher level of allowances.

Loan Charge-Offs

Our gross charge-offs for the nine months ended 30 September 2015 were ₩266 billion, which represents gross charge-offs of KEB Hana Bank from 1 September 2015 (the effective date of the Merger) to 30 September 2015 and those of Korea Exchange Bank from 1 January 2015 to 31 August 2015. Korea Exchange Bank's gross charge-offs for 2013 and 2014 were ₩555 billion and ₩438 billion, respectively, and Hana Bank's gross charge-offs for 2013 and 2014 were ₩610 billion and ₩397 billion, respectively.

Basic Principles

We attempt to minimise loans to be charged-off, by practicing a sound credit approval process based on credit risk analysis prior to extending loans and a systematic management of outstanding loans.

Loans To Be Charged-Off

Loans are charged-off if they are deemed to be uncollectible by falling under any of the following categories:

- loans for which collection is not foreseeable due to insolvency, bankruptcy, dissolution or the shutting down of the business of the debtor;
- loans for which collection is not foreseeable due to the death or disappearance of the debtor;
- loans for which expenses of collection exceed the collectable amount;
- loans on which collection is not possible through legal or any other means; or
- the portion of loans classified as "estimated loss", net of any recovery from collateral, which is deemed to be uncollectible.

Procedure for Charge-Offs

All applications for our loan charge-off are submitted to our credit group, whether they are corporate loans or individual loans. Such applications for charge-off are generally submitted immediately after the relevant loan becomes one month past due, which our credit group will then evaluate. Once loans are charged-off, they are derecognised from our balance sheet.

Credit Portfolio

The tables below set forth, on a separate basis, the credit portfolio (as reported to the FSC based on FSC's asset classification criteria) of us, Korea Exchange Bank and Hana Bank as of the dates indicated.

KEB Hana Bank

	As of 30 September 2015
	(In billions of Won)
Banking account	
Loans	₩193,925
Commercial papers (including guaranteed notes)	0
Other receivables	12
Confirmed acceptances and guarantees	17,781
Sub-total	₩211,719
Trust account	
Trust loans	₩31
Privately-placed corporate bonds	—
Commercial papers (including guaranteed notes)	1
Sub-total	₩32
Merchant banking account	
Loans	₩70
Financial leases	—
Confirmed acceptances and guarantees	—
Sub-total	₩70
Total Credits	₩211,821

Korea Exchange Bank

	As of 31 December	
	2013	2014
	(In billions of Won)	
Banking account		
Loans	₩67,625	₩68,129
Commercial papers (including guaranteed notes)	0	0
Other receivables	12	9
Confirmed acceptances and guarantees	12,550	13,457
Sub-total	₩80,188	₩81,595
Trust account		
Trust loans	₩22	₩12
Privately-placed corporate bonds	—	—
Commercial papers (including guaranteed notes)	2	1
Sub-total	₩24	₩13
Merchant banking account		
Loans	₩300	₩78
Financial leases	—	—
Confirmed acceptances and guarantees	—	—
Sub-total	₩300	₩78
Total Credits	₩80,512	₩81,687

Hana Bank

	As of 31 December	
	2013	2014
	(In billions of Won)	
Banking account		
Loans	₩116,001	₩120,364
Commercial papers (including guaranteed notes)	—	—
Other receivables	4	4
Confirmed acceptances and guarantees	6,731	6,402
Sub-total	₩122,736	₩126,770
Trust account		
Trust loans	₩23	₩24
Privately-placed corporate bonds	—	—
Commercial papers (including guaranteed notes)	—	—
Sub-total	₩23	₩24
Merchant banking account		
Loans	—	—
Financial leases	—	—
Confirmed acceptances and guarantees	—	—
Sub-total	—	—
Total Credits	₩122,758	₩126,794

Investment Portfolio

We invest in and trade Won-denominated and, to a lesser extent, foreign currency-denominated securities for our own account to:

- maintain the stability and diversification of our assets;
- maintain adequate sources of back-up liquidity to match our funding requirements; and
- supplement income from our core lending activities.

In making securities investments, we take into account a number of factors, including macroeconomic trends, industry analysis and evaluation of credit.

Our investments in securities are also subject to a number of guidelines, including limitations prescribed under the Banking Act. Under these regulations, we must limit our investments in shares and securities with a maturity in excess of three years (other than monetary stabilisation bonds issued by the Bank of Korea, national government bonds and government guaranteed bonds) to 100.0 per cent. of our total Tier I and Tier II capital. Generally, we are also prohibited from acquiring more than 15.0 per cent. of the shares with voting rights issued by any other corporation (other than for the purpose of establishing or acquiring a subsidiary). Further information on the regulatory environment governing our investment activities is set out in "*Regulation and Supervision*".

Securities Classifications

The classification guidelines and methods of valuation for securities are as follows:

Classification	Valuation Method
Financial assets at FVTPL	Financial assets at fair value through profit or loss ("**FVTPL**") are stated at fair value, with any gains or losses arising on remeasurement recognised in net income. Transaction costs attributable to acquisition upon initial recognition are immediately recognised in net income in the period incurred.
AFS financial assets	Non-derivative financial assets that are not classified as at held to maturity, held-for-trading designated as at FVTPL, or loans and receivables, are classified as available-for-sale ("**AFS**") financial assets. AFS financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in net income. Unquoted equity investments for which fair values cannot be measured reliably are carried at cost. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to net income. Dividends on AFS equity instruments are recognised in net income when our right to receive the dividends is established. The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The AFS non-monetary assets measured at the amortised cost are translated at the exchange rate on the trade date, while assets measured at the fair value are translated at the exchange rate on the date when the fair value is determined.
Held-to-maturity investments	Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that we have the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest rate method, less any impairment, with revenue recognised on an effective yield basis.
Loans and receivables	Non-derivative financial assets whose payment amounts are already determined or determinable and whose prices are not announced in the public market are categorised as loans and receivables. We categorise loan credits, deposits and rental deposits as loans and receivables. We measure loans and receivables by subtracting provision for credit losses from the amortised cost of such loans and receivables (calculated using the effective interest rate method). Interest income is calculated using the effective interest rate method, not taking into account short-term receivables, the effect of which on interest income is negligible.

Privately-placed commercial paper, privately-placed corporate bonds and guaranteed notes are not subject to the above valuation method. Instead, they are classified as loans and are subject to the corresponding loan loss provisioning method.

Book Value

The following tables set out the book value of securities in the investment portfolio of us, Korea Exchange Bank and Hana Bank as of the dates indicated.

KEB Hana Bank

	As of 30 September 2015
	(In billions of Won)
Available for sale:	
Equity securities	₩677
Investments in partnerships	164
Government and public bonds	10,337
Finance bonds	6,993
Corporate and other bonds	7,918
Beneficiary certificates	907
Securities denominated in foreign currencies	4,137
Other securities	8
Sub-total	₩31,141
Held to maturity:	
Government and public bonds	837
Finance bonds	1,922
Corporate bonds and others	2,601
Securities denominated in foreign currencies	270
Sub-total	₩5,630
Financial assets at fair value through profit or loss:	
Stocks	48
Government and public bonds	1,213
Financial bonds	927
Corporate bonds and others	204
Beneficiary certificates	3
Securities denominated in foreign currencies	14
Derivative assets held-for-trading	7,271
Sub-total	₩9,680
Total Securities[(1)]	₩46,451

Note:

(1) Excluding investment stocks using the equity method.

Korea Exchange Bank

	As of 31 December	
	2013	2014
	(In billions of Won)	
Available for sale:		
Equity securities	₩867	₩547
Investments in partnerships	83	66
Government and public bonds	1,968	2,611
Finance bonds	2,681	5,441
Corporate and other bonds	3,006	2,437
Beneficiary certificates	9	18
Securities denominated in foreign currencies	583	1,459
Other securities	8	34
Sub-total	₩9,204	₩12,613
Held to maturity:		
Government and public bonds	571	119
Finance bonds	1,053	1,453
Corporate bonds and others	583	180
Securities denominated in foreign currencies	124	197
Sub-total	₩2,331	₩1,949
Financial assets at fair value through profit or loss:		
Stocks	28	32
Government and public bonds	130	55
Financial bonds	541	492
Corporate bonds and others	40	31
Securities denominated in foreign currencies	39	23
Derivative assets held-for-trading	1,357	1,673
Sub-total	₩2,134	₩2,305
Total Securities[(1)]	₩13,668	₩16,867

Note:

(1) Excluding investment stocks using the equity method.

Hana Bank

	As of 31 December	
	2013	2014
	(In billions of Won)	
Available for sale:		
Equity securities	1,127	579
Investments in partnerships	116	112
Government and public bonds	6,377	9,412
Finance bonds	4,632	3,922
Corporate bonds	4,535	3,550
Beneficiary certificates	592	989
Securities denominated in foreign currencies	1,125	1,162
Others	—	2
Sub-total	₩18,506	₩19,728
Held to maturity:		
Government and public bonds	595	778
Finance bonds	500	350
Corporate bonds	1,046	984
Bonds denominated in foreign currencies	20	—
Sub-total	₩2,161	₩2,112
Financial assets at fair value through profit or loss:		
Stocks	17	11
Government and public bonds	1,063	1,317
Financial bonds	519	562
Corporate bonds and others	170	183
Trading derivative instruments	1,896	2,638
Sub-total	₩3,666	₩4,711
Total Securities[1]	₩24,333	₩26,551

Note:

(1) Excluding investment stocks using the equity method.

Maturity Analysis

The following table categorises our securities (carrying amount) by maturity as of 30 September 2015.

KEB Hana Bank

	As of 30 September 2015				
	Within 1 year	**Over 1 but within 5 years**	**Over 5 but within 10 years**	**Over 10 years**	**Total**
	(In billions of Won)				
Securities available for sale:[1]					
Government and public bonds	₩1,262	₩12,118	₩1,580	₩30	₩14,990
Finance bonds	1,958	3,341	234	1	5,534
Corporate and other bonds	149	1,950	318	34	2,451
Bonds denominated in foreign currencies	1,005	4,117	20	—	5,142
Total	₩4,374	₩21,526	₩2,152	₩65	₩28,117
Held-to-maturity securities:					
Government and public bonds	₩1,501	₩756	₩454	₩29	₩2,740
Finance bonds	150	100	272	—	522
Corporate and other bonds	260	959	858	21	2,098
Bonds denominated in foreign currencies	3	8	15	—	26
Total	₩1,914	₩1,823	₩1,599	₩50	₩5,386

Note:

(1) Includes only bonds on securities available for sale.

Concentrations of Risk

We held no securities of individual issuers where the aggregate book value of those securities exceeded 10 per cent. of our stockholders' equity as of 30 September 2015.

Funding

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

Deposits

Although the majority of our deposits are short-term, it has been our experience that the majority of our depositors generally roll over their deposits at maturity, providing us with a stable source of funding. The following tables show the average balances of deposits and the average rates paid on deposits of us, Korea Exchange Bank and Hana Bank, each on a separate basis, for the periods indicated.

KEB Hana Bank

	Nine Months Ended 30 September 2015		
	Average Balance(1)	Interest Paid(2)	Average Rate Paid (Annualised)
	(In billions of Won, except percentages)		
Demand deposits in Korean won	₩3,069	₩3	0.13%
Time deposits in Korean Won	63,260	856	1.80%
Demand deposits denominated in foreign currency	12,011	5	0.06%
Time deposits in foreign currencies	4,632	26	0.75%
Certificate of deposits	167	2	1.60%
Total	₩83,139	₩892	1.43%

Notes:

(1) Calculated based on the average of the daily ending balances of KEB Hana Bank from 1 September 2015 (the effective date of the Merger) to 30 September 2015 and those of Korea Exchange Bank from 1 January 2015 to 31 August 2015.

(2) Represents the amounts of interest paid by KEB Hana Bank from 1 September 2015 to 30 September 2015 and those by Korea Exchange Bank from 1 January 2015 to 31 August 2015.

Korea Exchange Bank

	Year Ended 31 December					
	2013			2014		
	Average Balance	Interest Paid	Average rate paid	Average Balance	Interest Paid	Average rate paid
	(In billions of Won, except percentages)					
Demand deposits in Korean Won	₩2,106	2	0.09%	₩2,326	2	0.09%
Time deposits in Korean Won	47,017	1,249	2.66%	49,609	1,383	2.79%
Others in Korean Won	17	0	2.35%	14	0	2.14%
Demand deposits denominated in foreign currency	14,389	57	0.40%	15,220	46	0.30%
Certificates of deposits	278	7	2.52%	320	10	3.13%
Total	₩63,807	₩1,315	2.06%	₩67,489	₩1,441	2.14%

Hana Bank

	Year Ended 31 December					
	2013			2014		
	Average Balance	Interest Paid	Average rate paid	Average Balance	Interest Paid	Average rate paid
	(In billions of Won, except percentages)					
Demand deposits	₩4,664	9	0.19%	₩5,280	8	0.15%
Time and savings deposits	101,917	2,805	2.75%	107,228	2,593	2.42%
Certificate of deposits	693	19	2.74%	730	18	2.47%
Total deposits	₩107,274	₩2,833	2.64%	₩113,238	₩2,619	2.31%

Maturities of Deposits

The following table presents, as of 30 September 2015, the remaining maturities of our deposits.

	As of 30 September 2015						
	On demand	Less than 1 month	1 — 3 months	3 months — 1 year	1 year — 5 years	More than 5 years	Total
	(In billions of Won)						
Deposits................	₩89,720	₩17,365	₩28,370	₩59,720	₩7,975	₩2,120	₩205,270

Other Funding Sources

We also acquire funding through borrowings (including from other financial institutions, the Bank of Korea, other Government-affiliated funds and entities and other lenders, call money, bonds sold under repurchase agreements and bills sold) and debentures (including senior and subordinated debentures). The following tables present our borrowings and debentures as of 30 September 2015:

Borrowings

	As of 30 September 2015	
	Balance Outstanding	Interest Rate
	(In billions of Won, except percentages)	
Borrowing in Korean Won:		
Borrowing from Bank of Korea	₩1,984	0.50~0.75%
Borrowing from government	2,764	0.00~3.10%
Other borrowings	1,275	0.00~4.25%
Sub-total	₩6,022	—
Borrowing in foreign currencies:		
Bank overdrafts	514	0.00~18.38%
Other borrowings	10,190	0.00~4.90%
Sub-total	₩10,704	—
Call money:		
Call money in Korean Won	—	—
Call money in foreign currencies	1,502	0.12~0.70%
Sub-total	₩1,502	—
Bonds sold under repurchase agreements:		
Bonds sold under repurchase agreements in Korean Won	0	0.00~3.95%
Bonds sold under repurchase agreements in foreign currencies	499	0.22~3.14%
Sub-total	₩500	—
Others:		
Bills sold	126	0.90~2.24%
Total	₩18,854	—

Debentures

	As of 30 September 2015	
	Balance Outstanding	Interest Rate
	(In billions of Won, except percentages)	
Debentures in Korean Won:		
Debentures	₩6,790	1.82~3.95%
Subordinated bonds	4,352	3.07~3.98%
Net loss on fair value hedges (current period)	(2)	
Net loss on fair value hedges (previous periods)	5	
(Less present value discount)	(26)	
Sub-total	₩11,119	—
Debentures in foreign currencies:		
Debentures	6,410	1.75~4.88%
Subordinated bonds	956	4.25~4.63%
Net loss on fair value hedges (current period)	39	
Net loss on fair value hedges (previous periods)	60	
(Less present value discount)	(23)	
Sub-total	₩7,441	—
Total	₩18,560	—

RISK MANAGEMENT

As a financial services provider, we are exposed to various risks related to our lending and trading businesses, our deposit-taking activities and our operating environment. We strive to maintain a comprehensive system of risk management to understand, measure and monitor such risks in order to ensure the soundness of our assets and stabilise long-term profitability. With the Merger, which became effective 1 September 2015, we have further strengthened our risk management system to better serve these goals.

Our Risk Management Group monitors and manages our risk exposure and directly implements and ensures compliance with our risk policies and guidelines at an operational level. It reports to our Risk Management Committee and our Risk Management Steering Committee and is divided into three departments:

- the credit risk management department, which is responsible for credit risk and credit concentration risk;

- the credit review department, which is responsible for planning and executing credit review policies; and

- the integrated risk management department, which is responsible for market risk, operational risk and other risks.

Our Risk Management Committee, comprised of three Outside Directors and two Non-Standing Directors, is the centralised body ultimately responsible for risk management. It provides board-level direction regarding risk management strategies and policies and reports to our board of directors. Our Risk Management Steering Committee, consisting of the Heads of six Groups (Risk Management Group, Global Business Group, Marketing Group, Management Planning Group, Credit Group and Financial Markets Group), reports directly to the Risk Management Committee and our president and chief executive officer, and works with our Risk Management Group to implement the execution of these strategies and policies.

Credit Risk Management

Credit Risk Assessment and Management

Credit risk is the risk of losses in the event of borrower defaults. Our policy objectives in credit risk management are to improve asset quality, reduce non-performing loans and minimise credit concentration risk through diversified, balanced and risk-weighted loan portfolios. To this end, we manage credit risk by establishing credit risk limits, assessing current risk levels and monitoring the status of borrowers, including their compliance with risk limits, asset quality, default rate and level of risk exposure.

We assess and manage all types of credit exposures, including loans, guarantees, investment securities and derivative products. The current level of credit risk is determined by "expected" and "unexpected" loss levels. We calculate the expected loss level based on the probability of default, the loss given default and the exposure at default, and use the measured expected loss to determine interest rates and provision levels in relation to new or renewed credits. The unexpected loss level, which incorporates the possibility of fluctuations in the expected loss level, is calculated by the Advanced Internal Rating-Based method as proposed by the Basel Committee for internal control purposes and by a risk-weighted method approved by the FSS for use with regard to external regulations.

Credit Evaluation and Approval

In general, we evaluate the credit of every loan applicant and guarantor before approving any loans. The evaluation and approval process differs depending on whether the loan is a corporate loan or a retail loan.

Our corporate credit evaluation system assigns credit risk ratings to corporate borrowers by measuring and analysing various quantitative and qualitative risk factors. After a preliminary credit rating is generated in light of the borrower's probability of default and past ratings, the rating is adjusted based on the borrower's ownership structure, corporate history, outlook, contingent liabilities, credit history and other special considerations to produce a final credit rating. We may apply different models tailored to specific characteristics of the potential borrower to make the rating more predictive and ensure a more stable calculation of the probability of default. Evaluation results are used to determine loan approval and loan size and to set loan limits at the industry level and the individual loan account level.

Retail exposure consists of secured exposures (consisting primarily of housing loans) and other unsecured exposures. For evaluating and approving retail credit applications, we use a probability of default segmentation system that classifies retail exposures to appropriate asset categories based on borrower- and transaction-specific characteristics and arrears information. The system is designed to form asset categories consisting of exposures with similar risk characteristics and reclassifies exposures when there is reason for significant changes in the probability of default.

Market Risk Management — Non-Trading Activities

Liquidity Risk Management

Liquidity risk is the risk of insolvency, default or loss due to disparities between inflow and outflow of funds. It includes the risk of having to obtain funds at a high price or having to dispose of securities at an unfavourable price due to lack of available funds. We seek to minimise liquidity risk through early detection of risk factors related to sourcing and managing funds and by maintaining an appropriate level of liquidity through systematic management.

Our liquidity risk management covers all classes of assets and liabilities on and off the balance sheet that are related to capital inflows and outflows. Liquidity risk is managed in accordance with the risk limits and guidelines established internally and by relevant regulatory authorities. Pursuant to principal regulations applicable to banks as promulgated by the FSC, we are required to keep a specific Won currency liquidity coverage ratio and a foreign currency liquidity coverage ratio and we must maintain relevant ratios above certain minimum levels. In addition, we use a customer behaviour model for more advanced forecasting of asset and liability maturities and manage a contingency plan for timely response to liquidity crises.

The following tables show our liquidity status and limits for Won and foreign currency accounts (including derivatives), on a separate basis, as of 30 September 2015, in accordance with FSC regulations.

	As of 30 September 2015							
Accounts Denominated In Won	**0-1 Month**	**1-3 Months**	**3-6 Months**	**6-12 Months**	**1-3 Years**	**Over 3 Years**	**Substandard or Below**	**Total**
	(In billions of Won, except percentages)							
Assets	—	₩41,649	₩21,483	₩45,733	₩48,067	₩55,223	₩21,227	₩233,382
Liabilities........	—	52,307	27,816	31,224	9,703	7,059	103,514	231,623
Liquidity gap ..	—	₩(10,658)	₩(6,333)	₩14,509	₩38,364	₩48,164	₩(82,287)	₩465,005
Liquidity ratio.	—	79.6%	77.2%	146.5%	495.4%	782.3%	20.5%	100.8%

Accounts Denominated in Foreign Currencies	As of 30 September 2015					
	0-3 Months	3-6 Months	6-12 Months	Over 1 Year	Substandard or Below	Total
	(In millions of U.S.$, except percentages)					
Assets	$25,940.0	$4,884.0	$3,930.0	$8,738.0	$10,423.0	$53,915.0
Liabilities	15,746	5,086	3,239	6,865	24,735	55,671
Liquidity gap	$10,194.0	$(202.0)	$691.0	$1,873.0	$(14,312.0)	$(1,756.0)
Liquidity ratio	164.7%	96.0%	121.3%	127.3%	42.1%	96.8%

Market Risk Management — Trading Activities

Trading activities we recognise as entailing market risk exposure include:

- trading activities for our account to realise short-term profits in debt and equity markets and foreign exchange markets based on short-term forecast of changes in the market situation; and

- trading activities involving derivatives, such as swaps, forwards, futures and option transactions, to realise profits primarily from arbitrage transactions and, to a lesser extent, from selling derivative products to our customers and to hedge market risk incurred from those activities.

Our Risk Management Committee decides the overall price risk ceiling and distributes appropriate risk limits to each trading activity.

The main instrument we use to measure and monitor market risk exposure is the value at risk ("**VaR**") method. A VaR is a statistically estimated maximum amount of loss that can occur for a given holding period. We currently use the 10-day 99% confidence level-based VaR for purposes of calculating our "economic" capital used for internal management purposes, which is a concept used in determining the amount of our requisite capital in light of the market risk, and stressed VaR for purposes of calculating the regulatory capital used in reporting to the FSS. We also perform stress testing to assess market risk exposure to abnormal market fluctuations and use the one-day 99% confidence level-based VaR on a supplemental basis for purposes of setting and managing risk limits specific to each desk or team in our operating units as well as for back-testing purposes.

The following table presents an overview of market risk from our trading activities, measured by VaR on a separate basis, as of 30 September 2015.

	Trading Profit VaR for the Nine Months Ended 30 September 2015		
	Average	Minimum	Maximum
	(In billions of Won)		
Interest Rate Risk	₩30	₩20	₩41
Foreign currency risk	140	91	204
Stock price risk	14	5	29
Option risk	3	1	5
Total Risk (1)	₩143	₩106	₩201

Notes:

(1) Reflects correlation of risk factors and volatility on the moving average method. The calculation of the total risk VaR takes into consideration the correlation and diversification effects between each risk factor and therefore, it is not the same as the total VaRs.

Price Risk Management

Price risk is the risk of holding or taking positions in equities and equity-related derivatives' delta equivalent position. We separate price risk due to general market variables such as stock prices, exchange rates and interest rates from price risk due to events that only affect particular issuers.

Our trading equity portfolio consists of stocks listed on the KRX KOSPI Market or the KRX KOSDAQ Market and nearest-month or second nearest-month futures contracts under strict limits on diversification as well as limits on positions. We have been particularly focused on managing risk in these equities due to the level of volatility in the Korea stock market. On a separate basis, we held ₩31.4 billion of equity securities denominated in Won in our trading account as of 30 September 2015.

Interest Rate Risk Management

Interest rate risk arises when interest rate fluctuations cause unexpected changes in the value of rate sensitive assets and liabilities. The principal objectives of our interest rate risk management are to generate stable net interest income and to protect our net asset value against such fluctuations.

We monitor and manage our interest rate risk based on various analytical measures such as interest rate gap, duration gap and net portfolio value and net interest income simulations, and also monitor our interest rate VaR limits, interest rate earnings at risk ("**EaR**") limits and interest rate gap ratio limits on a monthly basis. Using the standard framework established by the Bank for International Settlements, we measure our interest rate VaR and interest rate EaR based on simulated estimations of the maximum decrease in net asset value and net interest income in a one-year period based on various scenario analyses of historical interest rates. Our integrated risk management department monitors compliance with interest rate risk exposure limits set by our Risk Management Committee.

Operational and Other Risk Management

Operational Risk Management

We define operational risk broadly to include all financial and non-financial risks, other than credit and market risk, resulting from inadequate internal processes, personnel and systems or from external events. This includes legal risk, but excludes strategic and reputational risk.

Through our operational risk management, we strive to not only satisfy regulatory requirements, but also provide internal support through the cultivation of a strong risk management culture, reinforcement of internal controls, improvement of work processes and provision of timely feedback to our management members and staff. We regularly measure operational risk and refine operational risk policies and procedures to manage and control the level of risk arising from changes in operational environment and internal control. In addition, we maintain a risk and control self-assessment (RCSA) system to ensure proper monitoring and measurement of operational risk in each of our business groups and have internal control managers in all of our departments and branches to update such self-assessments on a quarterly basis.

Other Risk Management

Other risks include strategic and reputational risks. As these risks are difficult to quantify, we use qualitative risk and control self-assessments to monitor and limit the level of risk.

MANAGEMENT AND EMPLOYEES

Management

Board of Directors

Our board of directors has the ultimate responsibility for managing our affairs. The board currently comprises two Standing Directors, three Non-Standing Directors and five Outside Directors.

Our articles of incorporation provide that the board must have at least five and up to eleven directors. Standing directors must comprise less than 50 per cent. of the total number of directors. Each standing director is elected for a term of office up to three years as decided in the meeting of shareholders, and each outside director is elected for a term of office up to two years. These terms are subject to the Korean Commercial Code, the Bank Act and related regulations. Each director may be re-elected, subject to these laws and regulations.

Our board of directors meets regularly on a quarterly basis to discuss and resolve various corporate matters. The board may also convene for additional extraordinary meetings at the request of any of the directors.

The names and positions of our directors are set forth below. The business address of all of the directors is our registered office at 66 Eulji-ro, Jung-gu, Seoul, Korea.

Standing Directors

As of the date of this Offering Circular, we had two Standing Directors, who are full-time employees of the Bank and hold executive positions as below.

Name	Age	Position	Officer Since	Term Ends
Young Joo HAM ..	59	President and Chief Executive Officer	1 September 2015	March 2017
Kwang-sig KIM ...	57	Standing Audit Committee Member	1 September 2015	March 2017

Mr. Young Joo HAM, age 59, has served as our President and CEO since 1 September 2015. Prior to serving as our President and CEO, he worked as deputy president of the Chungchong business group of Hana Bank. Mr. Ham has an undergraduate degree from Dankook University in accounting.

Mr. Kwang-sig KIM, age 57, has served as our Standing Member of Audit Committee since 1 September 2015. Prior to serving as our Standing Director, he was the Standing Audit Committee Member of Hana Bank. Mr. Kim has an undergraduate degree from Yonsei University in business administration.

Non-Standing Directors

As of the date of this Offering Circular, we had three Non-Standing Directors, who are neither full-time employees of the Bank nor hold an executive position with the Bank but are otherwise affiliated with the Bank, as below.

Name	Age	Position	Director Since	Date Term Ends	Position outside the Bank
Jung-tai KIM............	63	Non-Standing Director	1 September 2015	March 2017	Chairman, Hana Financial Group
Han Jo KIM	59	Non-Standing Director	1 September 2015	March 2016	Vice Chairman, Hana Financial Group
Byong-ho KIM	54	Non-Standing Director	1 September 2015	March 2017	Vice Chairman, Hana Financial Group

Outside Directors

Our Outside Directors are selected based on their experience and knowledge in diverse areas, which include law, finance, economics, management and accounting. We currently have five Outside Directors, all of whom were nominated by the Outside Director Candidate Recommendation Committee and approved by our shareholders. As of the date of this Offering Circular, our outside directors are as follows:

Name	Age	Position	Director Since	Term Ends
Joo Song KIM..............	68	Outside Director (Chairman)	13 March 2012	March 2016
Young June KWON.......	63	Outside Director	13 March 2012	March 2016
Young Rok CHEONG....	57	Outside Director	1 September 2015	March 2016
Yoon HEO	52	Outside Director	26 March 2015	March 2017
Ki Jeong HAN	51	Outside Director	1 September 2015	March 2016

Board Practices

Committees of the Board of Directors

We currently have five management committees that serve under the board:

- Audit Committee;
- Audit Committee Member Candidate Recommendation Committee;
- Evaluation and Compensation Committee;
- Outside Director Candidate Recommendation Committee; and
- Risk Management Committee.

The board appoints each member of the above committees except for members of the Audit Committee, who are elected by our shareholders at the annual general meeting.

Audit Committee

The Audit Committee consists of three Outside Directors, Mr. Young June Kwon, Mr. Ki Jeong Han and Mr. Yoon Heo and one Standing Director, Mr. Kwang-sig Kim. The chairman is Mr. Young June Kwon. This committee reviews all audit and compliance-related matters and makes recommendations to our board. It is also responsible for the following:

- establishing, executing and evaluating of the results of our internal audit plan (including business, financial, management, compliance and IT audits);
- appointing and/or dismissing the general manager of our auxiliary audit division;
- evaluating our internal control system; and
- appointing and overseeing our outside auditors and setting internal procedures or making decisions on matters that are related to auditing.

The committee holds regular meetings quarterly.

The names and positions of our executive officers as of the date of this Offering Circular are set out below. All of our executive officers are employed on a full-time basis.

Name	Age	Position	Executive Officer Since	Term Ends
Young Joo HAM	59	President and Chief Executive Officer	1 September 2015	March 2017
Jung Ki KIM	53	Deputy President	1 September 2015	31 December 2016
In San HWANG	55	Deputy President	1 September 2015	31 December 2016
Kyu Seon YOON	55	Deputy President	1 September 2015	31 December 2016
Seok Hee YUN	54	Deputy President	1 September 2015	31 December 2016
Je Bong YOO	53	Deputy President	1 January 2016	31 December 2016
Jong Young PARK	54	Deputy President	1 September 2015	31 December 2016
Jae Young KIM	52	Senior Managing Director	1 January 2016	31 December 2016
Hyo Sang HWANG	55	Senior Managing Director	1 January 2016	31 December 2016
Jeong Hee CHUNG	57	Senior Managing Director	1 September 2015	31 December 2016
Seong Muk KANG	51	Senior Managing Director	1 January 2016	31 December 2016
Jun Seong HAN	49	Senior Managing Director	1 September 2015	31 December 2016
Sang Young OH	57	Senior Managing Director	1 September 2015	31 December 2016
Yong Min SONG	57	Senior Managing Director	1 September 2015	31 December 2016
Chang Hoon KANG	54	Senior Managing Director	1 January 2016	31 December 2016
Young Keun ANN	54	Senior Managing Director	1 January 2016	31 December 2016
Si Wan YOO	53	Senior Managing Director	1 September 2015	31 December 2016
Chun Sik CHONG	52	Senior Managing Director	1 January 2016	31 December 2016
Hyung Ill LEE	52	Senior Managing Director	1 January 2016	31 December 2016
Ho Seoung LEE	51	Senior Managing Director	1 January 2016	31 December 2016

Brief biographies of the members of our executive officers are set forth below:

Mr. Jung Ki KIM, Deputy President, age 53, has served as our Deputy President since 1 September 2015 and has been in charge of the retail customer support group since 1 January 2016. Prior to the current position, he worked as the deputy president in charge of our marketing group. Mr. Kim has an undergraduate degree from Korea University in business administration and a master's degree from Korea Advanced Institute of Science and Technology in financial engineering.

Mr. In San HWANG, Deputy President, age 55, has served as our Deputy President since 1 January 2016. Prior to the current position, he worked as the senior managing director in charge of our Kyunggi business group. Mr. Hwang has an undergraduate degree and a master's degree from Korea University in business administration.

Mr. Kyu Seon YOON, Deputy President, age 55, has served as our Deputy President since 1 January 2016. Prior to the current position, he worked as senior managing director of our West Seoul business group. Mr. Yoon has an undergraduate degree from Korea University in economics.

Mr. Seok Hee YUN, Deputy President, age 54, has served as our Deputy President since 1 January 2016. Prior to the current position, he worked as senior managing director of our Busan business group. Mr. Yun has an undergraduate degree from Hankuk University of Foreign Studies in Chinese.

Mr. Je Bong YOO, Deputy President, age 53, has served as our Deputy President since 1 January 2016. Prior to the current position, he worked as vice president of Zhongmin International Financial Leasing. Mr. Yoo has an undergraduate degree from Seoul National University in international economics and a master's degree from Tsinghua University in business administration.

Mr. Jong Young PARK, Deputy President, age 54, has served as our Deputy President since 1 January 2016. Prior to the current position, he worked as senior managing director of our treasury group. Mr. Park has an undergraduate degree from Pusan National University in economics.

Mr. Jae Young KIM, Senior Managing Director, age 52, has served as our Senior Managing Director since 1 January 2016. Prior to the current position, he worked as managing director of our change promotion group. Mr. Kim has an undergraduate degree from Hongik University in international trade.

Mr. Hyo Sang HWANG, Senior Managing Director, age 55, has served as our Senior Managing Director since 1 January 2016. Prior to the current position, he worked as managing director of our risk management group. Mr. Hwang has an undergraduate degree from Sungkyunkwan University in statistics and a master's degree from Aalto University School of Business in executive business administration.

Mr. Jeong Hee CHUNG, Senior Managing Director, age 57, has served as our Senior Managing Director since 1 September 2015. Prior to the current position, he worked as senior managing director of overseas business group of Korea Exchange Bank. Mr. Chung has an undergraduate degree from Dongguk University in English literature.

Mr. Seong Muk KANG, Senior Managing Director, age 51, has served as our Senior Managing Director since 1 January 2016. Prior to the current position, he worked as managing director of our Daejeon business group. Mr. Kang has an undergraduate degree from Sogang University in sociology.

Mr. Jun Seong HAN, Senior Managing Director, age 49, has served as our Senior Managing Director since 1 September 2015. Prior to the current position, he worked as senior managing director of future finance business group of Hana Bank.

Mr. Sang Young OH, Senior Managing Director, age 57, has served as our Senior Managing Director since 1 September 2015. Prior to the current position, he worked as head of business support group of Korea Exchange Bank. Mr. Oh has an undergraduate degree from Konkuk University in economics.

Mr. Yong Min SONG, Senior Managing Director, age 57, has served as our Senior Managing Director since 1 September 2015. Prior to the current position, he worked as managing director in charge of the Kyunggi business group of Hana Bank. Mr. Song has an undergraduate degree from Inha University in business administration.

Mr. Chang Hoon KANG, Senior Managing Director, age 54, has served as our Senior Managing Director since 1 January 2016. Prior to the current position, he worked as managing director of our treasury group. Mr. Kang has an undergraduate degree in economics and a master's degree in public administration from Seoul National University.

Mr. Young Keun ANN, Senior Managing Director, age 54, has served as our Senior Managing Director since 1 January 2016. Prior to the current position, he worked as managing director of our external relations group. Mr. Ann has an undergraduate degree from Soongsil University in international trade.

Mr. Si Wan YOO, Senior Managing Director, age 53, has served as our Senior Managing Director since 1 September 2015. Prior to the current position, he worked as managing director of the information strategy group of Hana Bank. Mr. Yoo has an undergraduate degree from Korea University in mathematics.

Mr. Chun Sik CHONG, Senior Managing Director, age 52, has served as our Senior Managing Director since 1 January 2016. Prior to the current position, he worked as managing director of our Incheon business group. Mr. Chong has an undergraduate degree from Korea Maritime and Ocean University in shipping management.

Mr. Hyung Ill LEE, Senior Managing Director, age 52, has served as our Senior Managing Director since 1 January 2016. Prior to the current position, he worked as managing director of our private banking business group. Mr. Lee has an undergraduate degree and a master's degree from Seoul National University in business administration.

Mr. Ho Seoung LEE, Senior Managing Director, age 51, has served as our Senior Managing Director since 1 January 2016. Prior to the current position, he worked as managing director of our Gangnam Seocho business group. Mr. Lee has an undergraduate degree from Kyung Hee Cyber University in asset management.

Employees

As of 30 September 2015, on a separate basis, we had a total of 16,208 employees consisting of 14,206 full-time employees and 2,002 contract-based employees. Employee compensation is based on a combination of base salary and wages, overtime and periodic bonuses. Bonuses are paid based on individual performance and business unit performance. We grant members of our full-time employees annual increases in base salary. For the nine months ended 30 September 2015, our salaries and wages, overtime and bonuses on a separate basis amounted to ₩732.5 billion (which represents such expenses of KEB Hana Bank from 1 September 2015 (the effective date of the Merger) to 30 September 2015 and those of Korea Exchange Bank from 1 January 2015 to 31 August 2015). For the year ended 31 December 2014, salaries and wages, overtime and bonuses of Korea Exchange Bank and Hana Bank amounted to ₩908.2 billion and ₩810.7 billion, respectively, which represented 58.1 per cent. and 62.3 per cent., respectively, of the total general and administrative expenses of the respective banks, each on a separate basis. We also provide a wide range of benefits to members of our full-time employees, including medical insurance, employment insurance and life insurance. We believe that our compensation package is similar to that offered by our peer financial institutions. We have not experienced any material strikes or labour disputes in recent years and we consider labour relations with members of our work force to be good. However, there can be no assurance that we will be able to maintain such a working relationship with our employees and will not experience labour disputes resulting from disagreements with the labour unions in the future.

We currently have two labour unions: the Korea Exchange Bank branch of the Korean Financial Industry Union (established in 1960) and the Hana Bank branch of the Korean Financial Industry Union (established in 1982). As of 30 September 2015, 13,671 of our full-time employees were members of the labour unions. Every two years, our management and the labour unions negotiate and enter into a new collective bargaining agreement that has a two-year duration, although annual wage adjustments are negotiated every year. Our current collective bargaining agreement was entered into with both labour unions on 18 November 2014.

In accordance with the National Pension Act, we contribute an amount equal to 4.5 per cent. of employee wages, and each employee contributes 4.5 per cent. of his or her wages into each employee's personal pension account. In addition, in accordance with the Guarantee of Worker's Retirement Benefits Act, we have adopted a retirement pension plan for its employees. Contributions under the retirement pension plan are deposited annually into a financial institution, and an employee may elect to receive a monthly pension or a lump-sum amount upon retirement. Our retirement pension plan is in the form of a defined benefit plan, which guarantees a certain payout at retirement, according to a fixed formula based on the employee's average salary and the number of years for which the employee has been a plan member. Under Korean law, we may not terminate the employment of full-time employees except under certain circumstances.

Shareholders

The following table presents information regarding the beneficial ownership of our common shares as of 30 September 2015 by each person or entity known to us to own beneficially more than 5.0 per cent. of our outstanding common shares.

Except as otherwise indicated, each shareholder identified by name has:

- sole voting and investment power with respect to its shares; and

- record and beneficial ownership with respect to its shares.

Beneficial Owner	Number of Common Shares Owned	% of Ownership
Hana Financial Group	1,071,915,717	100%
Total	1,071,915,717	100%

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

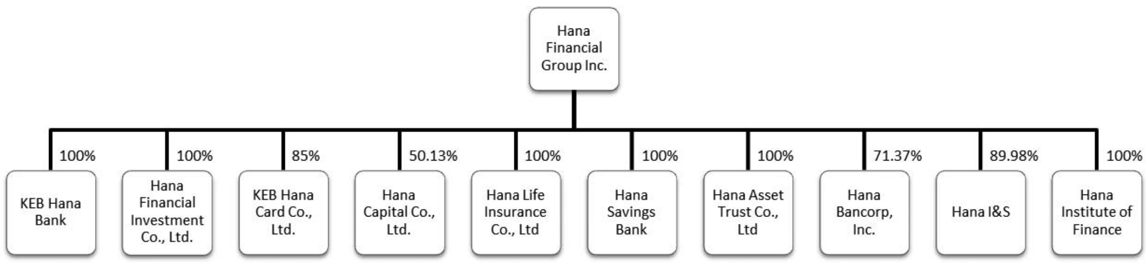
As of 30 September 2015, there were no loans outstanding made by us to the members of our board of directors or our executive officers. There are no guarantees provided by us and our consolidated subsidiaries for the benefit of any of our directors or executive officers. None of the directors or executive officers has or has had any interest in any transactions effected by us which are or were unusual in their nature or conditional or significant to our business and which were effected during the current or immediately preceding year or were effected during an earlier year and remain in any respect outstanding or unperformed.

As a subsidiary of Hana Financial Group, we engage from time to time in ordinary course of business activities with other subsidiaries of Hana Financial Group, including cross-selling activities. See Note 51 of the notes to the Bank's interim consolidated financial statements included in this Offering Circular.

HANA FINANCIAL GROUP

Hana Financial Group was established on 1 December 2005 through a share transfer in accordance with the Commercial Act of Korea and the Financial Holding Companies Act. After obtaining the necessary approvals from the FSC, the shareholders of Hana Bank, Hana Financial Investment Co., Ltd. (formerly Daehan Investment & Securities Co., Ltd.; "**Hana Financial Investment**"), Hana Information & System Co., Ltd. ("**Hana I&S**") and Hana Institute of Finance (together, the "**Original HFG Subsidiaries**") transferred all of their common shares in the Original HFG Subsidiaries to the newly formed Hana Financial Group in exchange for common shares of Hana Financial Group in proportion to their respective shareholdings in the relevant Original HFG Subsidiaries. On 12 December 2005, the common shares of Hana Financial Group were listed on the Korea Exchange.

The Bank and Hana Financial Investment serve as the main distribution channels for Hana Financial Group. Through the network of 851 domestic branches of the Bank, 17 overseas branches of the Bank and 67 domestic branches of Hana Financial Investment, each as of 30 September 2015, Hana Financial Group delivers a wide range of financial products and services to customers, while KEB Hana Card, Hana Capital, Hana Life and Hana Asset Trust (all as defined below) focus their efforts on developing innovative financial products. The following is the organisational chart of Hana Financial Group:



Hana Financial Investment

Hana Financial Investment (renamed on 1 September 2015 from Hana Daetoo Securities Co., Ltd.) is a wholly owned subsidiary of Hana Financial Group, engaged in the asset management and investment banking business. On 31 May 2005, Hana Bank acquired 100 per cent. of the outstanding common shares of Hana Financial Investment from the Korea Deposit Insurance Corporation for ₩475 billion. Hana Financial Investment was incorporated in January 1977 as an asset management company. In connection with the establishment of Hana Financial Group, Hana Bank transferred all of the outstanding common shares of Hana Financial Investment to Hana Financial Group on 1 December 2005, for 16,278,619 common shares of Hana Financial Group. On 1 December 2008, Hana Financial Investment expanded its business into investment banking by merging with Hana Investment Bank.

KEB Hana Card

KEB Hana Card Co., Ltd. ("**KEB Hana Card**") provides credit cards and other related services as permitted under the Specialized Credit Financial Business Act. It was incorporated in October 2009 as a result of a spin-off of Hana Bank's credit card business. Pursuant to the spin-off plan, Hana Bank transferred to Hana Card Co., Ltd., a newly formed company, the assets and liabilities related to Hana Bank's credit card business (other than those relating to corporate purchase cards, which were retained by Hana Bank), and all common stock of Hana Card Co., Ltd. was distributed to Hana Financial Group. On 11 December 2009, Hana Financial Group entered into a joint investment agreement with SK Telecom, a Korean telecommunications services company, pursuant to which SK Telecom acquired a 49 per cent. equity interest in Hana Card Co., Ltd. for ₩400 billion on 25 February 2010, and Hana Card Co., Ltd. was renamed Hana SK Card Co., Ltd. On 1 December 2014, Hana SK Card Co., Ltd. merged with and into the credit card business spun off from Korea Exchange Bank, and the surviving entity from the merger was renamed KEB Hana Card. As of 30 September 2015, Hana Financial Group owned 85 per cent. of KEB Hana Card, while the remaining 15 per cent. was held by SK Telecom.

Hana Capital

Established in February 1987, Hana Capital Co., Ltd. ("**Hana Capital**") provides facility leasing, instalments, and personal loans to consumers. Originally a member company of the Kolon Group, Hana Capital became a subsidiary of Hana Bank in 2004. Following the formation of the Hana Financial Group, Hana Bank transferred all of its common shares of Hana Capital to Hana Financial Group. As of 30 September 2015, Hana Capital was 50.13% owned by Hana Financial Group, 37.81% by Kolon Industries Inc. and 6.47% by Woong-yeul Lee, the chairman of the Kolon Group.

Hana Life

Hana Life Insurance Co., Ltd. ("**Hana Life**") engages in the life insurance business and sells life insurance products through the Bank's branch network. Hana Life was incorporated in November 1991 under the name of France Life Insurance Company and was acquired by Allianz AG in 1998. On 21 February 2003, Hana Bank acquired 50.0 per cent. of the issued share capital of France Life Insurance Company and changed its name to Hana Life Insurance Co., Ltd. In 2007, Hana Bank acquired the remaining 50.0 per cent. stake in Hana Life from Allianz AG and subsequently contributed all of its shares of Hana Life to Hana Financial Group. In March 2008, Hana Financial Group formed a strategic alliance with HSBC Insurance (Asia-Pacific) Holdings Limited ("**HSBC Insurance**") and sold a 50.0 per cent. minus one share stake in Hana Life to HSBC Insurance. In May 2013, following HSBC Insurance's decision to exit the Korean market, Hana Financial Group reacquired the 50.0 per cent. minus one share stake in Hana Life from HSBC Insurance, and Hana Life again became a wholly-owned subsidiary of Hana Financial Group.

Hana Savings Bank

Hana Savings Bank was incorporated on 25 January 2012 upon Hana Financial Group's acquisition of certain assets and liabilities of Jeil II Savings Bank and Ace Mutual Savings Bank. In September 2012, Hana Savings Bank acquired Korea Savings Bank. Hana Savings Bank provides a range of deposit products and small-loan finance services and operates 11 branches located in Korea.

Hana Asset Trust

Established in 2004, Hana Asset Trust Co., Ltd. (formerly Hana Daol Trust Co., Ltd.; "**Hana Asset Trust**") provides real estate trust products and related services.

Hana Bancorp, Inc.

Hana Bancorp, Inc., formerly BNB Financial Services Corporation, was established on 8 April 1988 in the United States to conduct banking business. Its wholly-owned operating company, BNB Hana Bank, N.A. is a commercial bank serving individuals and retail businesses in New York City and Northern New Jersey areas. On 30 August 2013, Hana Financial Group acquired 52.29 per cent. of the total issued and outstanding shares of BNB Financial Services Corporation and changed the company's name to Hana Bancorp, Inc. Hana Financial Group subsequently increased its stake in Hana Bancorp, Inc., and as of 30 September 2015, Hana Financial Group held 71.37 per cent. of the total issued and outstanding shares of Hana Bancorp, Inc., with the remaining shares held by individual minority shareholders.

Hana I&S

Hana I&S was established in August 1990 as a subsidiary of Hana Bank. Hana I&S develops and maintains the IT systems of the member companies of Hana Financial Group as well as other third party clients. In connection with the establishment of Hana Financial Group, Hana Bank transferred all of the outstanding common shares of Hana I&S to Hana Financial Group on 1 December 2005, for 178,442 common shares of Hana Financial Group. As of 30 September 2015, Hana Financial Group owned 89.98 per cent. of Hana I&S, with the remaining 10.02 per cent. held by DPR International Investments LLC, an investment arm of U.S.-based DPR Construction.

Hana Institute of Finance

Hana Institute of Finance serves as the research and analysis arm of Hana Financial Group. Besides publishing up to date reports on the latest economic trends and issues, Hana Institute of Finance collects and analyses information concerning various industries, corporations and financial markets to support the business activities of the member companies of Hana Financial Group. Established in June 1987, Hana Institute of Finance became a subsidiary of Hana Bank in August 1991. In connection with the establishment of Hana Financial Group, all of the outstanding common shares of Hana Institute of Finance held by Hana Bank were transferred to Hana Financial Group on 1 December 2005, for 48,699 common shares of Hana Financial Group.

Principal Shareholders of Hana Financial Group

The following table sets out certain information regarding the ownership of Hana Financial Group's common shares as of 30 September 2015. Each entity known to the Bank to beneficially own more than 5.0 per cent. of the outstanding common shares of Hana Financial Group is listed below.

Beneficial Owner	Number of Common Shares Owned	% of Ownership
Korea National Pension Fund..........	27,699,223	9.36%
Franklin Resources, Inc.	23,930,660	8.08%

THE KOREAN BANKING INDUSTRY

Unless otherwise expressly stated, the information and statistics set out in this section are derived from publicly available information, including materials published by the FSC. No further verification has been made by the Issuer or any of its affiliates or advisers.

The banking sector in Korea can be divided into two broad categories: commercial banks and specialised banks. Commercial banks serve both the general public and corporate sectors. As of 30 September 2015, commercial banks consisted of six national banks (including the Issuer), all of which have branch networks throughout Korea, six regional banks and 39 foreign banks operating in Korea. The names of national banks and regional banks are provided in the table set forth below. Regional banks provide services similar to national banks, but used to operate in a geographically restricted region until such restriction was abolished on 27 November 1998. Domestic branches of foreign banks have operated in Korea since 1967, but provide a relatively small proportion of Korea's banking services.

Classification	Number	Bank Names
National banks	6	KEB Hana Bank, Kookmin Bank, Shinhan Bank, Woori Bank, Citibank Korea, Standard Chartered First Bank Korea
Regional banks	6	Daegu Bank, Pusan Bank, Jeonbuk Bank, Kwangju Bank, Kyongnam Bank, Jeju Bank

Amongst these, KEB Hana Bank, Shinhan Bank, Kookmin Bank and Woori Bank are the major banking flagships of their respective financial holding companies, established pursuant to the Korean Commercial Code and the Financial Holding Company Act to facilitate cross-selling opportunities between traditional banking and non-banking operations and promoting improved resources allocation and capital efficiency.

As in most countries, commercial banks in Korea engage in a wide range of business. Their core activities include taking deposits, extending loans and discounts, remittances, collections and foreign exchange. They also provide guarantees and acceptances, and conduct own-account securities investment. In addition, many commercial banks have been expanding their businesses into non-interest, fee-based businesses such as bancassurance and fund sales. Specific authorisation is required for each area of non-bank business in which they engage such as the trust and credit card businesses. Bank funding in Korea has traditionally been deposit based since long-term domestic borrowings are limited, the short-term money market is relatively illiquid and foreign borrowings are regulated by the Government.

Specialised banks meet the needs of specific sectors of the economy in accordance with Korean government policy. These banks are organised under, or chartered by, special laws. There are five specialised banks:

- The Korea Development Bank;
- The Export-Import Bank of Korea;
- Industrial Bank of Korea;
- National Agricultural Cooperatives Federation; and
- National Federation of Fisheries Cooperatives.

The economic difficulties in 1997 and 1998 caused Korean banks' non-performing assets to increase and their capital adequacy ratios to decline. From 1998 to 2003, the FSC amended banking regulations several times to adopt more stringent definitions for non-performing loans that more closely followed international standards. These new definitions increased the level of non-performing loans held by banks and other financial institutions. The following table sets forth the total loans and non-performing assets of the national and regional banks in Korea at year-end from 2003 through 31 December 2014.

	Total Loans	Non-Performing Assets(1)	% of Total
	(In trillions of ₩)		
31 December 2003	₩499.5	₩10.8	2.2%
31 December 2004	512.3	10.1	2.0%
31 December 2005	548.0	7.0	1.3%
31 December 2006	645.4	5.8	0.9%
31 December 2007	733.5	5.4	0.7%
31 December 2008	855.1	9.9	1.2%
31 December 2009	842.6	9.8	1.2%
31 December 2010	858.8	15.9	1.9%
31 December 2011	900.1	11.5	1.3%
31 December 2012	899.0	11.5	1.3%
31 December 2013	920.9	15.7	1.7%
31 December 2014	972.7	13.5	1.4%

Source: FSS.
Note:

(1) Loans classified as substandard and below.

According to the FSS, the aggregate net profit of the national and regional banks in Korea increased from ₩4.9 trillion in 2013 to ₩5.3 trillion in 2014. The average of return on assets for the national and regional banks, which represents the aggregate net profit divided by average total assets excluding trust accounts, increased from 0.37 per cent. in 2013 to 0.39 per cent. in 2014. The return on equity for such banks was approximately 4.9 per cent. in 2013 and 5.2 per cent. in 2014.

Principal Regulations Applicable to Banks

Capital Adequacy and Allowances

The Bank Act requires national banks, such as the Issuer, to maintain a minimum paid-in capital of ₩100 billion and regional banks to maintain a minimum paid-in capital of ₩25 billion. All banks, including foreign bank branches in Korea, are also required to maintain a prescribed solvency position. A bank must also set aside in its legal reserve an amount equal to at least 10 per cent. of the net income after tax each time it pays dividends on net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

Under the Bank Act, the capital of a bank is divided into two categories, Tier I and Tier II capital. Tier I capital (core capital) consists of shareholders' equity, capital surplus, retained earnings, the foreign exchange spread among the comprehensive aggregate of other profit/loss amounts, unissued stock dividends and hybrid Tier I capital instruments. Tier II capital (supplementary capital) includes revaluation reserves, gains on valuation of investment securities (up to certain limits), allowance for loan losses set aside for loans classified as normal or precautionary (up to certain limits), perpetual subordinated debt, cumulative preferred shares, 70 per cent. of the amount of tangible assets and investment real estate revaluation earnings subject to restrictions on dividend distributions by the board of directors, redeemable preferred shares with redemption rights after the fifth anniversary of their date of issuance and certain other subordinated debt.

All banks must meet minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with FSC requirements that have been formulated based on BIS standards. These standards were adopted and became effective in 1996. All domestic banks and foreign bank branches must meet a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8 per cent.

The FSC amended the Detailed Rules on the Supervision of the Banking Business and, as a result, the following risk-weight ratios must be applied by Korean banks in respect of home mortgage loans:

(1) for banks which adopted a standardised approach for calculating credit risk capital requirements, to the extent that a mortgage obtained in relation to a home mortgage loan is a first priority mortgage, a risk-weight ratio of 35 per cent. shall apply, provided that a higher risk-weight ratio may be applied to home mortgage loans subject to certain exceptions; and.

(2) for banks which adopted an internal ratings-based approach for calculating credit risk capital requirements, a risk-weight ratio calculated with reference to the probability of default, loss given default and exposure at default (each term as defined under the Detailed Rules on the Supervision of the Banking Business).

Under the Regulation on the Supervision of the Banking Business, banks must generally maintain allowances for credit losses in respect of their outstanding loans and other credits (including trust account loans) in an aggregate amount covering not less than:

- 0.85 per cent. in the case of normal credits comprising loans to corporate borrowers (0.9 per cent. in the case of normal credits comprising loans to borrowers in the "construction", "wholesale and retail", "accommodation and restaurant" and "real estate and rent" industries (as classified under the Korean Industry Classification Standard)), 1.0 per cent. in the case of normal credits comprising loans to individuals and households, 1.1 per cent. in the case of normal credits comprising outstanding credit card receivables and 2.5 per cent. in the case of normal credits comprising outstanding card loans and revolving loans;

- 7.0 per cent. of precautionary credits, 10 per cent. in the case of precautionary credits comprising loans to individuals and households, 40 per cent. in the case of precautionary credits comprising outstanding credit card receivables and 50 per cent. in the case of precautionary credits comprising outstanding card loans and revolving loans;

- 20 per cent. of substandard credits, 60 per cent. in the case of substandard credits comprising outstanding credit card receivables and 65 per cent. in the case of substandard credits comprising outstanding card loans and revolving loans;

- 50 per cent. of doubtful credits, 55 per cent. in the case of doubtful credits comprising loans to individuals and households and 75 per cent. in the case of doubtful credits comprising outstanding credit card receivables, card loans and revolving loans; and

- 100 per cent. of estimated loss credits.

Furthermore, under the Regulation on the Supervision of the Banking Business, Korean banks must establish allowances in respect of any confirmed guarantees (including confirmed acceptances) and outstanding unused credit lines as of the date of settlement in an aggregate amount calculated at the same rates applicable to normal, precautionary, substandard and doubtful credits comprising their outstanding loans and other credits as set out above. See "*—Recent Regulations Relating to Retail Household Loans*".

FSC amended the Regulations concerning the Supervision of the Banking Business as of 28 June 2007 in order to reflect the Basel II (or the new BIS standard) to the Regulations. The amendment became effective as of 1 January 2008. Under the amended Regulations, with respect to the evaluation of the credit risk for the calculation of the required capital ratio, banks may select either the Internal Rating-Based Approach ("**IRB**") established by themselves or the Standard Approach provided by FSC. To select the IRB, a bank has to obtain the approval of the FSC. Under the new BIS standard, there is no change to the market risk, and the evaluation of the operating risk is required in addition to the credit risk and the market risk when calculating the required capital ratio. For the evaluation of the operating risk, banks may select either the Standard Approach, for which no Governmental approval is required, or Advanced Measurement Approaches, for which the Governmental approval is required.

In May 2013, the FSC announced its decision, in conjunction with the Ministry of Strategy and Finance, FSS and the Bank of Korea, to gradually implement Basel III by 1 December 2013. Under the regulations, which came into effect as of 1 December 2013, Korean banks were required to maintain a minimum ratio of Tier I common capital (which principally includes equity capital, capital surplus and retained earnings less reserve for credit losses) to risk weighted assets of 3.5 per cent. and Tier I capital to risk weighted assets of 4.5 per cent. from 2013. Such minimum ratios of Tier I common capital to risk weighted assets and Tier I capital to risk weighted assets were increased to 4.0 per cent. and 5.5 per cent., respectively, from 2014 and 4.5 per cent. and 6.0 per cent., respectively, from 2015. These requirements would be in addition to the existing requirement for a total minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk weighted assets of 8.0 per cent., which remains unchanged. The regulations also contemplate an additional capital conservation buffer of 0.625 per cent. starting from 2016, with such buffer to increase to 1.25 per cent. in 2017, 1.875 per cent. in 2018 and 2.5 per cent. in 2019, respectively.

Liquidity

All banks are required to ensure adequate liquidity by matching the maturities of their assets and liabilities in accordance with the Bank Act. Banks may not invest an amount exceeding 100 per cent. of their Tier I and Tier II capital (less any capital deductions) in stocks, derivatives linked securities and other securities with a maturity of over three years. This stipulation does not apply to Korean government bonds, to bond principal and interest payments guaranteed by the Korean government or to Monetary Stabilisation Bonds issued by the Bank of Korea. The FSC also requires each Korean bank to:

- maintain a liquidity coverage ratio (defined as high liquidity assets divided by net cash outflow of the next one month) of not less than 100 per cent. and to make monthly reports to the FSS;

- maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign currency liabilities due within three months) of not less than 85 per cent.;

- maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days, divided by total foreign currency assets, of not less than 3 per cent.;

- maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month, divided by total foreign currency assets, of not more than 10 per cent.; and

- submit monthly reports with respect to the maintenance of these ratios.

The Monetary Policy Committee of the Bank of Korea is empowered to fix and alter minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratio is:

- 7.0 per cent. of average balances for Won currency demand deposits outstanding;

- 0 per cent. of average balances for Won currency employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding; and

- 2.0 per cent. of average balances for Won currency time deposits, mutual instalments, housing instalments and certificates of deposit outstanding.

Additionally, the FSC is separately empowered to establish minimum reserve ratio requirements that must be accumulated and maintained for certain types of obligations designated by the FSC from time to time.

For foreign currency deposit liabilities, a 2.0 per cent. minimum reserve ratio is applied to savings deposits outstanding and a 7.0 per cent. minimum reserve ratio is applied to demand deposits. A 1.0 per cent. minimum reserve ratio applies to offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

Financial Exposure to Any Individual Customer and Major Shareholder

Under the Bank Act, the sum of large exposures by a bank — in other words, the total sum of its credits to single individuals, juridical persons or business groups that exceed 10 per cent. of the sum of Tier I and Tier II capital (less any capital deductions) — generally must not exceed five times the sum of Tier I and Tier II capital (less any capital deductions). In addition, banks generally may not extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and any other transactions that directly or indirectly create credit risk) in excess of 20 per cent. of the sum of Tier I and Tier II capital (less any capital deductions) to a single individual or juridical person, or grant credit in excess of 25 per cent. of the sum of Tier I and Tier II capital (less any capital deductions) to a single group of companies as defined in the Monopoly Regulations and Fair Trade Act.

Recent amendments to the Bank Act, which became effective on 10 October 2009, strengthened restrictions on extending credits to a major shareholder. A "**major shareholder**" is defined as:

- a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 10 per cent. (or 15 per cent. in the case of regional banks) in the aggregate of the bank's total issued voting shares; or

- a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 4 per cent. in the aggregate of the bank's (excluding regional banks) total issued voting shares (excluding shares subject to the shareholding restrictions on "*non-financial business group companies*" as described below), where the shareholder is the largest shareholder or has actual control over the major business affairs of the bank through, for example, appointment and dismissal of the officers pursuant to the Enforcement Decree of the Bank Act. Non-financial business group companies primarily consist of: (i) any single shareholding group whose non-financial company assets comprise no less than 25 per cent. of its aggregate net assets; (ii) any single shareholding group whose non-financial company assets comprise no less than ₩2 trillion in aggregate; (iii) any mutual fund of which any single shareholding group identified in (i) or (ii) above, owns more than 4 per cent. of the total issued and outstanding shares; or (iv) a private equity fund under the FSCMA which meets certain requirements as prescribed in the Bank Act.

In addition to the existing restrictions which prohibit banks from extending credits to a major shareholder (together with persons who have a special relationship with that shareholder) in an amount greater than the lesser of (x) 25 per cent. of the sum of the bank's Tier I and Tier II capital (less any capital deductions) and (y) the relevant major shareholders' shareholding ratio multiplied by the sum of the bank's Tier I and Tier II capital (less any capital deductions) and require that the total sum of credits granted to all major shareholders must not exceed 25 per cent. of the bank's Tier I and Tier II capital (less any capital deductions), under these amendments, banks may not extend credit to a major shareholder for the purpose of financing such shareholder's investment in other companies or on terms more advantageous to such shareholder. Furthermore, banks may not transfer its assets and/or properties to a major shareholder without being paid a consideration.

The Financial Holding Company Act imposes limits on extending credit to single borrowers and to major capital contributors similar to the limits imposed by the Bank Act with regard to extending credit to single borrowers and major shareholders. The definition of a "**major capital contributor**" under the Financial Holding Company Act, which is similar to the definition used in the Bank Act, is as follows:

- a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 10 per cent. (or 15 per cent. in the case of regional banks) in the aggregate of a bank holding company's total issued voting shares; or

- a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 4 per cent. in the aggregate of a bank holding company's (excluding regional banks) total issued voting shares (excluding shares subject to the shareholding restrictions on "non-financial business group companies" under the Financial Holding Company Act), where the shareholder is the largest shareholder or has actual control over the major business affairs of a bank holding company and its subsidiaries, sub-subsidiaries and any subsidiaries thereof (and under the Financial Holding Company Act, this includes any foreign subsidiaries of sub-subsidiaries (as brought into the holding structure of the financial holding company') and companies controlled by them through, for example, appointment and dismissal of the officers, as determined pursuant to the provisions of an applicable Presidential Decree, and includes non-financial business group companies that participate in the business management of a relevant financial institution through, for example, appointment and dismissal of the officers, as determined pursuant to the provisions of an applicable Presidential Decree.

According to the Financial Holding Company Act, the total amount of credit that may be extended by a financial holding company and its subsidiaries, etc. ("financial holding company, etc.") to any single individual, juridical person or business group is not permitted to exceed an amount equal to 25 per cent. of the total net capital of the financial holding company, etc.

Additionally, the total amount of credit that may be extended by a bank holding company and its subsidiaries ("bank holding company, etc.") to a major capital contributor (including specially related persons thereof) is not permitted to exceed the lesser of (x) the amount equal to 25 per cent. of the total net capital of the bank holding company, etc. and (y) the relevant major capital contributors' shareholding ratio in the bank holding company. The total amount of credit that may be extended by a bank holding company, etc. to all of major capital contributors (including specially related persons thereof) is not permitted to exceed an amount equal to 25 per cent. of the total net capital of the bank holding company, etc.

A bank holding company, etc. is not permitted to extend credit to major capital contributors (including specially related persons thereof) in support of such major capital contributors' investments in other companies, and is not permitted to transfer assets to major capital contributors without consideration.

The above provisions will be applicable with regard to KEB Hana Bank extending credit to any major capital contributors of Hana Financial Group, since Hana Financial Group is a bank holding company and KEB Hana Bank is a subsidiary of Hana Financial Group.

Interest Rates

Korean banks generally depend on deposits as their primary funding source. There are no legal controls on interest rates on loans extended by the financial institutions in Korea. Historically, interest rates on deposits and lending rates were regulated by the Monetary Policy Committee of the Bank of Korea. Controls on deposit interest rates in Korea have been gradually reduced and, in February 2004, the Korean government removed restrictions on all interest rates, except for the prohibition on interest payments on current account deposits. This deregulation process has increased competition for deposits based on interest rates offered and, therefore, may increase a bank's interest expense.

Lending to Small- and Medium-Sized Enterprises

In order to obtain funding from the Bank of Korea at concessionary rates for their SME loans, banks are required to allocate a certain minimum percentage of any monthly increase in their Won currency lending to SMEs. Currently, this minimum percentage is 45 per cent. in the case of national banks and 60 per cent. in the case of regional banks. If a bank does not comply with this requirement, the Bank of Korea may:

- require the bank to prepay all or a portion of funds provided to that bank in support of loans to SMEs; or
- lower the bank's credit limit.

Disclosure of Management Performance

In order to assist the general public, especially depositors and shareholders, in monitoring bank management performance, the FSC requires commercial banks to make mandatory public disclosures of the following:

- loans bearing no profit made to a single business group in an amount exceeding 10 per cent. of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to that borrower is calculated as the sum of substandard credits, doubtful credits and estimated loss credits), unless the loan exposure to that group is not more than ₩4 billion;

- the occurrence of any financial incident involving embezzlement, malfeasance or misappropriation of funds in an amount exceeding 1 per cent. of the sum of the bank's Tier I and Tier II capital (less any capital deductions), unless the bank has lost or expects to lose not more than ₩1 billion as a result of that financial incident, or the governor of the FSS has made a public announcement regarding the incident; and

- any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1 per cent. of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month, unless the loss is not more than ₩1 billion.

On 18 March 2010, the FSC issued an institutional warning due to incidents which occurred in our branches in Japan and our subsidiaries in Australia and Los Angeles, California where we suffered losses due to theft and other inappropriate actions by certain employees. Following such incidents in 2008 and 2009, we have strengthened our overseas business management and control system by:

- increasing the number of compliance seminars for the employees of our overseas branches and subsidiaries and the frequency of the International Compliance Officer's visits to our overseas branches and subsidiaries;

- implementing the Daily Business Monitoring System since June 2009 which enables us to spot any suspicious transactions by sending the records of all transactions conducted in our overseas branches and subsidiaries to our headquarter office in Seoul for a review on a daily basis;

- strengthening the monitoring system between front office and back office in our overseas branches and subsidiaries; and

- strengthening the level of control and increasing restrictive measures over our IT system.

On 5 March 2013, we received a warning from the FSS that we had applied the interest spreads on certain floating rate loans to a number of our corporate borrowers during the period from June 2006 to September 2012 without proper supporting documentation. In connection with this incident, seven former and current executives and staff members of us were charged for the irregular practice.

On 16 February 2015, we received an institutional warning from the FSS that we had granted inappropriate loans to KT ENS related entities during the period from 2009 without sufficient credit screenings which resulted in non-performing loans of approximately KRW161.4 billion. Following the incident, we have strengthened our internal control system to prevent future occurrence of similar incidents.

On 5 November 2015, we received a preliminary institutional warning from the FSS that we had granted inappropriate loans to Moneual during the period between 2007 and 2014 without requesting sufficient documents for loan appraisal. The FSS confirmed the above institutional warning on 14 December 2015 and required us to strengthen our credit screening process. We implemented various measures to comply with the requirement and voluntarily imposed penalties of varying severity on the employees involved in the incident.

An institutional warning by the FSS does not have a direct impact on the operations of the bank. However, for a period of three years following the date of such warning, such bank may be restricted from acquiring a major equity interest in financial institutions regulated by the FSCMA, Insurance Business Act or Specialised Credit Financial Business Act and obtaining a licence for a new business which is subject to a licence requirement under the FSCMA.

Restrictions on Lending

Pursuant to the Bank Act, commercial banks may not provide:

- loans directly or indirectly secured by a pledge of a bank's own shares;
- loans directly or indirectly to enable a natural or juridical person to buy the bank's own shares;
- loans to any of the bank's officers or employees, other than petty loans of up to ₩20 million in the case of a general loan, ₩50 million in the case of a general loan plus a housing loan or ₩60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions; or
- credit (including loans) secured by a pledge of shares of a subsidiary corporation of the bank or to enable a natural or juridical person to buy shares of a subsidiary corporation of the bank.

Regulations Relating to Retail Household Loans

The FSC has implemented a number of changes to the mechanisms by which a bank evaluates and reports its retail household loan balances and has proposed implementing further changes. As a result of the rapid increase in retail household loans and related credit risks, in 2007, the FSC and the FSS increased the minimum provisioning requirements for retail household loans. These minimum requirements are set forth in the following table:

	Provisioning Ratio on Retail Household Loans	
Asset Quality Classification	**Before 2007**	**As of 30 September 2015**
Normal	0.75% or above	1.0% or above
Precautionary	8.0% or above	10.0% or above
Substandard	20.0% or above	20.0% or above
Doubtful	55.0% or above	55.0% or above
Estimated loss	100.0%	100.0%

In addition, due to a rapid increase in loans secured by homes and other forms of housing, the FSC and the FSS implemented regulations designed to reduce the rate of increase in these loans. Effective from the third quarter of 2002, the FSC and the FSS raised minimum provisioning requirements for new loans secured by housing located in the areas of wide-spread real property speculation, with respect to the portion of the new loan that exceeds the loan-to-value ratio of 60.0

per cent., to 1.0 per cent. from 0.75 per cent. for normal loans and to 10.0 per cent. from 5.0 per cent. for precautionary loans. They also raised the minimum provisioning requirements for household loans classified as precautionary from 2.0 per cent. to 8.0 per cent. with effect from the fourth quarter of 2002.

In a further effort to curtail extension of new or refinanced loans secured by housing, the FSC and the FSS subsequently:

- reduced the average loan-to-value ratio (the aggregate principal amount of credit over the approval value of collateral) that Korean commercial banks must maintain for new loans secured by housing located in Korea to below 60 per cent.; and

- increased risk-weights for loans secured by housing meeting certain criteria in connection with the capital adequacy calculation for commercial banks.

On 8 November 2002, the FSC and the FSS issued guidelines that:

- require Korean commercial banks to implement stronger internal control systems and stricter credit review and approval policies with respect to loans secured by housing;

- introduce sharing of information on multiple housing loans to a single borrower within the financial industry;

- require Korean commercial banks to appoint two to three qualified market value appraisal institutions and to use the lowest of the appraisal valuations; and

- discourage the use of incentive-based compensation systems by Korean commercial banks.

Furthermore, on 29 October 2003, the FSC announced more stringent guidelines that require Korean commercial banks to maintain loan-to-value ratios equal to or less than 40 per cent. for new loans secured by real estate located in the areas of wide-spread real property speculation. On 30 August 2005, the FSC further announced another set of guidelines under which the Korean commercial banks are required to maintain the debt-to-income ratio of 40 per cent. or less for each new loan in addition to the loan-to-value ratio requirement in case such loan is borrowed for the purpose of financing each additional home exceeding the one home per household and secured by a home located in the wide-spread real property speculation areas.

Again on 30 March 2006, the FSC announced stronger guidelines that require Korean commercial banks to maintain debt-to-income ratio equal to 40 per cent. or less for any new loans secured by real estate of which value is 600 Million Won or more in the areas of wide-spread real property speculation.

In addition, due to a rapid increase in the number of loans secured by homes and other forms of housing, the FSC and the FSS amended the Regulation on the Supervision of the Banking Business in July 2007, November 2008, November 2010 and May 2013 to implement measures designed to reduce the rate of increase in these loans secured by housing, including the following:

- in respect of loans secured by collateral consisting of housing located in Korea, the loan-to-value ratio (the aggregate principal amount of loans secured by such collateral over the appraised value of the collateral) should not exceed 70 per cent.;

- in respect of loans secured by collateral consisting of housing (including apartments) located in areas of excessive investment as designated by the Government, (i) the loan-to-value ratio for loans with a maturity of not more than three years should not exceed 50 per cent., (ii) the loan-to-value ratio for loans with a maturity of more than three years should not exceed 60 per cent. and (iii) the loan-to-value ratio for loans to be amortised over the period of ten years should not exceed 70 per cent.;

- in respect of loans secured by collateral consisting of housing (excluding apartments) located in areas of high speculation as designated by the Government, (i) the loan to value ratio for loans with a maturity of not more than three years should not exceed 50 per cent., (ii) the loan to value ratio for loans with a maturity of more than three years should not exceed 60 per cent. and (iii) the loan-to-value ratio for loans to be amortised over the period of ten years should not exceed 70 per cent.;

- in respect of loans secured by collateral consisting of apartments located in areas of high speculation as designated by the Government, (i) the loan-to-value ratio for loans with a maturity of not more than ten years should not exceed 40 per cent.; and (ii) the loan-to-value ratio for loans with a maturity of more than ten years should not exceed (a) 40 per cent., if the price of such apartment is over ₩600 million, and (b) 60 per cent., if the price of such apartment is ₩600 million or lower;

- in respect of loans extended for the acquisition of a new apartment and secured by such apartment with an appraisal value of more than ₩600 million in areas of high speculation as designated by the Government or in certain metropolitan areas designated as areas of excessive investment by the Government, the borrower's debt-to-income ratio (calculated as (i) the aggregate annual total payment amount of (x) the principal of and interest on loans secured by such apartment(s) and (y) the interest on other debts of the borrower over (ii) the borrower's annual income) should not exceed 40 per cent.;

- in respect of a borrower (i) whose spouse already has a loan secured by housing or (ii) who is single and under the age of 30, the debt-to-income ratio of the borrower in respect of loans secured by apartment(s) located in areas of high speculation as designated by the Government should not exceed 40 per cent.;

- in respect of apartments located in areas of high speculation as designated by the Government, a borrower is permitted to have only one new loan secured by such apartment; and

- where a borrower has two or more loans secured by apartments located in areas of high speculation as designated by the Government, the loan with the earliest maturity date must be repaid first and the number of loans must eventually be reduced to one.

Also, under the Regulation on the Supervision of the Banking Business as amended effective 1 January 2015 and the relevant administrative instructions of the FSS effective 1 August 2014, a bank (i) is subject to a limit on loan-to-value ratio of 70% when extending home mortgage loans; (ii) is required to comply with a limit on debt-to-income ratio of 60% in extending home mortgage loans (amounting to ₩100 million or more) for the purchase of new apartments that are secured by such apartments appraised at a market value of more than ₩600 million if they are located in areas designated as "speculative" or (if in the greater Seoul metropolitan area) "excessively speculative"; (iii) is required to apply greater flexibility in determining the debt-to-income ratio by considering the expected earnings potential; (iv) is prohibited from accepting apartments located in areas of intense speculation as collateral from borrowers who have already obtained home mortgage loans; (v) in the case of borrowers with two or more loans secured by apartments in areas of intense speculation, is required to limit the extension of the maturity of such loans so that the number of loans secured by apartments in areas of intense speculation held by such borrowers is reduced to one such loan; (vi) is prohibited from extending home equity loans to minors; and (vii) is prohibited from accepting apartments located in areas of intense speculation as collateral for company loans with the purpose of acquiring such apartments, except for unavoidable cases. The requirements stipulated in (i), (ii) and (iii) above are relaxed measures by the FSS issued in the form of administrative instructions effective only for a temporary period of one year. However, the FSS issued an additional administrative instruction prolonging the temporary period for another year and thus, the relaxed measures will be effective until 31 July 2016.

In addition, the supervising authorities in Korea from time to time issue administrative instructions to Korean banks, which have the effect of regulating the access of borrowers to housing loans and, as such, demand for real estate properties. For example, the FSS issued administrative instructions to financial institutions to (except in limited circumstances) verify the borrower's ability to repay based on proof of income prior to making a mortgage and home equity loan regardless of the type or value of the collateral or the location of the property, which has had the effect of practically barring the grant of any new mortgage and home equity loans to borrowers without verifiable income.

Restrictions on Investments in Property

A bank may possess real estate property only to the extent necessary for the conduct of its business, unless the aggregate value of that property does not exceed 60 per cent. of the sum of the bank's Tier I and Tier II capital (less any capital deductions). Any property that a bank acquires by exercising its rights as a secured party, or which a bank is prohibited from acquiring under the Bank Act, must be disposed of within one year.

Restrictions on Shareholdings in Other Companies

Under the Bank Act, a bank may not own more than 15 per cent. of shares outstanding with voting rights of another corporation, except where, among other reasons:

- that corporation engages in a category of financial businesses set forth by the FSC; or

- the acquisition is necessary for the corporate restructuring of the corporation and is approved by the FSC.

In the above exceptional cases, a bank must satisfy either of the following requirements:

- the total investment in corporations in which the bank owns more than 15 per cent. of the outstanding shares with voting rights does not exceed 15 per cent. of the sum of Tier I and Tier II capital (less any capital deductions); or

- if the application requirements set by the FSC are met, voting shares shall not exceed 30 per cent. of the sum of Tier I and Tier II capital.

The Bank Act provides that a bank using its bank accounts and its trust accounts may not acquire the shares of another corporation that is a major shareholder of the bank in excess of an amount equal to 1 per cent. of the sum of Tier I and Tier II capital (less any capital deductions).

The Financial Holding Company Act provides that a bank holding company, etc. using its bank accounts and its trust accounts may not acquire the shares issued by its major capital contributors in an amount greater than 1 per cent. of the total net capital of the bank holding company, etc.

Restrictions on Bank Ownership

Under the Bank Act, a single shareholder, together with any persons who have a special relationship with that shareholder may acquire generally beneficial ownership of no more than 10 per cent. of a national bank's total issued and outstanding shares with voting rights and no more than 15 per cent. of a regional bank's total issued and outstanding shares with voting rights. The Government, KDIC and bank holding companies qualified under the Financial Holding Company Act are not subject to this limit. However, by obtaining an approval from the FSC, a person (whether a Korean national or a foreign investor), with the exception of non-financial business group company as described below, may acquire more than 10 per cent. of a national bank's total voting shares issued and outstanding (or 15 per cent. in the case of regional banks) and such approval from the FSC is required in each instance where the total holding of such person will exceed 10 per cent. (or 15 per cent. in the case of regional banks), 25 per cent. or 33 per cent. of the bank's total voting shares issued. In addition, if (i) a person's shareholding in a national bank reaches 4 per cent. of that bank's outstanding voting shares, (ii) such person becomes the largest shareholder of the bank, (iii) there is a change in the shareholding of such person by 1 per cent. or more or (iv) where a private equity fund or special purpose company under the FSCMA holds in excess of 4 per cent. of that bank's outstanding voting shares and there is a change in the members and/or shareholder of the private equity fund or special purpose company, such person or the private equity fund or the special purpose company shall file a report to the FSC. Furthermore, according to the Financial Holding Company Act, a single shareholder is not permitted to hold more than 10 per cent. of the total issued and outstanding voting shares of a bank holding company (or 15 per cent. in the case of a regional bank holding company's shares). The Government and the KDIC are not subject to this limit. Such limit also does not apply to a financial holding company's holding of shares of a bank holding company under its control. The FSC may grant approval for exceptions to the above-referenced 10 per cent. holding limit (or 15 per cent. in the case of regional bank holding companies).

Meanwhile, a non-financial business group company is not allowed to own more than 4 per cent. or 15 per cent., respectively, of the total issued and outstanding shares with voting rights of a national bank or a regional bank. However, the non-financial business group company may be permitted to own up to 10 per cent. of the total issued and outstanding shares of a national bank by obtaining an approval from the FSC on condition that such non-financial business group company will not exercise voting rights in excess of the 4 per cent. threshold.

Deposit Insurance System

The Depositor Protection Act provides insurance for certain deposits of banks in Korea through a deposit insurance system. Under the Depositor Protection Act, all banks governed by the Bank Act are required to pay an insurance premium to the KDIC on a quarterly basis. The rate is determined under the Enforcement Decree to the Depositor Protection Act, and may not exceed 0.5 per cent. of the bank's insurable deposits in any given year. The current insurance premium is 0.02 per cent. of insurable deposits for each quarter. If the KDIC makes a payment on an insured amount, it will acquire the depositors' claims with respect to that payment amount. The KDIC insures a maximum of ₩50 million for deposits and interest, regardless of when the deposits were made and the size of the deposits. This limit does not apply to interest-free settlement accounts (for example, a checking account) during the period from 1 January 2001 to 31 December 2003 and therefore the whole amount deposited in such accounts is protected.

Restrictions on Foreign Exchange Position

Under the Korean Foreign Exchange Transaction Law, each of a bank's net overpurchased and oversold positions may not exceed 50 per cent. of its shareholders' equity as of the end of the prior month.

Laws and Regulations Governing Other Business Activities

A bank must register with the Ministry of Strategy and Finance to enter the foreign exchange business, which is governed by the Foreign Exchange Transaction Law. Under the FSCMA, which became effective as of 4 February 2009 (replacing the Securities and Exchange Act), a bank wishing to engage in (i) the purchase, sale or underwriting of financial investment products for its own account is required to obtain a licence for dealing business from the FSC and (ii) the purchase and sale of financial investment products for the account of another person is required to obtain a licence for brokerage business. Financial investment products are classified into two categories (securities products and derivatives products) depending on the nature of the risk involved. Securities products refer to any investment product (e.g. a stock or bond) which has a possibility of loss up to the amount of the principal invested. Derivatives products refer to any investment product which has a possibility of loss over and above the amount of the principal invested. If a bank previously had a licence to engage in the securities business from the FSC under the Securities Exchange Act, such licence will remain effective so long as the bank satisfied its reporting requirements to the FSC in accordance with the FSCMA for a certain period of time prior to the FSCMA becoming effective.

Trust Business

A bank must obtain a licence for trust business from the FSC to engage in trust business pursuant to the FSCMA (which replaced the Trust Business Act and Indirect Investment Asset Management Business Act). A licence for trust business obtained by a bank under the Trust Business Act remains effective so long as the bank satisfied its reporting requirements to the FSC in accordance with the FSCMA for a certain period of time prior to the FSCMA becoming effective.

Under the Bank Act, assets accepted in trust by a bank in Korea must be segregated from the other assets in the accounts of such bank. This requires banks engaged in both banking and trust businesses to maintain two separate sets of accounts and two separate sets of records. The depositors and other general creditors of a bank cannot obtain or assert claims against the assets comprising the trust accounts in the event such bank is liquidated or wound up.

Under the FSCMA, a bank is not permitted to offer "unspecified money trust account products" (which were created and offered under the Trust Business Act) except in certain limited circumstances. In addition, under the FSCMA, a bank must obtain a licence for collective investment business from the FSC to offer such products.

The bank must make a special reserve of 25 per cent. or more of fees received from each unspecified money trust account in respect of which a bank guarantees the principal amount and a fixed rate of interest until the total reserve for that account equals 5 per cent. of the trust amount. Since January 1999, the Government has prohibited Korean banks from offering new guaranteed fixed rate trust account products that guarantee the principal invested and interest payments. In the event that a bank qualifies and operates as a collective investment business servicer, a trustee or a custodian under the FSCMA, it is required to establish relevant operation and management systems to prevent potential conflicts of interest among the banking business, the collective investment business and the trustee or custodian business. These measures include:

- prohibitions against officers, directors and employees of one particular business operation from serving as an officer, director and employee in another business operation;

- prohibitions against the joint use or sharing of computer equipment or office equipment; and

- prohibitions against the sharing of information by and among officers, directors and employees engaged in the different business operations.

In addition, under the FSCMA, a bank is also required to establish a Collective Investment Property Management Committee consisting of three directors, two of whom must be non-standing directors of such bank.

Financial Investment Services and Capital Markets Act

On 3 July 2007, the National Assembly of Korea passed the FSCMA. This new legislation consolidated six Acts regulating capital markets and financial investment business and products in Korea into one Act. The FSCMA became effective as of 4 February 2009. The following is a summary of the major changes introduced by the FSCMA.

Consolidation of Capital Markets-Related Laws

Prior to the effective date of the FSCMA, there were separate laws regulating each type of financial organisation (e.g., the Securities and Exchange Act for securities companies, the Futures Business Act for companies dealing in futures, the Trust Business Act for trust business companies and the Indirect Investment Asset Management Business Act for asset management companies) and subjecting financial organisations to different licensing and on-going regulatory requirements. By applying one uniform set of rules to financial businesses carrying out the same economic function, the FSCMA intends to improve the capital markets system and address issues caused by the previous regulatory system under which the same economic function relating to capital markets-related businesses was governed by several different sets of rules. To this end, the FSCMA categorises capital markets-related businesses into six different functions (collectively, the "**Financial Investment Businesses**" and each a "**Financial Investment Business**"), as follows:

- dealing (trading and underwriting of financial investment products),
- brokerage (brokerage of financial investment products),
- collective investment (establishment of collective investment schemes and the management thereof),
- investment advice,
- discretionary investment management, and
- trusts.

Therefore, all previous financial businesses relating to financial investment products have been reclassified as one or more of the Financial Investment Businesses described above and financial organisations are now subject to the regulations applicable to their relevant Financial Investment Business(es), irrespective of the type of financial organisation.

Banking and insurance are not subject to the FSCMA and continue to be regulated under separate laws. However, Korean banks and insurance companies are subject to the FSCMA if they intend to engage in Financial Investment Businesses and may need to obtain appropriate licences under the FSCMA.

Comprehensive Definition of Financial Investment Products

In an effort to encompass the various types of securities and derivative products available in the capital markets, the FSCMA sets forth a comprehensive term "financial investment products", defined to mean all financial products with a risk of loss in respect of the amount invested (in contrast to deposits where the principal is protected). Under the FSCMA, financial investment products are classified into two major categories: (i) "securities" (meaning financial investment products in respect of which the risk of loss is limited to the amount invested) and (ii) "derivatives" (meaning financial investment products of which the risk of loss may exceed the amount invested).

As a result of the general and open-ended manner in which financial investment products are defined, any future financial product could potentially fall within the scope of the definition of financial investment products, thereby enabling the financial organisation licenced under the FSCMA ("**Financial Investment Business Entity**") to handle a broader range of financial products. Under the FSCMA, securities companies, asset management companies, companies dealing in futures and other entities engaging in any Financial Investment Business are classified as Financial Investment Business Entities.

New Licence System and the Conversion of Existing Licences

Under the FSCMA, the financial investment business units (each being a unit of business pursuant to which financial organisations shall be licenced) are classified into a total of 90 categories depending on the type of (i) financial investment service, (ii) financial investment product, and (iii) target customers to which financial investment products may be sold or dealt (i.e., general investors or professional investors). Financial Investment Business Entities are able to choose which Financial Investment Business(es) to engage in (via a "check the box" method set forth in the relevant licence application) by specifying the desired financial investment business unit or units. Under the FSCMA, Financial Investment Business Entities are permitted to engage in multiple types of Financial Investment Businesses, subject to satisfying relevant regulations (such as minimum capital requirements and maintaining an adequate "Chinese Wall").

Financial organisations previously engaging in business activities constituting a Financial Investment Business were required to take certain steps, such as renewal of their licence or registration, in order to continue engaging in such business activities. Certain financial organisations are permitted to engage in Financial Investment Business without a licence under the FSCMA in the following circumstances: (i) banks and insurance companies are permitted to engage in certain categories of Financial Investment Business upon obtaining the appropriate licence(s) under the FSCMA, to the extent permitted under the Banking Act or the Insurance Business Act, as the case may be; and (ii) other financial organisations that engaged in any Financial Investment Business prior to the effective date of the FSCMA (whether in the form of a concurrent business or an incidental business) are permitted to continue such Financial Investment Business for a period not exceeding six months commencing on the effective date of the FSCMA.

Expanded Business Scope of Financial Investment Business Entities

Under the FSCMA, by integrating businesses involving financial investment products into a single Financial Investment Business and allowing Financial Investment Business Entities to choose multiple Financial Investment Businesses to engage in, the business scope and opportunities of the licenced Financial Investment Business Entities are expanded.

Under the FSCMA, Financial Investment Business Entities may engage in business(es) incidental to the Financial Investment Business ("incidental businesses"), including settlement and remittance services, after reporting to the FSC at least 7 days before starting such incidental business. Furthermore, under the Enforcement Decree of FSCMA, a dealer of securities investments (including underwriting services) may conduct corporate finance business; and a dealer of securities and over-the-counter derivatives (including underwriting services) may conduct payment guarantees business. Therefore, corporate finance business and payment guarantees business can be carried out by both banks and financial organisations which have received licences on respect of the relevant business units. In addition, a Financial Investment Business Entity is permitted to outsource marketing activities by contracting "introducing brokers" that are individuals but not employees of the Financial Investment Business Entity.

Improvement in Investor Protection Mechanism

While the FSCMA widens the scope of Financial Investment Businesses, a more rigorous investor protection mechanism is imposed upon Financial Investment Business Entities dealing in financial investment products. The FSCMA distinguishes general investors from professional investors and provides the former with new or enhanced protections. The FSCMA expressly provides for a strict know-your-customer rule for general investors and imposes an obligation on Financial Investment Business Entities to market financial investment products that are suitable for each general investor, using written explanatory materials. Under the FSCMA, a Financial Investment Business Entity could be liable if a general investor proves (i) the absence of the requisite written explanatory materials and (ii) damage or loss resulting from the general investor's investment in financial investment products solicited by such Financial Investment Business Entity (without having to prove fault or causation). With respect to conflicts of interest between Financial Investment Business Entities and investors, the FSCMA expressly requires (i) disclosure of any conflict of interest to investors and (ii) mitigation of conflicts of interest to an acceptable level or abstaining from the relevant transaction.

Regulations on the Class Actions Regarding Securities

The Law on Class Actions Regarding Securities was enacted as of 20 January 2004 and an amendment to such law was enacted as of 10 March 2005, 31 March 2010 and 28 May 2013. The Law on Class Actions Regarding Securities governs class actions suits instituted by one or more representative plaintiff(s) on behalf of 50 or more persons who claim to have been damaged in a capital markets transaction involving securities issued by a listed company in Korea.

Applicable causes of action with respect to such suits include:

- claims for damages caused by misleading information contained in, or material fact omitted from, a registration statement or investment prospectus;

- claims for damages caused by the filing of a misleading business report, semi-annual report, quarterly report, material fact report or a document attached thereto or by an omission of a description or representation of a material fact therein;

- claims for damages caused by insider trading, market manipulation or unfair trading; and

- claims instituted against auditors for damages caused by accounting irregularities.

Any such class action may be instituted upon approval from the presiding court and the outcome of such class action will have a binding effect on all potential plaintiffs who have not joined the action, with the exception of those who have filed an opt out notice with such court.

The Law on Class Actions Regarding Securities came into effect on 1 January 2007 with respect to companies with a total asset value of less than ₩2 trillion, and on 1 January 2005 for all other companies and will apply to all applicable claims arising out of acts committed since its enactment.

TAXATION

Korea

The Information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. Prospective investors who are in any doubt as to their tax position should consult with their own professional advisers.

The taxation of non-resident individuals and non-Korean corporations ("**Non-Residents**") generally depends on whether they have a "permanent establishment" (as defined under Korean law and applicable tax treaty) in Korea to which the relevant Korean source income is attributable or with which such income is effectively connected. Non-Residents without a permanent establishment in Korea are taxed in the manner described below. Non-Residents with permanent establishments in Korea are taxed in accordance with different rules.

Tax on Interest

Interest payable to Non-Residents in respect of the Notes, if qualified as certain foreign currency-denominated bonds issued outside of Korea pursuant to the Special Tax Treatment Control Law ("**STTCL**"), is exempt from income tax and corporation tax (whether payable by withholding or otherwise) pursuant to the STTCL.

If the tax exemption under the STTCL referred to above were to cease to be in effect, the rate of income tax or corporation tax applicable to interest on the Notes without the tax exemption under the STTCL, for a Non-Resident without a permanent establishment in Korea, is currently 14 per cent. of income. In addition, a tax surcharge called a local income tax would be imposed at the rate of 10 per cent. of the income or corporation tax (raising the total tax rate to 15.4 per cent.).

In addition, in order to obtain the benefit of a reduced rate available under applicable tax treaties, a Non-Resident holder must submit an application for reduced rate to either the payor or the entity obligated to withhold such tax liable for the withholding before the receipt of the relevant interest payment (if there is no change in the contents of such application, it is not required to submit such application again within three years thereafter), together with a certificate of the Non-Resident holder's tax residence issued by a competent authority of the Non-Resident holder's resident country. If the Non-resident holder was unable to receive the benefit of a reduced rate due to his or her failure to timely submit the aforementioned application, the Non-Resident holder may still receive a tax return if the submission to the relevant tax office is made within five years from the last day of the month in which the date of withholding occurs.

The tax rates may be reduced or exempted by applicable tax treaty, convention or agreement between Korea and the country of the recipient of the income. The relevant tax treaties are discussed below.

Tax on Capital Gains

Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident without a permanent establishment in Korea from the sale of Notes to Non-Residents (other than to their permanent establishments in Korea). In addition, capital gains earned by Non-Residents from the transfer outside Korea of Notes to Non-Residents are currently exempt from taxation by virtue of the STTCL.

If the exclusion or exemption from Korean taxation referred to above were to cease to be in effect, in the absence of an applicable treaty or any other special tax laws reducing or eliminating tax on capital gains, the applicable rate of tax is the lower of 11 per cent. (including local income tax) of the gross realisation proceeds and (subject to the production of satisfactory evidence of the acquisition cost and certain direct transaction costs of the relevant Note) 22 per cent. (including local income tax) of the realised gain (i.e., the excess of the gross realisation proceeds over the acquisition cost and certain direct transaction costs) made. If such evidence shows that no gain (or a loss) was made on the sale, no Korean tax is payable. There is no provision under relevant Korean law for offsetting gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of instruments issued by Korean companies. The purchaser or any other designated withholding agent of Notes is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from tax under an applicable tax treaty or on the failure of the seller to produce satisfactory evidence of his acquisition cost and certain direct transaction costs in relation to the Notes being sold, the purchaser or such withholding agent must withhold an amount equal to 11 per cent. of the gross realisation proceeds. Any amounts withheld by the purchaser or withholding agent must be paid to the relevant Korean tax authority. The purchaser or withholding agent must pay any withholding tax no later than the tenth day of the month following the month in which the payment for the purchase of the relevant Notes occurred. Failure to transmit the withheld tax to the Korean tax authorities in time subjects the purchaser to penalties under Korean tax laws. The Korean tax authorities may attempt to collect such tax from a Non-Resident who is liable for payment of any Korean tax, either as a seller of Notes or as a purchaser or withholding agent who is obliged to withhold such tax through proceedings against payments due to the Non-Resident from its Korean investments and the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea and (b) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the rate varies from 10 per cent. to 50 per cent. depending on the price of the assets and the nature of the relationship between the parties. At present, Korea has not entered into any tax treaties regarding its inheritance or gift taxes.

Under Korean inheritance and gift tax laws, bonds issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are owned, and consequently, the Korean inheritance and gift taxes will be imposed on transfers of the Notes by inheritance or gift. Prospective purchasers should consult their personal tax advisors regarding the consequences of the imposition of the Korean inheritance or gift tax.

Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by the holders in connection with the issue of the Notes except for nominal amount of stamp duty on certain documents executed in Korea. No securities transaction tax will be imposed on the transfer of Notes.

Tax Treaties

At the date of this Offering Circular, Korea has tax treaties with, inter alia, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, Malaysia, the Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States under which the rate of withholding tax on interest (including local income tax) is reduced, generally to between 5 and 16.5 per cent. and the tax on capital gains is often eliminated.

The special withholding tax system took effect 1 July 2006. Under the system, residents of Labuan, Malaysia are presumed to be tax treaty shopping, and are denied tax treaty benefits. Instead, payments made to the residents of Labuan, Malaysia will be subject to the default Korean withholding tax rates (generally 15.4% for interest and 22% for capital gain (including local income tax)) rather than the reduced or exempted rate available under the Korea-Malaysia tax treaty. A Labuan taxpayer, however, will be given an opportunity to get refund by proving that it is entitled to the tax treaty benefits as a beneficial owner of the income and a real resident of Labuan, Malaysia. A Labuan taxpayer may also file an application with the National Tax Service (the "**NTS**") for confirmation that it is entitled to the tax treaty benefits and obtain an advance confirmation from the NTS prior to receiving Korean source income.

Each holder should enquire for himself whether he is entitled to the benefit of a tax treaty with respect to any transaction involving Notes. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the payer or the Issuer a certificate as to his residence. In the absence of sufficient proof, the payer or the Issuer must withhold taxes in accordance with the above discussion. Each holder must submit an application for entitlement to reduced tax rate on domestic source income in order to benefit from reduced rates under a tax treaty for any income (e.g., interest).

Further, in order for a non-resident to obtain the benefit of a tax exemption under an applicable tax treaty, Korean tax law requires such non-resident (or its agents) to submit to the payer of such Korean source income an application for tax exemption under a tax treaty along with a certificate of tax residency of such non-resident issued by a competent authority of the non-resident's country of residence, subject to certain exceptions. If the Korean source incomes are paid to Non-Residents through an overseas investment vehicle, such investment vehicle must obtain an application for tax exemption from each Non Resident, who are the beneficial owners of such investment vehicle and submit to the payer of such Korean source incomes an overseas investment vehicle report, together with the applications for tax exemption prepared by the Non-Resident beneficial owners. An application for tax exemption submitted by a Non-Resident remains effective for three years from submission, and if any material changes occur with respect to information provided in the application, an application reflecting such change must be newly submitted.

The payer of such Korean source income, in turn, is required to submit such application to the relevant district tax authority by the ninth day of the month following the date of the first payment of such income. However, this requirement does not apply to tax exemptions under Korean tax laws.

Withholding and Gross Up

As mentioned above, interest under the Notes is exempt from any withholding or deduction on account of income tax or corporation tax pursuant to the STTCL. However, in the event that the payer or the Issuer is required by law to make any withholding or deduction for or on account of any Korean taxes (as more fully described in Condition 9), the Issuer has agreed to pay (subject to the customary exceptions as set out in such Condition 9) such additional amounts as may be necessary in order that the net amounts receivable by the holder of any Note or Coupon after such withholding or deduction shall equal the respective amounts which would have been receivable by such holder in the absence of such withholding or deduction.

United States

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary does not address the material U.S. federal income tax consequences of every type of Note which may be issued under the Programme, and the relevant Pricing Supplement may contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note as appropriate. This summary deals only with purchasers of Notes that are U.S. Holders and that will hold the Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address the Medicare contribution tax on net investment income or the effects of any state, local, foreign or other tax laws. This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar). Moreover, the summary deals only with Notes with a term of 30 years or less. The U.S. federal income tax consequences of owning Notes with a longer term will be discussed in the applicable Pricing Supplement.

As used herein, the term "**U.S. Holder**" means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States, or any State thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in a partnership that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax adviser concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Notes by the partnership.

The summary is based on the tax laws of the United States including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

Bearer Notes are not being offered to U.S. Holders. A U.S. Holder who owns a Bearer Note may be subject to limitations under United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the United States Internal Revenue Code.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE INSTRUMENTS, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Payments of Interest

General

Interest on a Note, whether payable in U.S. dollars or a currency, composite currency or basket of currencies other than U.S. dollars (a "**foreign currency**"), other than interest on a "Discount Note" that is not "qualified stated interest" (each as defined below under "*—Original Issue Discount—General*"), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes. Interest paid by the Issuer on the Notes and OID, if any, accrued with respect to the Notes (as described below under "*—Original Issue Discount*") generally will constitute income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

Original Issue Discount

General

The following is a summary of the principal U.S. federal income tax consequences of the ownership of Notes issued with original issue discount ("**OID**"). The following summary does not discuss Notes that are characterised as contingent payment debt instruments for U.S. federal income tax purposes. In the event the Issuer issues contingent payment debt instruments the applicable Pricing Supplement may describe the material U.S. federal income tax consequences thereof.

A Note, other than a Note with a term of one year or less (a "**Short-Term Note**"), will be treated as issued with OID (a "**Discount Note**") if the excess of the Note's "stated redemption price at maturity" over its issue price is equal to or more than a *de minimis* amount (0.25 per cent. of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an "**instalment obligation**") will be treated as a Discount Note if the excess of the Note's stated redemption price at maturity over its issue price is equal to or greater than 0.25 per cent. of the Note's stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note's weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Note's stated redemption price at maturity. Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of "qualified stated interest". A qualified stated interest payment is generally any one of a series of stated interest payments on a Note that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods) or a variable rate, applied to the outstanding principal amount of the Note. Solely for the purposes of determining whether a Note has OID, the Issuer will be deemed to exercise any call option that has the effect of decreasing the yield on the Note, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Note.

U.S. Holders of Discount Notes must include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note. The daily portion is determined by allocating to each day in any "**accrual period**" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period other than a final accrual period equals the excess, if any, of (a) the product of the Discount Note's adjusted issue price at the beginning of the accrual period and the Discount Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Note allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity, other than a payment of qualified stated interest, and the adjusted issue price at the beginning of the final accrual period. The "**adjusted issue price**" of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period, determined without regard to the amortisation of any acquisition or bond premium, as described below, and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

Acquisition Premium

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being "**acquisition premium**"), and that does not make the election described below under "—*Election to Treat All Interest as Original Issue Discount*" is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder's adjusted basis in the Note immediately after its purchase over the Note's adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note's adjusted issue price.

Short-Term Notes

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes may be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments, including all stated interest, on a Short-Term Note are included in the Short-Term Note's stated redemption price at maturity and will not be qualified stated interest. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short-Term Note. This election will apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the Internal Revenue Service (the "**IRS**").

Fungible Issue

The Issuer may, without the consent of the Holders of outstanding Notes, issue additional Notes with identical terms. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional Notes may be considered to have been issued with OID even if the original Notes had no OID, or the additional Notes may have a greater amount of OID than the original Notes. These differences may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes.

Market Discount

A Note, other than a Short-Term Note, generally will be treated as purchased at a market discount (a "**Market Discount Note**") if the Note's stated redemption price at maturity or, in the case of a Discount Note, the Note's "**revised issue price**", exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25 per cent. of the Note's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Note's maturity (or, in the case of a Note that is an instalment obligation, the Note's weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes "*de minimis* market discount". For this purpose, the "**revised issue price**" of a Note generally equals its issue price, increased by the amount of any OID that has accrued on the Note and decreased by the amount of any payments previously made on the Note that were not qualified stated interest payments.

Under current law, any gain recognised on the maturity or disposition of a Market Discount Note (including any payment on a Note that is not qualified stated interest) will be treated as ordinary income to the extent that the gain does not exceed the accrued market discount on the Note. Alternatively, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently over the life of the Note. This election will apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS. A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently will generally be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Note includible in the U.S. Holder's income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Under current law, market discount will accrue on a straight-line basis unless the U.S. Holder elects to accrue the market discount on a constant-yield method. This election applies only to the Market Discount Note with respect to which it is made and is irrevocable.

Notes Purchased at a Premium

A U.S. Holder that purchases a Note (including a Discount Note) for an amount in excess of the sum of all amounts payable on the Note after the purchase date other than qualified stated interest may elect to treat the excess as "**amortisable bond premium**", in which case the amount required to be included in the U.S. Holder's income each year with respect to interest on the Note will be reduced by the amount of amortisable bond premium allocable (based on the Note's yield to maturity) to that year, and the U.S. Holder will not be required to include any OID in income if the note is a Discount Note. Any election to amortise bond premium will apply to all bonds (other than bonds the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and may be irrevocable without the consent of the IRS. See also "—*Election to Treat All Interest as Original Issue Discount*".

Election to Treat All Interest as Original Issue Discount

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant-yield method described above under *"— Original Issue Discount — General*," with certain modifications. For purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium (described above under *"— Notes Purchased at a Premium*") or acquisition premium. This election will generally apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant-yield method to all interest on a Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election discussed above under *"— Foreign Currency Notes — Market Discount*" to include market discount in income currently over the life of all debt instruments having market discount that are acquired on or after the first day of the first taxable year to which the election applies. U.S. Holders should consult their tax advisers concerning the propriety and consequences of this election.

Purchase, Sale and Retirement of Notes

A U.S. Holder's tax basis in a Note will generally be its cost, increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the Note and the amount, if any, of income attributable to *de minimis* OID and *de minimis* market discount included in the U.S. Holder's income with respect to the Note, and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the Note.

A U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the tax basis of the Note. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Except to the extent described above under "*— Original Issue Discount — Market Discount*" or "*— Original Issue Discount — Short Term Notes*" or attributable to changes in exchange rates (as discussed below), gain or loss recognised on the sale or retirement of a Note will be capital gain or loss. Capital gains of non-corporate holders (including individuals) derived in respect of capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source.

Foreign Currency Notes

Interest

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the relevant taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the relevant taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder generally will recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously included in income, regardless of whether the payment is in fact converted into U.S. dollars.

Original Issue Discount

OID for each accrual period on a Discount Note that is denominated in, or determined by reference to, a foreign currency, will be determined in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the Note or a sale or disposition of the Note), a U.S. Holder generally will recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously included in income, regardless of whether the payment is in fact converted into U.S. dollars. For these purposes, all receipts on a note will be viewed: first, as the receipt of any stated interest payments called for under the terms of the note; second, as receipts of previously accrued OID (to the extent thereof), with payments considered made for the earliest accrual periods first; and third, as the receipt of principal.

Market Discount

Market discount on a Note that is denominated in, or determined by reference to, a foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognise U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will recognise, upon the disposition or maturity of the Note, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

Bond Premium

Bond premium (including acquisition premium) on a Note that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income (or OID) in units of the foreign currency. On the date bond premium offsets interest income (or OID), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the amount offset multiplied by the difference between the spot rate in effect on the date of the offset, and the spot rate in effect on the date the Notes were acquired by the U.S. Holder. A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognise a capital loss when the Note matures.

Sale or Retirement

As discussed above under *"—Purchase, Sale and Retirement of Notes*", a U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and its tax basis in the Note. A U.S. Holder's tax basis in a Note that is denominated in a foreign currency will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Note purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase, or the settlement date for the purchase, in the case of Notes traded on an established securities market, within the meaning of the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects).

The amount realised on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement, or the settlement date for the sale, in the case of Notes traded on an established securities market, within the meaning of the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects). Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognise U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the principal amount of the Note (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss will be realised only to the extent of total gain or loss realised on the sale or retirement (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest).

Disposition of Foreign Currency

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time the foreign currency is received. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to payments of interest and accruals of OID on, and the proceeds of a sale, redemption or other disposition of, the Notes, payable to a U.S. Holder. Backup withholding will apply to these payments, including payments of OID, if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain

U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a U.S. Holder's federal income tax liability provided the required information is timely furnished to the IRS.

Reportable Transactions

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. Under the relevant rules, if the Notes are denominated in a foreign currency, a U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if this loss exceeds the relevant threshold in the regulations (U.S.$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders), and to disclose its investment by filing Form 8886 with the IRS. A penalty in the maximum amount of U.S.$10,000 in the case of a natural person and U.S.$50,000 in all other cases is generally imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules.

Foreign Financial Asset Reporting

Reporting requirements are imposed on the holding of certain foreign financial assets, including debt of foreign entities, if the aggregate value of all of these assets exceeds an applicable threshold. The Notes are expected to constitute foreign financial assets subject to these requirements unless the Notes are regularly traded on an established securities market or held in an account at a financial institution (in which case the account may be reportable if maintained by a foreign financial institution). U.S. Holders should consult their tax advisers regarding the application of this legislation.

United States Foreign Account Tax Compliance Act

Under the Foreign Account Tax Compliance Act, commonly referred to as FATCA, a foreign financial institution that enters into an agreement with the U.S. Treasury Department may be required to withhold 30% from certain "foreign passthru payments" made to recalcitrant accountholders or certain foreign financial institutions. The term "foreign passthru payments" has not yet been defined by the IRS but is intended to capture payments that are non-U.S. source but are attributable to a U.S.-source payment. Debt obligations giving rise to foreign passthru payments will generally not be subject to withholding tax under FATCA if such obligations are issued on or prior to the date which is six months after the publication of final regulations defining the term foreign passthru payment. In addition, Treasury guidance provides that a foreign financial institution would not be required to withhold on foreign passthru payments until the later of 1 January 2019, or six months after the publication of final regulations defining the term foreign passthru payment. Prospective investors should consult their tax advisors regarding the application of the FATCA rules to an investment in the Notes.

Europe

The proposed financial transactions tax

On 14 February 2013, the European Commission published a proposal for a Directive for a common financial transactions tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The proposed FTT has very broad scope. If introduced in the form proposed on 14 February 2013, it could apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the 14 February 2013 proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the "**Clearing System**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

Book-entry Systems

Depositary Trust Company

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a "banking organisation" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("**Participants**") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**").

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**Rules**"), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system ("**DTC Notes**") as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ("**Owners**") have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, selection of Notes for such partial redemption will be made in accordance of rules and procedures of DTC.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payment on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in respect of DTC Notes

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment will made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form.

Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian ("**Custodian**") with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

CMU Notes

Unless otherwise specified in the applicable Pricing Supplement, CMU Notes will initially be issued in registered form and represented by a global certificate (the "**CMU Global Note**") registered in the name of HKMA, in its capacity as operator of the CMU Service and shall be delivered to and held by a sub-custodian nominated by the HKMA as operator of the CMU Service, or the CMU operator. The CMU Global Note will be held for the account of CMU members who have accounts with the CMU operator, or the CMU participants. For persons seeking to hold a beneficial interest in the Notes through Euroclear or Clearstream, Luxembourg, such persons will hold their interests through an account opened and held by Euroclear or Clearstream, Luxembourg with the CMU operator. Interests in the CMU Global Note will only be shown on, and transfers of interests will be effected through, records maintained by the CMU operator.

Because the CMU operator can act only on behalf of the CMU participants, who in turn may act on behalf of persons who hold interests through them, or indirect participants, the ability of persons having interests in the CMU Global Note to pledge such interests to persons or entities that are not CMU participants, or otherwise take action in respect of such interests, may be affected by the lack of definitive notes.

While the CMU Global Note representing the Notes is held by or on behalf of the CMU operator, payments of interest or principal will be made to the persons for whose account a relevant interest in the CMU Global Note is credited as being held by the CMU operator at the relevant time, as notified to the Principal Paying Agent by the CMU operator in a relevant CMU instrument position report (as defined in the rules of the CMU) or in any other relevant notification by the CMU operator. So long as the Notes are represented by the CMU Global Note that is held by or on behalf of the CMU operator, such payment by the Issuer will discharge the Issuer's obligations in respect of that payment. Any payments by the CMU participants to indirect participants will be governed by arrangements agreed between the CMU participants and the indirect participants and will continue to depend on the inter-bank clearing system and traditional payment methods. Such payments will be the sole responsibility of such CMU participants.

Payments, transfers, exchanges and other matters relating to interests in the CMU Global Note may be subject to various policies and procedures adopted by the CMU operator from time to time. None of the Issuer, the Principal Paying Agent, the Registrar, the Paying Agents, the CMU Lodging Agent or any other Agent will have any responsibility or liability for any aspect of the CMU operator's records relating to, or for payments made on account of, interests in the CMU Global Note, or for maintaining, supervising or reviewing any records relating to such interests.

For so long as all of the Notes are represented by the CMU Global Note and such CMU Global Note is held on behalf of the CMU operator, notices to Noteholders may be given by delivery of the relevant notice to the persons shown in a CMU instrument position report issued by the CMU operator on the business day preceding the date of dispatch of such notice as holding interests in the CMU Global Note for communication to the CMU participants. Any such notice shall be deemed to have been given to the Noteholders on the second business day on which such notice is delivered to the persons shown in the relevant CMU instrument position report as aforesaid. Indirect participants will have to rely on the CMU participants (through whom they hold the Notes, in the form of interests in the global certificate) to deliver the notices to them, subject to the arrangements agreed between the indirect participants and the CMU participants.

The CMU operator is under no obligation to maintain or continue to operate the CMU Service and the CMU operator is under no obligation to perform or continue to perform the procedures described above. Accordingly, the CMU and such procedures may be discontinued or modified at any time. None of the Issuer, the Principal Paying Agent, the Registrar, the Paying Agents, the CMU Lodging Agent or any other Agent will have any responsibility for the performance by the CMU operator or the CMU participants of their respective obligations under the rules and procedures governing their operations.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in an amended and restated programme agreement dated 8 January 2016, as supplemented and amended from time to time (the "**Programme Agreement**"), agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*" above. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may, to the extent permitted by applicable laws and regulations, engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically, such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Stabilisation activities are subject to certain prescribed time limits in certain jurisdictions.

Transfer Restrictions

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Registered Notes (other than a person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note) or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(i) that either (a) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (b) it is an Institutional Accredited Investor which has delivered an IAI Investment Letter or (c) it is outside the United States and is not a U.S. person;

(ii) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. State securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(iii) that, unless it holds an interest in a Regulation S Global Note and is either a person located outside the United States or not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only (a) to the Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;

(iv) it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;

(v) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes, that Notes offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;

(vi) that the Notes, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL 'ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN "INSTITUTIONAL ACCREDITED INVESTOR"); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND

PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

(vii) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (a)(i) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART."; and

(viii) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Notes in definitive form offered and sold in the United States in reliance upon the exemption from registration provided by Regulation D of the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Notes will be issued in definitive registered form, see "*Form of the Notes*".

The IAI Investment Letter will state, among other things, the following:

(i) that the Institutional Accredited Investor has received a copy of the Offering Circular and such other information as it deems necessary in order to make its investment decision;

(ii) that the Institutional Accredited Investor understands that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in the Offering Circular and the Notes (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act;

(iii) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;

(iv) that the Institutional Accredited Investor is an Institutional Accredited Investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;

(v) that the Institutional Accredited Investor is acquiring the Notes purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and

(vi) that, in the event that the Institutional Accredited Investor purchases Notes, it will acquire Notes having a minimum purchase price of at least U.S.$500,000 (or the approximate equivalent in another Specified Currency) and higher integral multiples of U.S.$1,000 (or its equivalent as aforesaid).

No sale of Legended Notes in the United States to any one purchaser will be for less than U.S.$100,000 (or its foreign currency equivalent) and higher integral multiples of U.S.$10,000 (or its equivalent as aforesaid) principal amount or, in the case of sales to Institutional Accredited Investors, U.S.$500,000 (or its foreign currency equivalent) and higher integral multiples of U.S.$1,000 (or its equivalent as aforesaid) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.$100,000 (or its foreign currency equivalent) and higher integral multiples of U.S.$1,000 (or its equivalent as aforesaid) or, in the case of sales to Institutional Accredited Investors, U.S.$500,000 (or its foreign currency equivalent) and higher integral multiples of U.S.$1,000 (or its equivalent as aforesaid) principal amount of Registered Notes.

Selling Restrictions

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

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

In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S ("**Regulation S Notes**") each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an applicable exemption from registration under the Securities Act.

Dealers may (either directly or through selling agents, which may include their respective U.S. broker-dealer affiliates) arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is U.S.$100,000 (or the approximate equivalent thereof in any other currency) and higher integral multiples of U.S.$1,000 (or its equivalent as aforesaid). To the extent that the Issuer is not subject to or does not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, the Issuer has agreed to furnish to holders of Notes and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), it has not made and will not make an offer of Notes which are the subject of an offering contemplated by this Offering Circular as completed by the final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

(a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a **"Non-exempt Offer"**), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression "**an offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes having a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the Issuer;

(b) 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 FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that the Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended) (the "**FIEA**"). Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Law (Law No. 228 of 1949, as amended)) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold, and will not offer or sell, in Hong Kong Special Administrative Region of the PRC ("**Hong Kong**"), by means of any document, any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (ii) to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance; or (iii) 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 Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance of Hong Kong and any rules made thereunder.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"). Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (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 Notes pursuant to an offer made under Section 275 of the SFA except:

(1) 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;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Korea

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

Each Dealer has undertaken, and each further Dealer appointed under the Programme will be required to undertake, to ensure that any securities dealer to which it sells Notes confirms that it is purchasing such Notes as principal and agrees with such Dealer that it will comply with the restrictions described above.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, 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 Notes 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 Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any other Dealer shall have any responsibility therefor.

If a jurisdiction requires that any offering of Notes under the Programme be made by a licensed broker or dealer and any Dealer or any affiliate of a Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Dealer or such affiliate on behalf of the Issuer in such jurisdiction.

Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

The Dealers and certain of their affiliates may have performed certain investment banking and advisory services for the Bank and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Bank and/or its affiliates in the ordinary course of their business.

The Dealers or certain of their affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

The Dealers or their respective affiliates may purchase the Notes 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 Notes and/or other securities of the Bank or its subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes under the Programme have been duly authorised by a resolution of the Board of the Issuer dated 12 May 1995.

Listing of Notes on the Singapore Stock Exchange

Approval in-principle has been received from the Singapore Stock Exchange for the listing and quotation of Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the Singapore Stock Exchange. Such permission will be granted when the Notes have been admitted for listing and quotation on the Singapore Stock Exchange. The Singapore Stock Exchange assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List, and listing and quotation of any of the Notes on, the Singapore Stock Exchange are not to be taken as an indication of the merits of the Issuer, the Programme or the Notes.

Documents Available

From the date hereof and so long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available for inspection at the registered office of the Issuer (in the case of clause (v) below, those documents will also be available at the specified office of the Principal Paying Agent):

(i) the constitutional documents (together with English translations) of the Issuer;

(ii) the audited consolidated and separate financial statements of Korea Exchange Bank in respect of the financial years ended as of 31 December 2013 and 2014 (together with English translations);

(iii) the audited consolidated and separate financial statements of Hana Bank in respect of the financial years ended as of 31 December 2013 and 2014 (together with English translations);

(iv) the most recently published unaudited consolidated and separate interim financial statements of the Issuer (together with English translations);

(v) the Programme Agreement, the Agency Agreement, the forms of the Temporary Global Notes, the Permanent Global Notes, the definitive Bearer Notes, the Receipts, the Coupons, the Talons, the Regulation S Global Notes, the Restricted Global Notes and the Definitive IAI Registered Notes, the Deed Poll and the Deed of Covenant;

(vi) a copy of this Offering Circular;

(vii) any future offering circulars, information memoranda and supplements, including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer or the relevant Paying Agent, as the case may be, as to its holding and as to identity), to this Offering Circular and any other documents incorporated herein or therein by reference; and

(viii) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. The Issuer may also apply to have the Notes accepted for clearance through the CMU Service. The relevant CMU instrument number will be specified in the applicable Pricing Supplement. For persons seeking to hold a beneficial interest in the CMU Notes held in a global certificate through Euroclear or Clearstream, such persons will hold their interests through an account opened and held by Euroclear or Clearstream with HKMA as the CMU operator. In addition, the Issuer will make an application for any Registered Notes to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Notes, together with the relevant ISIN and Common Code, will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Pricing Supplement.

Significant or Material Change

Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer and its subsidiaries since 30 September 2015 and there has been no material adverse change in the financial position or prospects of the Issuer and its subsidiaries since 30 September 2015.

Litigation

Other than as described in "*Description of the Bank — Legal Proceedings*", neither the Issuer nor any of its subsidiaries (whether as defendant or otherwise) is engaged in any legal, arbitration, administrative or other proceedings, the results of which might have or have had in the recent past (covering at least the previous 12 months) a significant effect on the financial position or the operations of the Issuer and its subsidiaries nor is the Issuer aware of any such proceedings pending or being threatened.

Auditors

The unaudited consolidated interim financial statements of the Bank as of 30 September 2015 and for the nine months ended 30 September 2014 and 2015 included in this Offering Circular have been reviewed by Ernst & Young Han Young, independent auditors, as stated in their report appearing herein.

The consolidated financial statements of each of Korea Exchange Bank and Hana Bank, respectively, as of and for the years ended 31 December 2013 and 2014 included in this Offering Circular have been audited by Ernst & Young Han Young, independent auditors, as stated in their reports appearing herein.

A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Korea. Consequently, it does not enable Ernst & Young Han Young to obtain assurance that they would become aware of all significant matters that might be identified in an audit. Accordingly, they do not express an audit opinion on the unaudited consolidated interim financial statements.

INDEX TO FINANCIAL STATEMENTS

Unaudited Interim Consolidated Financial Statements of KEB Hana Bank for the nine months ended 30 September 2015 and 2014

Audited Consolidated Financial Statements of Korea Exchange Bank for the years ended 31 December 2014 and 2013

Audited Consolidated Financial Statements of Hana Bank for the years ended 31 December 2014 and 2013

KEB Hana Bank and its subsidiaries

Interim consolidated financial statements

For the nine-month periods ended

September 30, 2015 and 2014

with independent accountants' review report

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Report on review of interim consolidated financial statements

To the Board of Directors and Shareholders of
KEB Hana Bank and its subsidiaries

The interim consolidated financial statements for the review

We have reviewed the accompanying interim consolidated financial statements of KEB Hana Bank and its subsidiaries (collectively referred to as the Company), which comprise the interim consolidated statement of financial position as at September 30, 2015, and the related interim consolidated statements of comprehensive income for the three and nine-month periods ended September 30, 2015 and 2014, and interim consolidated statements of changes in equity and interim consolidated statements of cash flows for the nine-month periods ended September 30, 2015 and 2014, and a summary of significant accounting policies and explanatory notes.

Management's responsibility for the interim consolidated financial statements

Management is responsible for the preparation and presentation of these interim consolidated financial statements in accordance with Korea International Financial Reporting Standards 1034 Interim Financial Reporting (K–IFRS 1034). Also, management is responsible for the design and operation of the Company's internal control to prevent and detect any error or fraud which may cause material misstatement of the interim consolidated financial statements.

Independent accountants' responsibility

Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

We conducted our review in accordance with the review standard for interim financial statements in the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of Korea. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Review conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements were not prepared, in all material respects, in accordance with K–IFRS 1034.

Matter of emphasis

Without qualifying our opinion, we draw attention to Note 52 to the interim consolidated financial statements of KEB Hana Bank and its subsidiaries, which discloses that Hana Bank and Korea Exchange Bank(KEB) agreed on the merger at the Board of Director's meeting on October 29, 2014. The merger date is September 1, 2015, and KEB became the surviving corporation, and changed the corporate name from KEB to KEB Hana Bank.

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Other matter

We have audited the consolidated statement of financial position of the Company as at December 31, 2014, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended in accordance with auditing standards generally accepted in the Republic of Korea and our report dated March 6, 2015 expressed an unqualified opinion thereon. The accompanying consolidated statement of financial position as at December 31, 2014, presented for comparative purpose is not different, in all material respects, from the above audited consolidated statement of financial position.

Ernst & Young Han Young

November 12, 2015

This review report is effective as at November 12, 2015, the independent accountants' review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent accountants' review report to the time this review report is used. Such events and circumstances could significantly affect the accompanying interim consolidated financial statements and may result in modification to this review report.

KEB Hana Bank and its subsidiaries
Interim consolidated statements of financial position
As at September 30, 2015 and December 31, 2014
(Korean won in millions)

	Notes	September 30, 2015	December 31, 2014
Assets			
Cash and due from banks	5,6,7,9,11,50	₩ 19,551,299	₩ 9,345,799
Financial assets at FVTPL	5,6,7,8,9,12,17	9,680,878	2,305,294
Derivative assets used for hedging purposes	5,6,7,8,9,17	122,916	36,745
Available-for-sale financial assets	5,6,7,8,9,13,15	31,140,615	12,612,514
Held-to-maturity investments	5,6,7,9,14,15	5,630,110	1,948,987
Loans receivable	5,6,7,8,9,15,16	208,361,452	75,056,113
Investments in associates	18	999,958	362,886
Property and equipment	19	2,492,123	1,166,470
Investment property	20	457,394	230,380
Intangible assets	21	153,777	63,091
Current income tax assets		4,802	17,542
Deferred income tax assets	47	57,033	35,335
Other assets	5,6,7,8,9,23	19,784,271	6,799,596
Merchant banking account assets	5,6,7,9,23	2,313,794	2,358,355
Non-current assets held for sale	22	22	529
Total assets		₩ 300,750,444	₩ 112,339,636
Liabilities and equity			
Liabilities			
Deposits	5,6,7,9,25	₩ 202,862,353	₩ 73,075,391
Financial liabilities at FVTPL	5,6,7,8,9,24	7,888,338	1,621,469
Derivative liabilities used for hedging purposes	5,6,7,8,9,17	23,257	6,468
Borrowings	5,6,7,9,26	18,853,668	9,913,695
Debentures	5,6,7,9,27	18,560,040	4,976,616
Net defined benefit liability	28	209,353	66,025
Provisions	29	215,790	147,386
Current income tax liabilities		68,998	80,400
Deferred income tax liabilities	47	264,813	80,600
Other liabilities	5,6,7,8,9,30	27,548,328	10,908,626
Merchant banking account liabilities	5,6,7,9,30	2,510,283	2,436,279
Total liabilities		279,005,221	103,312,955
Equity			
Issued capital	31	5,359,578	2,584,534
Capital surplus	31	9,668,021	946
Hybrid equity securities	31	179,737	179,737
Capital adjustments	31	(26,242)	(26,923)
Retained earnings	33	6,346,631	6,051,930
(Regulatory reserve for bad debts in the amount of ₩679,004 and ₩794,762 as at September 30, 2015 and December 31, 2014, respectively)			
(Required provision for (reversal of) bad debts in the amount of ₩23,297 and ₩(115,758) as at September 30, 2015 and December 31, 2014, respectively)			
(Planned provision for (reversal of) bad debts in the amount of ₩1,229,225 and ₩(115,758) as at September 30, 2015 and December 31, 2014, respectively)	34		
Accumulated other comprehensive income	32	177,318	112,060
Equity attributable to equity holders of the parent		21,705,043	8,902,284
Non-controlling shareholder's equity		40,180	124,397
Total equity		21,745,223	9,026,681
Total liabilities and equity		₩ 300,750,444	₩ 112,339,636

The accompanying notes are an integral part of the interim consolidated financial statements.

KEB Hana Bank and its subsidiaries
Interim consolidated statements of comprehensive income
For the three-month and nine-month periods ended September 30, 2015 and 2014
(Korean won in millions, except per share amounts)

		For the three-month periods ended		For the nine-month periods ended	
	Notes	2015	2014	2015	2014
Net interest income	10,35,36				
Interest income		₩ 1,146,455	₩ 866,702	₩ 2,650,778	₩ 2,570,859
Interest expenses		(493,598)	(378,965)	(1,128,082)	(1,149,673)
		652,857	487,737	1,522,696	1,421,186
Net fee and commission income	10,35,37				
Fee and commission income		160,963	104,151	399,421	311,810
Fee and commission expenses		(30,854)	(19,429)	(73,176)	(59,910)
		130,109	84,722	326,245	251,900
Net gain (loss) on financial instruments at FVTPL	35,38	148,917	(2,854)	165,377	3,509
Net gain (loss) on derivative financial instruments used for hedging purposes	35,39	2,444	198	2,514	(2,095)
Net gain on available-for-sale financial assets	35,40	33,160	13,425	196,015	146,712
Net gain on held–to–maturity investments	35,40	-	492	-	492
Impairment loss	35,41	(24,669)	(105,004)	(331,489)	(380,760)
General and administrative expenses	10,35,42	(527,775)	(345,037)	(1,246,459)	(1,041,495)
Other operating income	35,43	588,037	313,824	1,937,814	1,062,100
Other operating expenses	35,44	(774,861)	(284,350)	(2,089,055)	(930,379)
Operating income		228,219	163,153	483,658	531,170
Non-operating income (expenses)					
Non-operating income	45	82,476	5,127	129,747	14,281
Non-operating expenses	46	(34,863)	(8,696)	(42,809)	(22,531)
		47,613	(3,569)	86,938	(8,250)
Net income from continuing operations before income tax expense		275,832	159,584	570,596	522,920
Income tax expense from continuing operations	10,47	(54,208)	(23,866)	(111,081)	(89,129)
Net income from continuing operations		221,624	135,718	459,515	433,791
Net income (loss) from a discontinued operation	53	-	(1,802)	-	24,628
Net income					
Equity holders of the parent		217,403	131,505	448,673	450,986
(Adjusted income after deducting regulatory reserve for bad debt in the amount of ₩425,376 and ₩527,139 for the years ended September 30, 2015 and 2014, respectively)	34				
Non-controlling interests		4,221	2,411	10,842	7,433
		221,624	133,916	459,515	458,419
Other comprehensive income (expenses)	32				
Items that may be reclassified subsequently to profit or loss:					
Gain (loss) on valuation of available-for-sale financial assets		11,005	24,405	(101,269)	3,630
Exchange differences on translation of foreign operations		31,353	23,982	3,890	(25,054)
Changes in capital from valuation of equity method for investments in associates		25,380	-	34,141	-
Loss on valuation of net investment hedges of foreign operations		(22,540)	-	(22,540)	-
Tax effect		(5,468)	(5,881)	21,700	(988)
		39,730	42,506	(64,078)	(22,412)
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of the net defined benefit liability		(514)	(416)	(1,790)	(2,413)
Tax effect		124	28	433	509
		(390)	(388)	(1,357)	(1,904)
Total comprehensive income		₩ 260,964	₩ 176,034	₩ 394,080	₩ 434,103
Equity holders of the parent		260,354	171,294	392,376	430,497
Non-controlling interests		610	4,740	1,704	3,606
Earnings per share	48				
Continuing operations					
Basic earnings per share		₩ 311	₩ 216	₩ 764	₩ 657
Diluted earnings per share		₩ 311	₩ 216	₩ 764	₩ 657
Discontinued operation					
Basic earnings (loss) per share		₩ -	₩ (3)	₩ -	₩ 39
Diluted earnings (loss) per share		₩ -	₩ (3)	₩ -	₩ 39

The accompanying notes are an integral part of the interim consolidated financial statements.

KEB Hana Bank and its subsidiaries
Interim consolidated statements of changes in equity
For the nine-month periods ended September 30, 2015 and 2014
(Korean won in millions)

	Issued Capital	Capital surplus	Hybrid equity securities	Capital adjustments	Retained earnings	Accumulated other comprehensive income	Equity attributable to equity holders of the parent	Non-controlling shareholders' equity	Total
As at January 1, 2014	₩ 3,224,534	₩ 940	₩ 429,509	₩ (18,724)	₩ 5,796,603	₩ 148,587	₩ 9,581,449	₩ 1,515	₩ 9,582,964
Dividends	-	-	-	-	(77,433)	-	(77,433)	-	(77,433)
Redemption of hybrid equity securities	-	-	(249,772)	(228)	-	-	(250,000)	-	(250,000)
Dividends on hybrid equity securities	-	-	-	-	(11,873)	-	(11,873)	-	(11,873)
Share-based payment transactions	-	6	-	(258)	-	-	(252)	-	(252)
Appropriation to loss on sale of treasury stock	-	-	-	17,869	(17,869)	-	-	-	-
Appropriation to other capital adjustments	-	-	-	160	(160)	-	-	-	-
Other capital adjustment	-	-	-	213	-	-	213	-	213
Acquisition of subsidiary	-	-	-	(19,444)	-	-	(19,444)	125,291	105,847
Acquisition of treasury stock of subsidiary	-	-	-	(7,494)	-	-	(7,494)	(12,445)	(19,939)
Spinoff of a credit card division	(640,000)	-	-	11	-	497	(639,492)	-	(639,492)
	2,584,534	946	179,737	(27,895)	5,689,268	149,084	8,575,674	114,361	8,690,035
Net income for the period	-	-	-	-	450,986	-	450,986	7,433	458,419
Gain on valuation of available-for-sale financial assets	-	-	-	-	-	2,278	2,278	364	2,642
Exchange differences on transaction of foreign operations	-	-	-	-	-	(20,863)	(20,863)	(4,191)	(25,054)
Changes in remeasurement of the net defined benefit liability	-	-	-	-	-	(2,401)	(2,401)	-	(2,401)
Total comprehensive income for the period	-	-	-	-	450,986	(20,986)	430,000	3,606	433,606
As at September 30, 2014	₩ 2,584,534	₩ 946	₩ 179,737	₩ (27,895)	₩ 6,140,254	₩ 128,098	₩ 9,005,674	₩ 117,967	₩ 9,123,641

	Issued Capital	Capital surplus	Hybrid equity securities	Capital adjustments	Retained earnings	Accumulated other comprehensive income	Equity attributable to equity holders of the parent	Non-controlling shareholders' equity	Total
As at January 1, 2015	₩ 2,584,534	₩ 946	₩ 179,737	₩ (26,923)	₩ 6,051,930	₩ 112,060	₩ 8,902,284	₩ 124,397	₩ 9,026,681
Dividends	-	-	-	-	(146,384)	-	(146,384)	-	(146,384)
Dividends on hybrid equity securities	-	-	-	-	(7,360)	-	(7,360)	-	(7,360)
Share-based payment transactions	-	234	-	592	-	-	826	-	826
Appropriation to other capital adjustments	-	-	-	228	(228)	-	-	-	-
Other capital adjustment	-	-	-	(139)	-	-	(139)	-	(139)
Acquisition of subsidiary	-	-	-	-	-	-	-	54,797	54,797
Business combination under common control	2,775,044	9,666,841	-	-	-	121,555	12,563,440	(140,718)	12,422,722
	5,359,578	9,668,021	179,737	(26,242)	5,897,958	233,615	21,312,667	38,476	21,351,143
Net income for the period	-	-	-	-	448,673	-	448,673	10,842	459,515
Loss on valuation of available-for-sale financial assets	-	-	-	-	-	(75,565)	(75,565)	(1,197)	(76,762)
Changes in equity on investments in associates	-	-	-	-	-	25,879	25,879	-	25,879
Exchange differences on transaction of foreign operations	-	-	-	-	-	11,831	11,831	(7,941)	3,890
Loss on valuation of net investment hedges of foreign operations	-	-	-	-	-	(17,085)	(17,085)	-	(17,085)
Changes in remeasurement of the net defined benefit liability	-	-	-	-	-	(1,357)	(1,357)	-	(1,357)
Total comprehensive income for the period	-	-	-	-	448,673	(56,297)	392,376	1,704	394,080
As at September 30, 2015	₩ 5,359,578	₩ 9,668,021	₩ 179,737	₩ (26,242)	₩ 6,346,631	₩ 177,318	₩ 21,705,043	₩ 40,180	₩ 21,745,223

The accompanying notes are an integral part of the interim consolidated financial statements.

KEB Hana Bank and its subsidiaries
Interim consolidated statements of cash flows
For the nine-month periods ended September 30, 2015 and 2014

(Korean won in millions)

	For the nine-month periods ended September 30,	
	2015	2014
Operating activities		
Net income	₩ 459,515	₩ 458,419
Adjustments to reconcile net income to net cash flows:		
Income tax expense	111,081	96,988
Interest income, net	1,128,082	1,189,535
Gain on valuation of financial assets held-for-trading, net	(3,299)	(3,212)
Loss (gain) on valuation of derivatives held-for-trading, net	(59,537)	30,531
Loss (gain) on valuation of derivatives used for hedging purposes, net	(2,434)	2,105
Gain on disposal of available-for-sale financial assets, net	(196,015)	(146,712)
Impairment loss on available-for-sale financial assets	34,070	77,228
Provisions for allowance of possible loan losses, net	296,020	357,507
Depreciation on property and equipment	60,819	57,765
Depreciation on investment property	2,581	1,970
Amortization	18,384	19,140
Loss (gain) on disposal of property and equipment, net	(5,689)	198
Gain on disposal of intangible assets, net	(82)	(556)
Gain on sale of loans receivable, net	(26,904)	-
Impairment loss on property and equipment	24	-
Provision for pension benefit	50,687	41,431
Long-term compensation expense for performance bonus	729	2,396
Provisions for (reverse of) allowances for acceptance and guarantees	(15,061)	181
Provisions for (reverse of) unused credit limit, net	(7,521)	2,375
Provisions for (reverse of) other allowances, net	43,035	(4,139)
Loss (gain) on valuation of financial assets held-for-trading (merchant banking account), net	63	(80)
Reversal of possible loan losses (merchant banking account), net	(5)	(627)
Reversal of unused credit limit (merchant banking account), net	(275)	-
Loss (gain) on valuation of CMA securities (merchant banking account), net	(2)	(23)
Loss (gain) on foreign currency transactions, net	103,272	(40,817)
Dividend income	(27,772)	(10,933)
Interest income	(2,650,777)	(2,909,424)
Rental income	(3,000)	(2,077)
Reversal of share based payment expense	-	(389)
Loss on valuation of equity method securities	-	288
	(1,149,526)	(1,239,351)
Changes in operating assets and liabilities:		
Financial assets held-for-trading	100,697	105,784
Derivative assets held-for-trading	(1,564,348)	(158,984)
Derivative assets used for hedging purposes	(51,163)	280
Loans receivable	(875,832)	(4,947,716)
Other assets	(630,297)	(626,181)
Merchant banking account assets	44,781	244,371
Deposits	2,194,323	3,318,376
Derivative liabilities held-for-trading	1,528,812	176,193
Derivative liabilities used for hedging purposes	-	(4,286)
Pension benefits	22,233	(2,421)
Provisions	(45,782)	(12,424)
Other liabilities	(688,379)	290,056
Plan assets	-	(200)
Merchant banking account liabilities	74,004	964,871
	109,049	(652,281)
Cash received from operating activities:		
Interest receipts	2,656,373	2,908,938
Dividend receipts	27,772	10,933
Income tax refunds	121,452	37,667
	2,805,597	2,957,538
Cash payment for operating activities:		
Interest payments	1,213,082	1,260,355
Payment of income tax	61,325	62,856
	(1,274,407)	(1,323,211)
Net cash flows provided by operating activities	950,228	201,114

(Continued)

KEB Hana Bank and its subsidiaries
Interim consolidated statements of cash flows
For the nine-month periods ended September 30, 2015 and 2014

(Korean won in millions)

	For the nine-month periods ended September 30,	
	2015	**2014**
Investing activities		
Cash inflow related to investing activities:		
Proceeds from disposal of available-for-sale financial assets	6,151,952	8,903,118
Proceeds from disposal of held-to-maturity investments	521,298	1,581,906
Proceeds from disposal of property and equipment	13,332	1,014
Proceeds from disposal of intangible assets	1,774	2,174
Proceeds from disposal of non-business use assets	1,640	103
Cash inflow related to lease, net	-	39,516
Decrease in guarantee deposits paid, net	78,787	17,721
Net cash flow used in disposing of subsidiary	-	87,368
Business combination under common control	3,763,205	-
	10,531,988	10,632,920
Cash outflow related to investing activities:		
Increase in restricted due from banks, net	1,765,554	847,857
Purchase of available-for-sale financial assets	4,783,986	10,838,204
Purchase of held-to-maturity investments	823,608	1,293,609
Acquisition of intangible assets	16,525	18,544
Acquisition of property and equipment	65,170	48,145
Net cash flow used in spinoff of a credit card division	-	330,419
Net cash flow used in purchasing subsidiary	197,621	-
	(7,652,464)	(13,376,778)
Net cash flows provided by (used in) investing activities	2,879,524	(2,743,858)
Financing activities		
Cash inflow related to financing activities:		
Increase in call money, net	-	1,859,919
Increase in borrowings	4,130,199	3,357,670
Issuance of debentures	742,295	751,071
	4,872,494	5,968,660
Cash outflow related to financing activities:		
Decrease in call money, net	703,232	-
Decrease in bills sold, net	29,838	11,635
Decrease in borrowings	4,302,687	1,599,733
Redemption of debentures	52,132	1,458,721
Dividends paid	146,384	77,433
Dividends on hybrid equity securities	7,360	11,873
Redemption of hybrid equity securities	-	250,000
Acquisition of treasury stock	-	19,939
Issuance of new shares	13,320	-
	(5,254,953)	(3,429,334)
Net cash flows provided by (used in) financing activities	(382,459)	2,539,326
Net increase (decrease) in cash and cash equivalents	3,447,293	(3,418)
Cash and cash equivalents at the beginning of the period	5,053,236	4,726,835
Effect of exchange rate changes on cash and cash equivalents	47,673	(71,819)
Cash and cash equivalents at the end of the period	₩ 8,548,202	₩ 4,651,598

The accompanying notes are an integral part of the interim consolidated financial statements.

1. Company information

The accompanying consolidated financial statements include KEB Hana Bank (the Bank), and its controlled subsidiaries (collectively, the Company). The general information describing the Company's operations and equity–method investees is provided below.

1.1 KEB Hana Bank

Hana was established on at January 30, 1967, as a government-invested bank which primarily engages in foreign exchange and trade finance business under the Korea Exchange Bank Act published on July 28, 1966. On December 30, 1989, the Korea Exchange Bank Act was repealed, and KEB was reorganized as a corporation under the Commercial Code of the Republic of Korea. On April 4, 1994, Hana was listed on the Korean Stock Exchange. The merger between Hana and the Korea Exchange Bank Credit Service Co., Ltd. was finalized on February 28, 2004. Then, the spinoff of credit card division was finalized on August 31, 2014.

Hana Financial Group Inc. (the "HFG") had controlling power over the Bank by acquiring 52.27% ownership of the Bank on February 9, 2012. The Bank became HFG's wholly owned subsidiary as HFG acquired 100 percent stake of the Bank on April 5, 2013.

The Bank marged with Hana Bank on September 1, 2015, and changed the corporate name from KEB to KEB Hana Bank

The Bank primarily provides commercial banking services, trust banking services, foreign exchange, merchant banking business as a result of the merger with Korea International Merchant Bank, a domestic subsidiary Hana, and other related operations as permitted under the Korea Exchange Bank Act and other relevant laws and regulations in the Republic of Korea. As at September 30, 2015, Hana operates through 932 branches (including 81 depositary offices) and 27 branches (including 3 depositary offices and 4 offices).

As at September 30, 2015, the Bank had processed a number of increases in capital by issuing new stocks, decreases in paid-in capital, transformation of preferred stock to ordinary stock, spin-off and merger. The Bank is authorized to issue 2,000 million shares (at par value of ₩5,000) after reflecting the effects of the merger as described in Note 52, and has issued 1,071,915,717 ordinary shares amounting to ₩5,359,579 million for paid-in capital.

1.2 Scope and overview of consolidation

The Company's ownership percentages in its consolidated subsidiaries as at September 30, 2015 are summarized as follows (ownership in %):

Investee	Country	Major business	Share ratio (%)	Reporting date
Subsidiaries of KEB Hana Bank				September 30
Hana Bank (China) Co., Ltd. (*1)	China	Bank	100.0	September 30
Hana Micro Finance Ltd	Myanmar	Other financial business	100.0	September 30
LS Leading Solution PEF Invest Trust 143 (*2)	Korea	Asset management company	100.0	September 30
Hana UBS Power PEF Invest Trust 21 (*2)	Korea	Asset management company	100.0	September 30
Hyundai Trust PEF Invest 16 (*2)	Korea	Asset management company	100.0	September 30
Korea Basic PEF Invest Trust 63 (*2)	Korea	Asset management company	100.0	September 30
Sevenstar Co., Ltd. (*2)	Korea	Other financial business	-	September 30
Marine Solution Co., Ltd. (*2)	Korea	Other financial business	-	September 30
Joong-ang star Co., Ltd. (*2)	Korea	Other financial business	-	September 30

1. Company information (cont'd)

1.2 Scope and overview of consolidation (cont'd)

Investee	Country	Major business	Share ratio (%)	Reporting date
Coverbill Llc (*2)	Korea	Other financial business	-	September 30
HB rainbow the 1st, Ltd (*2)	Korea	Other financial business	-	September 30
Trust accounts guaranteeing the repayment of principa l(*2)	Korea	Trust account	-	September 30
KEB F&I ("Hana F&I") (fomer, KEB Capital Inc.)	Korea	Investment and management service for NPL assets backed securities	99.3	September 30
Hana Futures Co., Ltd. ("HanaF")	Korea	Futures brokerage service	100.0	September 30
Hana Fund Services Company ("HanaIS")	Korea	Transfer agent	100.0	September 30
Korea Exchange Bank of Canada	Canada	Financial business	100.0	September 30
Korea Exchange Bank (Deutschland) A.G. ("KEBDAG")	Germany	Financial business	100.0	September 30
PT Bank KEB Hana	Indonesia	Financial business	87.2	September 30
Banco KEB do Brasil S. A ("KEBB")	Brazil	Financial business	100.0	September 30
KEB NY Financial Corp ("NYFinCo")	USA	Financial business	100.0	September 30
KEB LA Financial Corp ("LAFinCo")	USA	Financial business	100.0	September 30
KEB USA Int'l Corp ("USAI")	USA	Financial business	100.0	September 30
KEB Asia Finance Limited ("KAF")	Hongkong	Financial business	100.0	September 30
KEB Russia	Russia	Financial business	99.9	September 30
Subsidiaries of Hana F&I Inc.				
KEBW First Securitization Specialty Co., Ltd. (*2)	Korea	Asset securitization	5.0	September 30
KEB VERITAS Second Securitization Co., Ltd. (*2)	Korea	Asset securitization	-	September 30
KEBS First Securitization Co., Ltd. (*2)	Korea	Asset securitization	5.0	September 30
KEBS Second Securitization Co., Ltd. (*2)	Korea	Asset securitization	5.0	September 30
KEB Pepper First Securitization Co., Ltd (*2)	Korea	Asset securitization	5.0	September 30
KEBI First Securitization Co., Ltd. (*2)	Korea	Asset securitization	9.0	September 30
KEBBS First Securitization Co., Ltd. (*2)	Korea	Asset securitization	5.0	September 30
KEBS Third Securitization Co., Ltd. (*2)	Korea	Asset securitization	5.0	September 30
KEBT First Securitization Specialty Co., Ltd (*2)	Korea	Asset securitization	5.0	September 30
Hongdae Picasso Co., Ltd. (*2)	Korea	Asset securitization	-	September 30
KEB The Loft Co., Ltd. (*2)	Korea	Asset securitization	-	September 30
HFS First Securitization Specialty Co., Ltd. (*2)	Korea	Asset securitization	14.0	September 30
HANAMIRAEASSET Third Securitization Specialty Co., Ltd (*2)	Korea	Asset securitization	14.0	September 30

(*1) The Bank has changed classification of Hana Bank (China) Co., Ltd from investments in associates to investments in subsidiaries since the Bank holds control over the company as a result of business combination under common control on September 30, 2015.
(*2) Although the entity is a structured SPC, the Company recognized the entity as a subsidiary considering its exposure to variable returns and knowledge with regards to its activities.
Condensed financial statements as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

1. Company information (cont'd)

1.2 Scope and overview of consolidation (cont'd)

	September 30, 2015					
Classification	Assets	Liabilities	Equity	Operation Income	Net income (loss)	Comprehensive Income (loss)
Hana Bank (China) Co., Ltd.	₩ 6,592,895	₩ 5,621,265	₩ 971,630	₩ 34,007	₩ (3,623)	₩ (7,111)
Hana Micro Finance	5,392	64	5,328	40	(6)	(6)
Trust accounts guaranteeing the repayment of principal	1,473,717	1,441,131	32,586	(25)	175	175
KEB F&I ("Hana F&I") (*)	450,570	401,522	49,048	22,008	2,016	3,072
Hana Futures Co., Ltd.	737,676	671,751	65,925	11,104	371	6,584
Hana Investors Services Company	25,440	3,492	21,948	15,868	3,603	3,039
Korea Exchange Bank of Canada	1,390,318	1,198,308	192,010	34,265	3,550	(29,816)
Korea Exchange Bank (Deutschland) A.G.	727,042	636,352	90,690	11,097	5,422	(10,572)
PT Bank KEB Hana	2,274,719	1,915,099	359,620	112,343	25,092	(93,797)
Banco KEB do Brasil S. A	125,796	93,803	31,993	11,925	2,686	(24,074)
KEB NY Financial Corp	607,778	555,051	52,727	11,337	4,243	6,368
KEB LA Financial Corp	393,601	336,606	56,995	8,615	2,577	4,972
KEB USA Int'l Corp	7,923	715	7,208	719	(747)	(572)
KEB Asia Finance Limited.	232,279	165,987	66,292	6,203	1,929	3,924
KEB Russia	85,535	67,809	17,726	5,213	153	(11,564)

	December 31, 2014					
	Assets	Liabilities	Equity	Operation Income	Net income (loss)	Comprehensive Income (loss)
KEB F&I ("Hana F&I") (*)	₩ 405,810	₩ 378,198	₩ 27,612	₩ 1,742	₩ 638	₩ 2,195
Hana FUTURES CO., LTD	692,094	626,611	65,483	395	360	6,515
Hana Investors Services Company	21,040	2,711	18,329	3,282	3,262	2,753
Korea Exchange Bank of Canada	1,394,560	1,241,436	153,124	11,099	11,112	(13,022)
KEB(Australia) Holdings (*)	-	730	(730)	389	(1,157)	(2,629)
Korea Exchange Bank (Deutschland) A.G	758,195	673,503	84,692	6,746	3,691	(13,184)
PT Bank KEB Hana	1,942,998	1,690,153	252,845	25,039	25,323	(63,838)
Banco KEB do Brasil S. A.	191,950	150,075	41,875	3,704	3,192	(14,192)
KEB NY Financial Corp	536,108	491,744	44,364	2,692	2,541	547
KEB LA Financial Corp	328,704	278,781	49,923	3,795	3,677	1,577
KEB USA Int'l Corp	7,371	6	7,365	32	36	(380)
KEB Asia Finance Limited	189,482	130,406	59,076	1,801	1,799	(1,494)
KEB Russia	28,795	9,660	19,135	(1,532)	(1,532)	(10,749)
Trust accounts guaranteeing the repayment of principal	776,703	765,745	10,958	(1,242)	(1,242)	(1,242)
Athenae 1st	11,571	11,500	71	69	69	69
Athenae 2nd	51	50	1	-	-	-

(*) The amounts presented are based on consolidation.

1. Company information (cont'd)

1.2 Scope and overview of consolidation (cont'd)

There is no entity excluded from the Company's scope of consolidation as at September 30, 2015 even though the Company holds a majority of voting rights.

Subsidiaries included in consolidation scope during the period ended September 30, 2015 are as follows:

Company	Reasons
Included in scope of consolidation:	
Subsidiaries of Hana Bank	
Hana Bank (China) Co., Ltd.	Included due to the business combination under common control
Hana Micro Finance	Included due to the business combination under common control
LS Leading Solution PEF Invest Trust 143	Included due to the business combination under common control
Hana UBS Power PEF Invest Trust 21	Included due to the business combination under common control
Hyundai Trust PEF Invest 16	Included due to the business combination under common control
Korea Investment Basic 63 Private Equity Investment Vehicles [Bond]	Included due to the business combination under common control
Sevenstar Co., Ltd.	Included due to the business combination under common control
Marine Solution Co., Ltd.	Included due to the business combination under common control
Joong-ang star Co., Ltd.	Included due to the business combination under common control
Coverbill Llc	Included due to the business combination under common control
HB rainbow the 1st, Ltd	Included due to the business combination under common control
16 trust accounts of (former) Hana Bank	Included due to the business combination under common control
Subsidiaries of Hana F&I Inc.	
KEBS Third Securitization Co., Ltd.	Newly invested
KEBT First Securitization Specialty Co., Ltd	Newly invested
Hongdae Picasso Co., Ltd.	Newly invested
KEB The Loft Co., Ltd.	Newly invested
HFS First Securitization Specialty Co., Ltd.	Newly invested
HANAMIRAEASSET Third Securitization Specialty Co., Ltd.	Newly invested
Excluded in scope of consolidation:	
Subsidiaries of Hana Bank	
Athenae 1st	Excluded due to the liquidation
Athenae 2nd	Excluded due to the liquidation
KEB (Australia) Holdings	Excluded due to the disposal
Subsidiaries KEB (Australia) Holdings	
KEB Australia Ltd. (KEBA)	Excluded due to the disposal
Subsidiaries of Hana F&I	
KEB VERITAS first Securitization Co., Ltd.	Excluded due to the disposal

1. Company information (cont'd)

1.2 Scope and overview of consolidation (cont'd)

1.2.1 Hana Bank (China) Co., Ltd. (Hana Bank China)

Hana Bank China was incorporated to engage in commercial banking, foreign currency exchanges and other related operations in China on December 14, 2007. The Bank contributed the assets and liabilities of the branches in Shanghai and Shenyang and its interests in the International Bank of Qingdao, which is the subsidiary of the Bank, to the Hana Bank China in the form of equity contributions on December 24, 2007. Hana Bank (China) Co., Ltd., one of subsidiaries in China, acquired and merged with KEB China, one of affiliates in the Hana Financial Group, on December 15, 2014. (Before the merger, equity interests in Hana Bank China were 59.7% for Hana Bank, 40.3% for Korea Exchange Bank). Its paid-in capital is 3.35 billion yuan as at September 30, 2015.

1.2.2 Hana Micro Finance Ltd.

Hana Micro Finance Ltd., a subsidiary established in Yangon, Myanmar on August 7, 2014, is doing a small-loan finance service. The objective of the service is to satisfy low incomers' demand for small-loan finance and at the same time to lay the foundation for a retail market with excellent growth potential. As at September 30, 2015, its captial is US$ 1 million, and it owns a head office in Yangon.

1.2.3 Hana F&I Inc. (former, KEB F&I).

Hana F&I Inc. (former, KEB F&I) was established on September 11, 1989, to engage in equipment rental and other relevant businesses under the Specialized Credit Financial Business Act (formerly, Equipment Rental Business Act) and was listed on the Korea Securities Dealers Automated Quotation ("KOSDAQ") on January 15, 1995. KEBF&I has changed its name to KEBF&I Inc. KEB is restricted to control a company which runs the specialized credit financial business in accordance with the Financial Holding Companies Act Article 19 as on and after January 31, 2014. On October 17, 2013, KEBF&I's Board of Directors approved to change business field to investment in asset backed securities and asset management business in Asset-Backed Securitization Act,. It changed its name from KEB F&I to Hana F&I Co. Ltd. on September 1, 2015. Its paid-in capital is 75,400 million won as at September 30, 2015.

1.2.4 Hana Futures Co., Ltd.

Hana Futures Co., Ltd.was incorporated on September 24, 1997 as an integrated futures broker of KEB. In 1998, Hana FUTURES CO., LTD. (KEBF) was granted a futures trading license for overseas markets and domestic operations from the Ministry of Economy and Finance. KEBF changed its name to KEB Futures Co., Ltd. on March 19, 1999. KEBF changed its name to Hana Futures Co. Ltd on September 1, 2015. Its paid-in capital is 15,000 million won as at September 30, 2015. The Bank holds 100% stake of the company.

1.2.5 Hana Investors Services Company (KEB Fund Services)

Hana Investors Services Company (KEB Fund Services) was established on April 1, 2003 to provide trust services for securities companies and general services including accounting and trust services for banks, pension funds and other companies under the Capital Market and Financial Investment Business Act (formerly, Indirect Investment Asset Management Business Act). KEB Fund Services changed its name to Hana Fund Services on September 1, 2015. Its paid-in capital is 2,550 million won as at September 30, 2015. The Bank holds 100% stake of the company.

1. Company information (cont'd)

1.2 Scope and overview of consolidation (cont'd)

1.2.6 Korea Exchange Bank of Canada (KEBOC)

KEBOC was established in Toronto, Canada on October 6, 1981 to provide financial services to Korean companies and residents in Toronto and the surrounding area. The Bank holds 100% stake of the company as at September 30, 2015. Korea Exchange Bank of Canada has gone through numerous capital increases after the establishment. Its paid-in capital is 33,400 thousand Canadian dollars as at September 30, 2015

1.2.7 Korea Exchange Bank (Deutschland) A.G. (KEBDAG)

KEBDAG was established in Frankfurt, Germany on December 29, 1992 to provide financial services to Korean companies and residents in Frankfurt and the surrounding area. The Bank holds 100% stake of the company as at September 30, 2015. Its paid-in capital is 23,008 thousand Euro as at September 30, 2015.

1.2.8 PT. Bank KEB Hana

PT. Bank KEB Hana was established in Jakarta, Indonesia on November 5, 1990 to provide financial services to Korean companies and residents in Jakarta. In accordance with the regulations of the Bank Indonesia, 2 or more local banks with the same ultimate parent company are prohibited to operate as an independent entity in Indonesia. Accordingly, PT. Bank KEB Indonesia (KEBI), a subsidiary of the Bank, and PT. Bank Hana, a subsidiary of Hana Bank, have completed a merger process on February 20, 2014 and changed the name to PT. Bank KEB Hana. PT. Bank KEB Hana incorporated into a subsidiary of KEB on February 28, 2014 since KEB owned the major shares of PT. Bank KEB Hana after the acquisition. The Bank holds 100% stake of the company as at September 30, 2015.

1.2.9 Banco KEB do Brasil S. A. (KEBB)

KEBB was incorporated on May 21, 1999 to provide finance services for foreign clients, advisory services, finance arrangement and security investment trust services regarding overseas investment for domestic companies. The Bank holds 100% stake of the company as at September 30, 2015. By increasing capital in 2012, its paid-in capital is 69,726 thousand Real as at September 30, 2015.

1.2.10 KEB NY Financial Corp. (NYFinCo)

NYFinCo was established in New York, USA on April 8, 2004 to provide financial services to Korean companies and residents in New York and the surrounding area. The Bank holds 100% stake of the company as at September 30, 2015. Its paid-in capital is 1 dollar as at September 30, 2015.

1.2.11 KEB LA Financial Corp. (LAFinCo)

LAFinCo was established in Los Angeles, USA on July 2, 2009 to provide financial services to Korean companies and residents in Los Angeles and the surrounding area. The Bank holds 100% stake of the company as at September 30, 2015. Its paid-in capital is 1 dollar as at September 30, 2015.

1.2.12 KEB USA Int'l Corp. (USAI)

KEB USA Int'l Corp has initiated its business on May 3, 2004 and primarily offers USA dollar transfer brokerage services dealt in the head office of Korea Exchange Bank for the United States or third countries. The Bank holds 100% stake of the company as at September 30, 2015. Its paid-in capital is 1 dollar as at September 30, 2015.

1. Company information (cont'd)

1.2 Scope and overview of consolidation (cont'd)

1.2.13 KEB Asia Finance Limited (KAF)

KAF was established on July 2, 2009 to provide finance services for foreign clients, advisory services, finance arrangement and security investment trust services regarding overseas investment for domestic companies. The Bank holds 100% stake of the company as at September 30, 2015. Its paid-in capital is 50,000 thousand dollars as at September 30, 2015.

1.2.14 KEB Russia

KEB launched a Moscow representative office in 2008 to provide financial information and consulting services for Korean and local companies in Russia. The Bank holds 99.99% stake of the company as at September 30, 2015. Its paid-in capital is 1,061 million Roubles as at September 30, 2015.

1.3 Structured entities

1.3.1 Consolidated structured entities

1.3.1.1 LS Leading Solution PEF Investment Trust 143 and a set of 3 other private equity investment vehicles

In accordance with K–IFRS 1110 Consolidated Financial Statements, 4 private equity investment vehicles were included in consolidation scope, because the Company has existing rights that give it the current ability to direct the relevant activities, and is not only exposed, or has rights, to variable returns, but also has the ability to use its power to affect the Company's returns from its involvement with the investee.

1.3.1.2 Sevenstar Co., Ltd. and 4 other special purpose entities

In accordance with K–IFRS 1110 Consolidated Financial Statements, 5 special purpose companies were included in consolidation scope, because the Company has existing rights that give it the current ability to direct the relevant activities, and is not only exposed, or has rights, to variable returns, but also has the ability to use its power to affect the Company's returns from its involvement with the investee.

1.3.1.3 Trust accounts

In accordance with K–IFRS 1110 Consolidated Financial Statements, trust accounts are included in consolidation scope because the Company has existing rights that give it the current ability to direct the relevant activities, and is not only exposed, or has rights, to variable returns, but also has the ability to use its power to affect the Company's returns from its involvement with the investee.

1.3.1.4 Contractual commitments to consolidated structured entities

Characteristics and Intentions of contractual commitments offered by company to consolidated structured entities are as follows:

1. Company information (cont'd)

1.3 Structured entities (cont'd)

1.3.1 Consolidated structured entities (cont'd)

1.3.1.4 Contractual commitments to consolidated structured entities (cont'd)

Entity	The Characteristics and Purposes	Intention
Trust accounts guaranteeing the repayment of principal	The Company offers principal conservation commitment to trust accounts. The Group required to conserve the deficit amount in case the trust account stands below the principal as a result of the operation	Credit risk mitigation on financial management of trust account
KEBW First Securitization Specialty Co., Ltd.	The Company purchased the unsubordinated securities and subordinated securities issued by KEBW First Securitization Specialty Co., Ltd. in the amount of ₩34,700 million, respectively.	Operating activities
KEBS First Securitization Co., Ltd.	The Group underwrote ₩21,800 million of senior bonds issued by KEBS First Securitization Co., Ltd.	Operating activities
KEBS Second Securitization Co., Ltd.	The Group underwrote ₩18,300 million of senior bonds issued by KEBS Second Securitization Co., Ltd.	Operating activities
KEB Pepper First Securitization Co., Ltd.	The Group underwrote ₩4,900 million of senior bonds and ₩3,300 million of subordinated bonds issued by KEB Pepper First Securitization Co., Ltd.	Operating activities
KEBI First Securitization Co., Ltd.	The Group underwrote ₩40,700 million of senior bonds and ₩40,700 million of subordinated bonds issued by KEBI First Securitization Co., Ltd.	Operating activities
KEBBS First Securitization Co., Ltd.	The Group underwrote ₩21,700 million of senior bonds issued by KEBBS First Securitization Co., Ltd.	Operating activities
KEBS Third Securitization Co.,Ltd.	The Group underwrote ₩21,614 million of subordinated bonds issued by KEBS Third Securitization Co., Ltd.	Operating activities
KEBT First Securitization Specialty Co., Ltd.	The Group underwrote ₩14,220 million of bonds issued by KEBT First Securitization Specialty Co., Ltd.	Operating activities
Hongdae Picasso Co., Ltd.	The Group underwrote ₩15,860 million of bonds issued by Hongdae Picasso Co., Ltd.	Operating activities
KEB The Loft Co., Ltd.	The Group underwrote ₩18,000 million of bonds issued by KEB The Loft Co., Ltd.	Operating activities
KEB VERITAS Second Securitization Co., Ltd.	The Group underwrote ₩18,600 million of bonds issued by KEB VERITAS Second Securitization Co., Ltd.	Operating activities
HFS First Securitization Specialty Co., Ltd.	The Group underwrote ₩38,238 million of bonds issued by HFS First Securitization Specialty Co., Ltd.	Operating activities
HANAMIRAEASSET Third Securitization Specialty Co., Ltd.	The Group underwrote ₩7,900 million of bonds issued by HANAMIRAEASSET Third Securitization Specialty Co., Ltd.	Operating activities

1. Company information (cont'd)

1.3 Structured entities (cont'd)

1.3.2 Unconsolidated structured entities

1.3.2.1 The nature of the Company's interests in unconsolidated structured entities

Details of the nature of the Company's Interests in unconsolidated structured entities as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Type	Characteristics and purposes	Financing arrangement	Total Assets September 30, 2015	Total Assets December 31, 2014
Special purpose company	Securitization of backed asset	Issuing ABL/ABCP and others	₩ 10,483,639	₩ 6,517,012
Real estate finance	Operation for real estate (including SOC) development	Investment and borrowing	27,451,760	20,718,613
Shipping finance and primary market finance	Building or purchasing ships and NPL purchase, M&A	Investment and borrowing	21,984,620	7,851,848
Investment fund	Managing investment property	Issuing beneficiary certificates	64,104,749	5,756,555

1.3.2.2 Maximum exposure to loss from interests in unconsolidated structured entities

Classification	September 30, 2015 Special purpose company	Real estate finance	Shipping finance and primary market finance	Investment fund
Assets:				
Loans receivable (A)	₩ 927,227	₩ 1,972,363	₩ 1,808,956	₩ 1,201,579
Securities (B)	14,960	92,482	81	8,725,236
Derivatives (C)	51,857	5,639	36,131	65,775
Others (D)	19,066	8,833	11,407	3,399
	1,013,110	2,079,317	1,856,575	9,995,989
Liabilities:				
Derivative liabilities	507	-	10,286	1,090
Provision	982	102	142	192
Others	18,216	2,843	-	-
	19,705	2,945	10,428	1,282
Net asset	₩ 993,405	₩ 2,076,372	₩ 1,846,147	₩ 9,994,707
Maximum exposure to loss	2,371,309	2,227,671	2,063,922	10,005,938
Financial assets (A+B+C+D)	1,013,110	2,079,317	1,856,575	9,995,989
Credit and other commitment	1,358,199	148,354	207,347	9,949

Classification	December 31, 2014 Special purpose company	Real estate finance	Shipping finance and primary market finance	Investment fund
Assets:				
Loans receivable (A)	₩ 286,526	₩ 1,084,047	₩ 507,935	₩ 657,399
Securities (B)	1	19,836	-	70,784
Derivatives (C)	12,349	-	-	123

1. Company information (cont'd)

1.3 Structured entities (cont'd)

1.3.2 Unconsolidated structured entities (cont'd)

1.3.2.2 Maximum exposure to loss from interests in unconsolidated structured entities (cont'd)

	December 31, 2014			
Classification	Special purpose company	Real estate finance	Shipping finance and primary market finance	Investment fund
Others (D)	₩ 13,603	₩ 4,504	₩ 1,102	₩ 2,978
	312,479	1,108,387	509,037	731,284
Liabilities:				
Derivative liabilities	-	-	485	4,825
Provision	17	189	20	1,092
Others	14,391	3,186	-	-
	14,408	3,375	505	5,917
Net asset	₩ 298,071	₩ 1,105,012	₩ 508,532	₩ 725,367
Maximum exposure to loss	1,520,671	1,268,912	520,711	746,805
Financial assets (A+B+C+D)	312,479	1,108,387	509,037	731,284
Credit and other commitment	1,208,192	160,525	11,674	15,521

2. Scope and principles of consolidation

The Company prepares statutory consolidated financial statements in the Korean language in accordance with Korean International Financial Reporting Standards (KIFRS 1034) enacted by the Corporate External Audit Law.

2.1 Subsidiaries

The Bank has the ability to determine the financial and operating policies of subsidiaries. Generally the Bank classified the entity as subsidiary in case the Bank has existing rights that give it the current ability to direct the relevant activities, and is not only exposed, or has rights, to variable returns, but also has the ability to use its power to affect the Company's returns from its involvement with the investee. Subsidiaries are fully consolidated from the date on which the control is transferred to the Company.

2.2 Offset of the investment accounts of the Company and the corresponding equity accounts

The investment accounts of the Company and the corresponding equity accounts of the subsidiaries are eliminated in consolidation.

2.3 Process of difference between the cost of investment

The consolidated financial statements reflect on only the share of the consolidated subsidiaries post–application of purchase accounting method. The difference between the cost of investment and the Company's share of the fair value of identifiable net assets and liabilities of the subsidiaries at the date of purchase accounting method application is presented as goodwill or negative goodwill. A review of impairment is performed at the end of each reporting date.

2. Scope and principles of consolidation (cont'd)

2.3 Process of difference between the cost of investment (cont'd)

If the controlling company additionally acquires the subsidiaries' share, the elimination of subsidiaries' equity account is based on the acquisition date of shares. The difference between the investment accounts of the Company and the corresponding equity accounts of the subsidiaries is amounted to the consolidated capital surplus (or capital adjustment).

2.4 Elimination of intercompany transactions and the unrealized gain or loss etc

All significant intercompany transactions and the account balances among the consolidated companies are eliminated on consolidation. Unrealized gains or losses included in loans and borrowings arising from transactions between consolidated companies are eliminated on consolidation. The related accounts receivable and payable are also eliminated on consolidation.

2.5 Investments in associates

Investments in entities over which the Company has control or significant influence are accounted for using the equity method. Under the equity method of accounting, the Company's initial investment in an investee is recorded at acquisition cost. Subsequently, the carrying amount of the investment is adjusted to reflect the Company's share of income or loss of the investee in the statement of comprehensive income and share of changes in equity that have been recognized directly in the equity of the investee in the related equity account of the Company on the statement of financial position. If the Company's share of losses of the investee equals or exceeds its interest in the investee, it suspends recognizing its share of further losses. However, if the Company has other long–term interests in the investee, it continues recognizing its share of further losses to the extent of the carrying amount of such long–term interests. The Company resumes the application of the equity method if the Company's share of income or change in equity of an investee exceeds the Company's share of losses accumulated during the period of suspension of the equity method of accounting.

At the date of acquisition, the excess of the cost of the investment over the Company's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as goodwill or negative goodwill. The amortization expense is included as a part of valuation gain or loss on the equity method investments in the statement of comprehensive income. The difference related to goodwill is recorded as the carrying amount. Goodwill is reviewed for the impairment when signs of damage arise and is not amortized over its useful life. Further, the Company's share of any difference between the net fair value of the investee's identifiable assets and liabilities, and the net book value of such assets and liabilities are amortized based on the investee's accounting treatments on the related assets and liabilities and charged or credited to the valuation gain or loss on the equity method investments in the statement of comprehensive income.

The Company's share in the investee's unrealized profits and losses resulting from transactions between the Company and its investee are eliminated to the extent of the interest in the investee.

2.6 A special reserve on trust accounts

A special reserve provided for the possible future losses on certain trust accounts under the arrangement of guaranteed fixed rate of return and repayment of the principal and guaranteed repayment of the principal is included under the retained earnings in the consolidated fixed.

2. Scope and principles of consolidation (cont'd)

2.7 Non-controlling intersests

Subsidiaries' equity which is not included in the Company's share is accounted as non-controlling interests. In case subsidiaries' non-controlling interests is below "0", minus non-controlling interests is presented as deduction of equity.

3. Basis of preparation and significant accounting policies

3.1 Basis of preparation

The Company prepares statutory consolidated financial statements in the Korean language in accordance with Korean International Financial Reporting Standards (KIFRS) enacted by the Corporate External Audit Law.

The accompanying consolidated financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the consolidated financial statements or the report on review of consolidated financial statements thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

3.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2014, except for the adoption of new standards and interpretation as at January 1, 2015, noted below:

3.2.1
K-IFRS 1019 'Employee benefits' (Amendments) – Defined benefit pension plan: employee's contribution

These amendments instruct a company to consider employees' or a third party's contribution to a defined benefit pension plan in accounting treatments. If the contribution is related to services rendered, the contribution should reduce a service cost. These amendments specify that if the contribution is irrelevant to a service period, the company may subtract the contribution from the service cost during the period when the services are rendered, instead of allocating the contribution to the service period. The Company does not operate defined pension plan with contribution from a third party thus the amendments do not have significant influence on the Company.

3.2.2 Amendments to KIFRS 1108: 'Operating Segments'

The amendments require that when integrating economically similar operating segments and disclosing the information by segment, disclosures related to integration should be added. The amendments also require that description of integrated operating segments and economic indicators used to verify the economic similarities are to be disclosed. Furthermore, the amendments clarify that adjustments from total assets of reportable segments to total assets of a company are required only when they are reported to the chief operating officer. The amendments do not have significant impact on the Company.

3.2.3 Amendments to KIFRS 1102: 'Share-based Paymen't

The previous KIFRS 1102 was unclear on whether 'performance condition' could include certain conditions or whether the duration of fulfilling 'performance condition' could outlast the duration of the services provided. The amendments clarify the definitions of 'performance condition' and providing of services. The amendments do not have significant impact on the Company.

3. Basis of preparation and significant accounting policies (cont'd)

3.2 Changes in accounting policies and disclosures (cont'd)

3.2.4 Amendments to KIFRS 1103: 'Business Combination'

The amendments regulate that if the contingent consideration is financial instrument, it is classified as liabilities or as equity in accordance with K-IFRS 1032 'Financial Instruments: Presentation'. The amendments also regulate that contingent consideration classified as an asset or liability should be measured at fair value in subsequent periods and that changes in fair value should be reflected as current gain or loss. Furthermore, all forms of joint arrangements or constitution of joint venture and cooperation are to be excluded from the application scope under K-IFRS 1103. The amendments do not have significant impact on the Company.

3.2.5 Amendments to KIFRS 1113: 'Fair Values Measurements'

Based on the amendments, short-term receivables and short-term payables without a specific interest rate are to be measured at original amount on the invoices if the discount effect is immaterial. The amendments also indicate that even if the asset or liability does not meet the definition of financial asset or liability, but is included in the application scope of KIFRS 1039 Financial Instruments: Recognition and Measurement, 'portfolio exception' should be activated. The amendments do not have significant impact on the Company.

3.2.6 Amendments to KIFRS 1024 'Related party disclosures'

The amendment includes the company (management company) that provides sevices of key management personnel either directly or indirectly to the definition of related party. If the key management services are provided to companies, payments and other transactions recognized as expenses should be disclosed for the services received from management company. The amendments do not have significant impact on the Company.

The Company has not early adopted any other standard, interpretation or amendment that been issued but is not yet effective.

3.3 Foreign currency transaction

3.3.1 Functional currency

When preparing for the consolidated financial statements, the Company measures and recognizes all items and transactions according to the functional currency. The term, functional currency, is defined as the monetary unit of account of the principal economic environment in which the entity operates, and trades between entities using its own functional currency and other currencies which are converted to the Company's functional currency to be measured and recognized.

3.3.2 Transactions and balances at the end of the reporting period

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the reporting date. All differences arising on non–trading activities are taken to 'Other operating income' in the statement of comprehensive income, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. These differences are taken directly to equity until the disposal of the net investment, at which time, they are recognized in the statement of comprehensive income.

3. Basis of preparation and significant accounting policies (cont'd)

3.3 Foreign currency transaction (cont'd)

3.3.2 Transactions and balances at the end of the reporting period (cont'd)

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non–monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

3.3.3 Translation of the presentation currency

As at the reporting date, the assets and liabilities of overseas branches are translated into the Company's presentation currency, Korean won (KRW), at the rate of exchange as at the reporting date, and their statement of comprehensive income are translated at the average exchange rates for the period. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity related to that particular foreign operation is recognized in 'Other operating expenses' or 'Other operating income' in the statement of comprehensive income.

3.4 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise of cash at Banks and on hand and short–term deposits with an original maturity of three months or less. The purpose of cash and cash equivalents is to make short–term investments and to meet short–term cash demands. Cash and cash equivalents are highly liquidable, easily convertible and subject to changes in value.

3.5 Financial assets – classification and subsequent measurement

All financial assets are classified as financial assets at fair value through profit or loss, available–for–sale financial assets, held–to–maturity financial assets, and loans and receivables. The Company determines the classification of its financial assets at initial recognition.

All financial assets are initially recognized on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. This includes 'Regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

The classification of financial assets at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial assets are measured initially at their fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

3.5.1 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held–for–trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held–for–trading if they are acquired for the purpose of selling or repurchasing in the short–term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments as defined by K–IFRS 1039 Financial Instruments: Recognition and Measurement. Derivatives, including separate embedded derivatives are also classified as held–for–trading unless they are designated as effective hedging instruments.

3. Basis of preparation and significant accounting policies (cont'd)

3.5 Financial assets – classification and subsequent measurement (cont'd)

3.5.1 Financial assets at fair value through profit or loss (cont'd)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognized in finance income or finance cost in the statement of comprehensive income.

3.5.2 Available–for–sale financial assets

Available-for-sale financial assets are defined as financial assets that are neither classified as held-to-maturity financial assets nor loans and financial assets held-for-trading, and that are also not financial assets designated at FVTPL. Available-for-sale financial assets are non-derivative financial assets that are designated upon initial recognition as available-for-sale financial assets. Available-for-sale financial assets are subsequently measured at fair value with gain or loss arising from a change in the fair value, except for foreign exchange or translation gain (loss) for monetary assets directly recognized as interest income and gain or loss based on EIR and impairment loss and are recognized as other comprehensive income. However, equity instruments whose market price is not quoted from an active market and fair value cannot be reliably measured are stated at cost. Accumulated other comprehensive income previously recognized in equity is recognized in the statement of comprehensive income when the investment is disposed of or impairment loss for the investment is recognized. Dividends earned whilst holding available-for-sale financial assets are recognized in the statement of comprehensive income when the right of the payment has been established.

3.5.3 Held–to–maturity financial assets

Non–derivative financial assets with fixed or determinable payments and fixed maturities are classified as held–to–maturity when the Company has the positive intention and ability to hold them to maturity. From initial measurement, held–to–maturity financial assets are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognized in finance costs in the statement of comprehensive income.

3.5.4 Loans and receivables

Loans and receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of comprehensive income except for short–term loans and receivables which the recognition of interest income is deemed immaterial.

3. Basis of preparation and significant accounting policies (cont'd)

3.5 Financial assets – classification and subsequent measurement (cont'd)

3.5.4 Loans and receivables (cont'd)

The Company defers LOF/LOCs associated with originating loans and LOCs that have future economic benefits. Loan balances are reported net of these LOF/LOCs. The deferred LOF/LOCs are amortized based on the effective interest rate method with the amortization recognized as adjustments to interest income.

3.6 Derivative financial instruments and hedge accounting

Derivative financial instruments are classified as trading derivatives or hedging derivatives depending on whether hedge accounting is applied or not, and are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives are taken directly to the statement of comprehensive income, except for the effective portion of cash flow hedges or hedges of net investment in a foreign operation, which is recognized in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk)
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or also the foreign currency risk in an unrecognized firm commitment

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The 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 effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

3.6.1 Fair value hedges

When fair value hedge accounting is applied, the unrealized gain or loss on hedged items that are attributable to a hedged risk and hedging instruments is symmetrically recognized in the consolidated statement of comprehensive income for the same reporting period to ensure that changes in the fair value of the hedged items are offset by changes in the fair value of the hedging instruments. If an application of hedge accounting is no longer valid, the Company discontinues the hedge accounting prospectively. Any adjustment to the carrying amount of hedged items is used is amortized to profit or loss in the consolidated statement of comprehensive income over the remaining maturity using the effective interest rate method.

3. Basis of preparation and significant accounting policies (cont'd)

3.6 Derivative financial instruments and hedge accounting (cont'd)

3.6.2 Cash flow hedges

When cash flow hedge accounting is applied, the effective portion of the unrealized gain or loss on the hedging instrument is directly recognized in other comprehensive income (loss) in the consolidated statement of financial position to ensure that changes in the cash flows of the hedged items are offset by changes in the cash flows of the hedging instruments while any ineffective portion is recognized immediately in the consolidated statement of comprehensive income. Amounts recognized as other comprehensive income are transferred to the consolidated statement of comprehensive income when the hedged transaction affects profit or loss. If an application of hedge accounting is no longer valid, the Company discontinues the hedge accounting prospectively and the cumulative gain or loss on the hedging instrument previously recognized in other comprehensive income are transferred to profit or loss in the consolidated statement of comprehensive income.

3.6.3 Hedge accounting of net investment in a foreign operation

When applying hedge accounting of net investment in a foreign operation, the effective portion of changes in fair value of the hedging instrument is recognized in other comprehensive income, and the ineffective portion of the hedge is recognized as current profit or loss in order to offset changes in the fair value of the hedged item caused by the hedging with changes in the fair value of the hedging instrument. The effective portion of hedge recognized in other comprehensive income will be re-classified from other comprehensive income to current profit or loss in accordance with KIFRS 1021 'The Effects of Changes in Foreign Exchange Rates' at the time of disposal of a foreign operation or disposal of a portion of its foreign operations in the future

3.6.4 Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

3. Basis of preparation and significant accounting policies (cont'd)

3.6 Derivative financial instruments and hedge accounting (cont'd)

3.6.5 'Day 1' profit or loss

In case of derivatives in level 3 (see Note 5), whose fair value is determined using data which is not observable from markets, the difference between the transaction price and fair value at initial recognition (a 'Day 1' profit or loss) is deferred and amortized over the life of the associated instrument using the straight–line method and the amortization is recognized in the statement of comprehensive income.

3.6.6 Credit valuation adjustment

When measuring derivatives at fair value using valuation techniques, credit valuation adjustment are calculated to reflect the spread for bid and ask prices to reflect costs to close out positions and credit risk of counterparties.

3.7 Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and if that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3.7.1 Available–for–sale financial assets

For available–for–sale financial assets, the Company assesses at each reporting date whether there is objective evidence that an asset is impaired. When there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of comprehensive income, is removed from other comprehensive income and recognized in the statement of comprehensive income.

In the case of equity investments classified as available–for–sale, objective evidence would include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Impairment loss on equity investments is not reversed through the statement of comprehensive income; increases in their fair value after impairment are recognized directly in other comprehensive income. In the case of debt investments classified as available–for–sale, if, in a subsequent year, increases in the fair value because of an event occurring after the impairment were recognized, the previously recognized impairment is reversed.

3.7.2 Held–to–maturity financial assets

When objective evidence exists for the impairment of a particular held–to–maturity financial asset, the Company calculates the difference between the carrying amount and the present value of the estimated future cash flows using the EIR. If, in subsequent years, the amount of the estimated impairment loss

3. Basis of preparation and significant accounting policies (cont'd)

3.7 Impairment of financial assets (cont'd)

3.7.2 Held–to–maturity financial assets (cont'd)

decreases because of an event occurring after the impairment was recognized, the previously recognized impairment is reversed and reduced by adjusting the allowance account. If the carrying amount does not reflect the impairment at the initial recognition after the reversal, the amount cannot exceed the amortized cost at the date of the reversal recognition.

3.7.3 Loans and receivables

The Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the individual impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the individual impairment loss is recognized in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the amount of the individual impairment loss.

The present value of the estimated future cash flows is discounted at the financial assets original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past–due status and other relevant factors.

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude).

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3. Basis of preparation and significant accounting policies (cont'd)

3.8 Reclassification of financial assets

The Company may, if a financial asset is no longer held for the purpose of selling or repurchasing it in the near term, reclassify that financial asset out of the fair value through profit or loss category only in rare circumstances. However, a financial asset that would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition) may be reclassified out of the fair value through profit or loss category even not in rare circumstances if the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

A financial asset classified as available for sale that would have met the definition of loans and receivables (if it had not been designated as available for sale) may be reclassified out of the available-for-sale category to the loans and receivables category if the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale. Whenever sales or reclassification of more than an insignificant amount of held-to-maturity investments, any remaining held-to-maturity investments shall be reclassified as available for sale.

3.9 Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'Pass–through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

3.10 Recognition and measurement of financial liabilities

All financial liabilities are classified as financial liabilities at fair value through profit or loss, borrowings or others and measured initially at their fair value plus transaction costs, except in the case of financial liabilities recorded at fair value through profit or loss.

3. Basis of preparation and significant accounting policies (cont'd)

3.10 Recognition and measurement of financial liabilities (cont'd)

3.10.1 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held–for–trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held–for–trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by K–IFRS 1039 Financial Instruments: Recognition and Measurement. Separated embedded derivatives are also classified as held–for–trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held–for–trading are recognized in the statement of comprehensive income.

3.10.2 Deposits, borrowings, and debentures

After initial recognition, interest bearing deposits, borrowings and debentures are subsequently measured at amortized cost using the EIR. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the statement of comprehensive income.

3.11 Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

3.12 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.13 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that 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 provision is used only for expenditures for which the provision was originally recognized. If the effect of the time value of money is material, provisions are stated at present value.

3. Basis of preparation and significant accounting policies (cont'd)

3.13 Provisions (cont'd)

Confirmed acceptances and guarantees, unconfirmed acceptances and guarantees and bills endorsed are not recognized on the statement of financial position, but are disclosed as off–statement financial position items in the notes to the financial statements. The Company provides a provision for such off–statement financial position items, applying a Cash Conversion Factor (Cash CF) and provision rates, and records the provision as a reserve for possible losses on acceptances and guarantees. The Company provides an allowance for possible losses on a certain portion of unused credit line. The Company records the provision for such unused balances as an allowance for possible losses on unused commitments which are calculated by applying a Credit Conversion Factor (CCF) and provision rates.

3.14 Financial guarantees

In the ordinary course of business, the Company gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the statement of comprehensive income, and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees and the premium received are recognized in the statement of comprehensive income.

3.15 Bonds purchased under resale agreements and bonds sold under repurchase agreements

Bonds purchased under resale agreements and bonds sold under repurchase agreements are included in loans and borrowings, respectively, in the accompanying statement of financial position.

3.16 Property and equipment

Property and equipment are stated at historical cost, less accumulated depreciation. Such cost includes an expenditure which has directly occurred for the acquisition of the asset.

The initial and subsequent costs are recognized as an asset when it is probable that future economic benefits associated with the asset will flow to the Company and the costs of the asset can be measured reliably. The other maintenances and repairs are expensed in the year in which they are incurred and the carrying amount of certain parts that are replaced is derecognized.

Land is not depreciated. For depreciation of other assets, amount of acquisition cost less residual value is calculated on a straight-line basis over the following estimated useful life of the asset.

Classification	Depreciation method	Years
Buildings	Straight–line method	5 to 55
Leasehold improvements	Straight–line method	3 to 10
Equipment and vehicles	Declining balance method	3 to 20

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is immediately reduced to its recoverable amount. The residual value and economic useful life are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for if necessary. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'Other operating income' in the statement of comprehensive income in the year the asset is derecognized.

3. Basis of preparation and significant accounting policies (cont'd)

3.17 Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day–to–day servicing of an investment property. Subsequent to initial recognition, investment properties are stated using the cost model.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the statement of comprehensive income in the period of derecognition, and transfers are made to or from investment property only when there is a change in use.

Depreciation method to measure buildings which are classified as investment properties is the straight–line method with useful lives ranging from 5 to 55 years.

3.18 Intangible assets

An intangible asset which comprises industrial property right, software, development costs and others is recognized as an asset only if it is probable that future economic benefits associated with the asset will flow to the Company and the costs of the asset can be measured reliably. Intangible assets acquired individually are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition in accordance to K-IFRS 1103 "Business Combination." Amortization of intangible assets with definite useful lives is calculated on the following amortization method over the estimated useful life of the assets.

Classification	Depreciation method	Years
Industrial property right, software, system development	Straight–line method	5
Other intangible assets	Straight–line method	1 to 7

Intangible assets with indefinite useful lives are not amortized but are annually tested for impairment or whenever there is an indication that the intangible asset may be impaired. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

3.19 Impairment of non–financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash–generating unit's (CGU) fair value less costs to sell and its value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

3. Basis of preparation and significant accounting policies (cont'd)

3.20 Pension benefits

The Company calculates defined benefit liabilities and pension benefit expenses based on defined benefit plan and defined contribution plan when an employee retires in accordance to pension related regulations. For defined benefit plans, the cost of retirement benefits is measured by an actuary services company, using the projected unit credit method. The present value of defined benefit obligation is computed by discounting expected future cash outflows with market rate of return measured against the yield of high-graded corporate bond whose date of payment and maturity is similar to that of a defined benefit obligation. Actuarial gains and losses, incurred from the change in actuarial assumptions and the difference between the assumptions and the actual results, are recognized in net income for the period. Past service cost is recognized immediately to the extent that the benefits are already vested and otherwise is amortized on a straight-line basis over the period until the benefits become vested.

The Company has entered into retirement trust fund and retirement pension plan agreements to pay retirement benefits to its employees. The retirement benefit obligation represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

3.21 Share–based payment transactions

Employees (including senior executives) of the Company receive remuneration in the form of share–based payment transactions, whereby employees render services as consideration for equity instruments, or they are granted share appreciation rights, which can only be settled in cash. If the goods or services provided cannot be reliably measured, the endowed equity is indirectly estimated at fair value and the Company accounts for compensation costs and equity.

The cost of cash–settled transactions is measured initially at fair value at the grant date, taking into account the terms and conditions upon which the instruments were granted. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, which changes in fair value recognized in the statement of comprehensive income. Also, in the case of a selectable share–based payment transaction in which the employees have a choice between a cash–settled transaction and an equity–settled transaction, the Company records the amount depending on its materiality.

3.22 Employee benefits

3.22.1 Short-term employee benefits

When employees have rendered services to the Company during an accounting period, the Company recognizes the undiscounted amount of Short-term employee benefits. This amount is expected to be settled in whole before twelve months after the end of the reporting period, in exchange for those services.

3.22.2 Termination benefits

The Company recognizes an expense for termination benefits when an employee accepts the offer or when a restriction on the Company's ability to withdraw the offer takes effect.

3. Basis of preparation and significant accounting policies (cont'd)

3.23 Income tax expenses and deferred tax assets and liabilities

Income taxes comprise of current and deferred taxes. All items related to taxes, other than those recognized directly in equity, are accounted for in the statement of comprehensive income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Company operates and generates taxable income. If the applied tax laws require an interpretation, the Company calculates income tax payable expected to be paid to the taxation authorities based on the opinion made when the taxes were reported.

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the years when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and taxation authority.

3.24. Equity

3.24.1 Classification of equity

The Company classifies financial instruments at initial recognition as either financial liabilities or financial equity depending on the contractual materiality.In the case where it is possible to avoid the related contractual obligations, the financial item is classified as a financial equity. An Equity is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

3.24.2 Stock issuance costs

New stock issuance costs or incremental costs related to the stock issuance for business combinations are recorded as a deduction from paid–in capital net of tax effects.

3.25 Earning per share

Basic and diluted earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding during the year.

3. Basis of preparation and significant accounting policies (cont'd)

3.26 Accounting basis for trust accounts

The Company separately maintains the books of accounts and financial statements in connection with the trust operations (the "trust accounts") from those of the Bank's accounts in accordance with the Financial Investment Services and Capital Markets Act ("FSCMA"). When surplus funds are generated through the management of trust assets, such funds are deposited with the Bank and are recorded as due to trust accounts of the Bank's accounts. Also, the borrowings from the Bank's accounts are recorded as due from trust accounts of the Bank's accounts. The Company receives fees for operation and management of the trust business and accounts for them as fee and commission income from trust accounts.

With respect to certain trust account products, the Company guarantees the repayment of principal and interest of these trust accounts, in certain cases, with a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in these trust accounts, offsetting trust fee payable to the Bank's accounts and receiving compensation contributions from the Bank's accounts. If the Company pays compensating contributions to the guaranteed return trusts to cover such deficiencies, these contributions are reflected as fee and commission expense from trust accounts in the Company's consolidated statements of comprehensive income.

3.27 Accounting of leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Amounts due from lessees under finance leases are recognized as receivables at the amount of Company's net investment in the leases. Finance lease income is allocated to accounting periodso as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

3.28 Merchant banking account

As permitted by the Restructuring of Financial Institutions Act, the Bank may continue its merchant banking operations, including leasing business, until the existing contracts acquired from the Korea International Merchant Bank upon merger are terminated.

Significant accounting policies applied to the Bank's merchant banking operations are summarized as follows:

3.28.1 Revenue recognition on discounted notes

Interest income on discounted notes is accrued over the term of the notes. Income from the sale of discounted notes is recognized at the date of transaction based on the difference between the purchase prices and sales prices of the notes, adjusted for interest earned during the holding period.

3.28.2 Cash Management Accounts (CMA)

The company recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

3. Basis of preparation and significant accounting policies (cont'd)

3.29 Interest income and interest expense

Interest income and interest expenses are recognized over time using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. Cash flows at the time of the calculation include all the fees and points paid to or received from parties to the contract that are an integral part of the effective interest rate, including transaction costs, and all other premiums or discounts.

If income recognition on an accrual basis is deemed inappropriate due to low possibility of realizing interest income, the interest income is recognized when interest is actually received. In case of individually impaired loans, recoverable amount as time passes are recognized as interest income.

3.30 Fees and commission income

The Company earns fee and commission income from a diverse range of services it provides to its customers. Fee income related to financial services is treated differently depending on the objective imposed by the related financial item. Fee income can be divided into the following categories:

- Fees and commission income are recognized using EIR in case they are main components of EIR of financial asset.
- Fees earned for the provision of services over a period of time are accrued over that period. Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized upon completion of the underlying transaction.

3.31 Dividend income

Dividend income is recognized when the Company's right to receive the payment is established.

3.32 Transaction under common control

The Company conducted accounting treatment of transactions under common control based on book value. Therefore, the Company recognized (eliminated) asset, liability and capital as at merger and spinoff date as book value and didn't recognize transaction gain (loss).

4. Significant judgments and accounting estimates

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily observable from objective sources. The estimation and assumption are based on other factors that are related to historical experience. 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.

In the process of applying the Company's accounting policies, management has made the following judgments that have a significant effect on the amounts recognized in the consolidated financial statements:

4. Significant judgments and accounting estimates (cont'd)

4.1 Fair value of financial instruments

The fair value of financial instruments is determined by referencing quoted market prices in active markets in the first place. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques including (i) recent arm's length market transactions, (ii) reference to the current fair value of another instrument that is substantially the same, (iii) discounted cash flow analysis, and (iv) option pricing models.

4.2 Impairment loss on equity securities classified as available–for–sale financial assets

The Company assesses its equity securities classified as available–for–sale assets at the end of each reporting period whether there is any indication that an asset may be impaired in accordance to K-IFRS 1039 "Financial Instruments: Recognition and Measurement." The Company also records impairment charges on available–for–sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Company evaluates the prospect and soundness of the investees' business, including duration and extent to which the fair value of an investment is less than its cost, sales performance, changes in techniques and cashflows of sales and investment.

When the fair value below the cost of available-for-sale equity instruments is significant (more than 30 %) or prolonged (longer than 6 months), the Company recognizes additional impairment by replacing the evaluated amount of accumulated fair value of available-for-sale equity instruments previously recognized as equity with current gain or loss.

4.3 Impairment loss on loans

For a measurement of impairment loss of loans, the Company assesses individually and collectively whether loans are impaired. Recoverable amount for the allowance for individual impairment loss is measured by estimating future cash flows for which the Company considers its customers' business outlook and secured assets for loans. Probability of default, loss emergence period and loss given default for the allowance for collective impairment loss are measured based on the impairment loss experience in the past periods.

4.4 Provision for pension benefits

The cost of providing benefits under the defined benefit plans is determined using the actuarial valuation. Actuarial assumptions were made for the discount rate, and an increase in the future pay rate. Severance and retirement benefits include significant uncertainties in the estimates due to the long-term duration.

4.5 Impairment of non–financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. Intangible asset with indefinite useful life is tested for impairment annually or tested whenever there is an indication that the intangible asset may be impaired. Other non-financial assets are tested for impairment whenever there is indication that the book value cannot be recovered. For the calculation of value in use, management estimates expected future cash flow incurred from the asset or cash generating unit (CGU). For the calculation of present value of the expected future cash flow, appropriate discount rate is selected.

4. Significant judgments and accounting estimates (cont'd)

4.6 Income taxes

Different taxation laws that the Company's foreign subsidiaries are exposed to require judgment in determining the amount of tax expenses that can be recognized. In addition, there has been various transactions and tax accounting methods which have made computing the final tax expenses for the period uncertain. The contingent liability from any future tax assessments is based on the estimates of the likelihood of additional taxes imposed and has been included in the Company's consolidated financial statements for the current period. When the finalized tax expense assessments are different from the appropriated amounts, the differences, if any, are recognized in current deferred tax assets, liabilities, and expenses for the period.

5. Fair value measurement of financial assets and liabilities

The standards the Company applies when measuring fair values of financial assets and liabilities are described below:

A. Quoted market prices as of the settlement date in an active market are the best evidence of fair value and should be used when available.
B. If a market for a financial instrument is not active, the Company establishes fair value by using a valuation technique that makes maximum use of market inputs and includes (i) recent arm's length market transactions, (ii) reference to the current fair value of another instrument that is substantially the same, (iii) discounted cash flow analysis, and (iv) option pricing models. An acceptable valuation technique incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.
C. When determining fair value using the valuation techniques, comparison with the current market transaction of another instrument that is substantially the same as the financial instrument needed to be objectively substantiated or inclusion of variables in the marketable data must be performed. Not all of the significant market variables are observable and in relevant cases, the reasonable estimates or assumptions are required to determine the fair value.
D. For an investment in equity instruments which quoted market price is not available in an active market or derivative linked to such instruments which fair values are not measured reliably, fair values are measured at cost.

5. Fair value measurement of financial assets and liabilities (cont'd)

5.1 Fair value hierarchy of financial instruments

Fair value hierarchy of financial instruments as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

	September 30, 2015			
Classification	Quoted market price (Level 1)(*2)	Observable input (Level 2)(*2)	Unobservable input (Level 3)	Total
Financial assets:				
Financial assets at FVTPL				
Equity securities	₩ 51,272	₩ -	₩ -	₩ 51,272
Debt securities	1,298,604	1,059,907	-	2,358,511
Derivative assets held-for-trading	65	7,271,030	-	7,271,095
	1,349,941	8,330,937	-	9,680,878
Available-for-sale financial assets				
Equity securities(*1)	387,048	842,977	543,414	1,773,439
Debt securities	10,049,523	19,301,941	7,397	29,358,861
Others	-	-	8,315	8,315
	10,436,571	20,144,918	559,126	31,140,615
Derivative assets used for hedging purposes	-	116,200	6,716	122,916
	₩ 11,786,512	₩ 28,592,055	₩ 565,842	₩ 40,944,409
Financial liabilities:				
Financial liabilities at FVTPL				
Financial liabilities held–for–trading	₩ 10	₩ 7,206,535	₩ -	₩ 7,206,545
Financial liabilities designated at FVTPL	-	630,961	50,832	681,793
	10	7,837,496	50,832	7,888,338
Derivative liabilities used for hedging purposes	-	23,257	-	23,257
	₩ 10	₩ 7,860,753	₩ 50,832	₩ 7,911,595

	December 31, 2014			
Classification	Quoted market price (Level 1)(*2)	Observable input (Level 2)(*2)	Unobservable input (Level 3)	Total
Financial assets:				
Financial assets at FVTPL				
Equity securities	₩ 32,569	₩ -	₩ -	₩ 32,569
Debt securities	126,045	474,016	-	600,061
Derivative assets held-for-trading	-	1,671,810	854	1,672,664
	158,614	2,145,826	854	2,305,294
Available-for-sale financial assets				
Equity securities(*1)	432,305	-	232,724	665,029
Debt securities	5,155,350	6,761,433	22,679	11,939,462
Others	-	-	8,023	8,023
	5,587,655	6,761,433	263,426	12,612,514
Derivative assets used for hedging purposes	-	36,745	-	36,745
	₩ 5,746,269	₩ 8,944,004	₩ 264,280	₩ 14,954,553

5. Fair value measurement of financial assets and liabilities (cont'd)

5.1 Fair value hierarchy of financial instruments (cont'd)

Classification	December 31, 2014 Quoted market price (Level 1)(*2)	Observable input (Level 2)(*2)	Unobservable input (Level 3)	Total
Financial liabilities:				
Financial liabilities at FVTPL	₩ -	₩ 1,620,153	₩ 1,316	₩ 1,621,469
Derivative liabilities used for hedging purposes	-	6,468	-	6,468
	₩ -	₩ 1,626,621	₩ 1,316	₩ 1,627,937

(*1) Included in available–for–sale financial assets, the equity securities amounting to ₩56,181 million and ₩23,271 million were valued at cost as at September 30, 2015 and December 31, 2014, respectively, since they don't have quoted market prices disclosed in active market and their fair values could not be reasonably estimated and they are included in Level 3 in the fair value hierarchy.

(*2) There was no transfer between Level 1 and Level 2 of the financial instruments that were measured at fair value. The company recognizes transfers between levels at the beginning of each quarter when events or changes in circumstances causing the transfers between levels have occurred.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: Other techniques in which all significant inputs and significant value drivers are observable in active markets
- Level 3: Techniques, such as pricing models, discounted cash flow methodologies, or similar techniques based on significant unobservable inputs, as well as management judgments or estimates that are significant to valuation

Details of fair value, valuation technique, and inputs used to develop those measurements classified into level 2 assets and liabilities that are measured at fair value as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	Fair value September 30, 2015	December 31, 2014	Description of the valuation technique	Inputs used in the fair value measurement
Financial assets:				
Financial assets at FVTPL				
Debt securities	₩ 1,059,907	₩ 474,016	DCF model	Discount rate
Derivative assets held-for-trading	7,271,030	1,671,810	Black-Scholes model Hull-White 1 factor model Black model, DCF model	Volatility,Discount rate, Exchange rate, and Interest rate, etc.
	8,330,937	2,145,826		
Available-for-sale financial assets				
Equity securities	842,977	-	DCF model	Discount rate
Debt securities	19,301,941	6,761,433	DCF model	Discount rate
	20,144,918	6,761,433		

5. Fair value measurement of financial assets and liabilities (cont'd)

5.1 Fair value hierarchy of financial instruments (cont'd)

Classification	Fair value September 30, 2015	Fair value December 31, 2014	Description of the valuation technique	Inputs used in the fair value measurement
Derivative assets used for hedging	116,200	36,745	Hull-White 1 factor model Black model	Volatility and discount rate, exchange rate, etc.
	₩ 28,592,055	₩ 8,944,004		
Financial liabilities				
Financial liabilities at FVTPL				
Derivative liabilities used for trading	7,206,535	1,620,153	Black-Scholes model Hull-White 1 factor model Black model, DCF model	Volatility,discount rate, exchange rate, and Interest rate, etc.
Financial liabilities designated at FVTPL	630,961	-	Hull-white short-rate model	KRW interest swap yield curve KRW swaption volatility
	7,837,496	1,620,153		
Derivative liabilities used for hedging	23,257	6,468	Hull-White 1 factor model Black model	Volatility and discount rate, etc.
	₩ 7,860,753	₩ 1,626,621		

Details of fair value, valuation technique, input to valuation, and significant unobservable inputs used to develop those measurements classified into level 3 assets and liabilities that are measured at fair value as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	Fair value September 30, 2015	Fair value December 31, 2014	Description of the valuation technique	Inputs used in the fair value measurement	Significant unobservable inputs used in the fair value measurement	Range	The effect of changes in unobservable Inputs on fair value
Financial assets :							
Financial assets at FVTPL							
Derivative assets used for trading	₩ -	₩ 854	Hull-white 1 factor model	KRW interest swap yield curve USD treasury bond yield curve Volatility of each bond yield Correlation of underlying assets Correlation between USD interest rate and KRW/USD exchange rate	Correlation of underlying assets	0.45 ~0.98	When the correlation increases, the fair value increases
Available-for-sale financial assets							
Equity securities	543,414	232,724	DCF model Comparative on similar business Net asset value model Utilization of past transaction	Growth rate Discount rate Liquidation Vaule	Growth rate Discount rate Liquidation Vaule	0.0 ~+0.2 4.2~ 15.4 0	Positive Negative Positive
Debt securities	7,397	22,679	DCF model	Discount rate	Discount rate	31.61	Negative

5. Fair value measurement of financial assets and liabilities (cont'd)

5.1 Fair value hierarchy of financial instruments (cont'd)

Classification	Fair value: September 30, 2015	Fair value: December 31, 2014	Description of the valuation technique	Inputs used in the fair value measurement	Significant unobservable inputs used in the fair value measurement	Range	The effect of changes in unobservable Inputs on fair value
Others	₩ 8,315	₩ 8,023	DCF model	Discount rate	Discount rate	5.78 ~20.19	Negative
			Comparative on similar business, Risk-adjusted discount rate model	Bid rate	Bid rate	61.86	Positive
	559,126	264,280					
Derivative assets used for hedging	6,716	-	Hull-White 1 factor model	KRW interest swap yield curve USD treasury bond yield curve Volatility of each bond yield Correlation of underlying assets	Correlation of underlying Assets	0.45 ~0.98	Positive
				Correlation between USD interest rate and KRW/USD exchange rate	Correlation between USD interest rate and KRW/USD exchange rate	0.23	Positive
	₩ 565,842	₩ 264,280					
Finanial liabilities							
Financial liabilities at FVTPL							
Derivative liabilities used for trading	-	1,316	Hull-White 1 factor model	KRW interest swap yield curve USD treasury bond yield curve Volatility of each bond yield Correlation of underlying assets Correlation between USD interest rate and KRW/USD exchange rate	Correlation of underlying assets	0.45 ~0.98	Positive
Financial liabilities designated at FVTPL	50,832	-	Hull-White 1 factor model	KRW interest swap yield curve USD treasury bond yield curve Volatility of each bond yield Correlation of underlying assets	Correlation of underlying assets	0.45 ~0.98	Positive
				Correlation between USD interest rate and KRW/USD exchange rate	Correlation of underlying assets	0.17 ~0.41	Positive
	₩ 50,832	₩ 1,316					

5. Fair value measurement of financial assets and liabilities (cont'd)

5.2 Changes in the fair value of financial instruments categorised as Level 3

Changes in the fair value of financial instruments categorised as Level 3 of the fair value hierarchy of financial instruments that are measured at fair value in the statement of financial position for the nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

	Available-for-sale financial assets			Financial	Net derivative instruments	
Classification	Equity securities	Debt securities	Others	Liabilities at FVTPL	Held-for-trading	Held-for-hedging
January 1, 2015	₩ 232,724	₩ 22,679	₩ 8,023	₩ -	₩ (462)	₩ -
Business combination under common control	355,657	7,512	-	50,482	-	2,765
From Level 3 to Others	(16,003)	-	-	-	-	-
Total profit or loss						
Profit or loss	(16,653)	310	-	350	(1,659)	3,951
Other comprehensive income	(3,384)	(834)	292	-	-	-
Buy / Issue	55,825	-	-	-	-	-
Sell/Settlement	(64,759)	(22,270)	-	-	2,121	-
Others	7	-	-	-	-	-
September 30, 2015	₩ 543,414	₩ 7,397	₩ 8,315	₩ 50,832	₩ -	₩ 6,716

	Available-for-sale financial assets			Net derivative instruments
Classification	Equity securities	Debt securities	Others	Held-for-trading
January 1, 2014	₩ 293,257	₩ 21,197	₩ 7,602	₩ 1,706
From others to Level 3	24,244	-	-	-
From Level 3 to others	(37)	-	-	-
Total profit or loss				
Profit or loss	(66,665)	(94)	27	(617)
Other comprehensive income	3,760	605	412	-
Buy / Issue	31,012	10,597	522	(595)
Sell/Settlement	(12,902)	-	(548)	(626)
Others	(3)	-	-	-
September 30, 2014	₩ 272,666	₩ 32,305	₩ 8,015	₩ (132)

5. Fair value measurement of financial assets and liabilities (cont'd)

5.3 Current gains or losses recognized from changes in level 3 financial instruments measured at fair value.

Current gains or losses recognized from changes in level 3 financial instruments measured at fair value for the nine-month periods ended September 30, 2015 and 2014 are recorded in the statement of comprehensive income as follows (Korean won in millions):

	Nine-month periods ended September 30,			
	2015		2014	
Classification	Total gains or losses recognized in profit or loss	The line item in profit or loss in which those gains or losses are recognized	Total gains or losses recognized in profit or loss	The line item in profit or loss in which those gains or losses are recognized
Gain(loss) on financial instruments at FVTPL	₩ (2,009)	₩ (350)	₩ (617)	₩ (617)
Gain(loss) related to derivative instruments held for hedging	3,951	3,951	-	-
Other gain(loss) on financial instruments	2,154	-	4,030	(94)
Impairment loss on financial instruments	(18,497)	(18,497)	(70,762)	(70,762)
	₩ (14,401)	₩ (14,896)	₩ (67,349)	₩ (71,473)

5.4 Transfers between fair value hierarchy

The amount of transfers into or out of level 3 of the fair value hierarchy for the nine-month periods ended September 30, 2015 and 2014 is as follows (Korean won in millions):

Classification	Nine-month period ended September 30, 2015	Nine-month period ended September 30, 2014
Transfers out of level 3 into level 1	₩ 16,003	₩ 37
Transfers out of level 1 into level 3	-	24,244

5.5 Sensitivity analysis

Sensitivity of the fair value measurement for the each level 3 financial instrument upon the changes in significant unobservable input, whose results are favorable and unfavorable changes in profit or loss or other comprehensive income for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows (Korean won in millions):

	September 30, 2015	
Classification	Favorable changes	Unfavorable changes
Financial assets:		
Available-for-sale financial assets		
Equity securities(*2)	45,358	(18,454)
Others(*2)	120	(119)
Derivative assets held-for-hedging (*1)	1,382	(1,282)
	₩ 46,860	₩ (19,855)
Financial liabilities:		
Financial liabilities designated at FVTPL	₩ 28	₩ (30)

5. Fair value measurement of financial assets and liabilities (cont'd)

5.5 Sensitivity analysis (cont'd)

Classification	Year ended December 31, 2014	
	Favorable changes	Unfavorable changes
Financial assets:		
Derivative assets held-for-trading(*1)	₩ 171	₩ (24)
Available-for-sale financial assets		
Equity securities(*2)	21,734	(10,032)
Debt securities(*2)	92	(59)
Others(*2)	139	(136)
	₩ 22,136	₩ (10,251)
Financial liabilities:		
Derivative liabilities held-for-trading	₩ 51	₩ (16)

(*1) 1) Correlation between rates of interest rate swap of KRW, 2) Correlation between interest rates of treasury, 3) Correlation between interest rate swap and interest rate of treasury, 4) Correlation between KRW-USD interest rate swap, ⑤ Favorable and unfavorable changes are calculated by taking 10% fluctuation of correlation between KRW/USD exchange rate and rate of USD interest rate swap.

(*2) Changes in fair value of equity securities are calculated by changing growth rate (0.0~1.0%) and discount rate, and the liquidation value (-1.0~1.0%) and discount rate, which are main unobservable inputs. Favorable changes and unfavorable changes in fair value of beneficiary securities are calculated by changing discount rate of lease cash flow (-1.0~1.0%) and growth rate of selling price of real estate (-1.0~1.0%), under limited circumstances when it is consisted of real estate. However it is impossible to calculate sensitivity of beneficiary securities based on changes in inputs.

5.6 Financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed

Fair value hierarchy of financial instruments disclosed but not measured at fair value as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015			
	Quoted market price (Level 1)	Observable input (Level 2)	Unobservable input (Level 3)	Total
Financial assets:				
Cash and due from banks	₩ 2,808,873	₩ 16,742,426	₩ -	₩ 19,551,299
Held-to-maturity investments	1,823,293	4,016,617	-	5,839,910
Loans receivable	-	-	209,204,901	209,204,901
Other financial assets	-	-	19,521,497	19,521,497
Merchant banking account assets	-	-	2,313,599	2,313,599
	₩ 4,632,166	₩ 20,759,043	₩ 231,039,997	₩ 256,431,206
Financial liabilities:				
Deposits	₩ -	₩ 127,997,247	₩ 75,423,852	₩ 203,421,099
Borrowings	-	9,302,867	10,160,277	19,463,144
Debentures	-	19,301,441	-	19,301,441
Other financial liabilities	-	-	27,401,086	27,401,086
Merchant banking account liabilities	-	-	2,509,567	2,509,567
	₩ -	₩ 156,601,555	₩ 115,494,782	₩ 272,096,337

5. Fair value measurement of financial assets and liabilities (cont'd)

5.6 Financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed (cont'd)

Classification	December 31, 2014 Quoted market price (Level 1)	Observable input (Level 2)	Unobservable input (Level 3)	Total
Financial assets:				
Cash and due from banks	₩ 1,564,849	₩ 7,780,950	₩ -	₩ 9,345,799
Held-to-maturity investments	1,318,066	648,105	-	1,966,171
Loans receivable	-	-	75,292,005	75,292,005
Other financial assets	-	-	6,679,680	6,679,680
Merchant banking account assets	-	-	2,357,650	2,357,650
	₩ 2,882,915	₩ 8,429,055	₩ 84,329,335	₩ 95,641,305
Financial liabilities:				
Deposits	₩ -	₩ -	₩ 73,630,236	₩ 73,630,236
Borrowings	-	-	9,916,943	9,916,943
Debentures	-	5,229,551	-	5,229,551
Other financial liabilities	-	-	10,747,209	10,747,209
Merchant banking account liabilities	-	-	2,435,300	2,435,300
	₩ -	₩ 5,229,551	₩ 96,729,688	₩ 101,959,239

Details of fair value, valuation technique, and inputs used to develop those measurements classified into level 2 assets and liabilities that are not measured at fair value at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015 Fair value	Valuation technique	Inputs
Financial assets:			
Cash and due from banks	₩ 16,742,426	DCF model, etc.	Credit and other spread, etc.
Held-to-maturity investments	4,016,617	DCF model	Discount rate
	20,759,043		
Financial liabilities:			
Deposits	127,997,247	DCF model, etc.	Other spread, Rate of advanced redemption
Borrowings	9,302,867	DCF model, etc.	Other spread
Debentures	19,301,441	DCF model, etc.	Other spread, Rate of inherence bankruptcy
	₩ 156,601,555		

Classification	December 31, 2014 Fair value	Valuation technique	Inputs
Financial assets:			
Cash and due from banks	₩ 7,780,950	DCF model	Discount rate
Held-to-maturity investments	648,105	DCF model	Discount rate
	₩ 8,429,055		
Financial liabilities:			
Debentures	₩ 5,229,551	DCF model	Discount rate

5. Fair value measurement of financial assets and liabilities (cont'd)

5.6 Financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed (cont'd)

Details of fair value, valuation technique, and inputs used to develop those measurements classified into level 3 assets and liabilities disclosed but not measured at fair value as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

	September 30, 2015			
Classification		Fair value	Valuation technique	Inputs
Financial assets:				
Loans receivable	₩	209,204,901	DCF model	Credit and other spread, Rate of advanced redemption, etc.
Other financial assets		19,521,497	(*)	
Merchant banking account assets		2,313,599	DCF model	Discount rate
	₩	231,039,997		
Financial liabilities:				
Deposits	₩	75,423,852	DCF model	Other spread, Rate of advanced redemption
Borrowings		10,160,277	DCF model	Other spread
Other financial liabilities		27,401,086	(*)	
Merchant banking accountliabilities		2,509,567	DCF model	Discount rate
	₩	115,494,782		

	December 31, 2014			
Classification		Fair value	Valuation technique	Inputs
Financial assets:				
Loans receivable	₩	75,292,005	DCF model	Credit and other spread, Rate of advanced redemption, etc.
Other financial assets		6,679,680	(*)	
Merchant banking account assets		2,357,650	DCF model	Discount rate
	₩	84,329,335		
Financial liabilities:				
Deposits	₩	73,630,236	DCF model	Other spread, Rate of advanced redemption
Borrowings		9,916,943	DCF model	Other spread
Other financial liabilities		10,747,209	(*)	
Merchant banking accountliabilities		2,435,300	DCF model	Discount rate
	₩	96,729,688		

(*) Other financial assets and liabilities are temporary accounts derived from various transactions. The book value of these assets and liabilities are regarded as their fair value without applying DCF method because their maturities are not fixed or short.

5.7 Gain and loss on deferred Day 1

Changes in gain (loss) on deferred Day 1 for the nine-month periods ended September 30, 2015 and 2014 are summarized as follows (Korean won in millions)

Classification		September 30, 2015
Business combination under common control	₩	(1,003)
Amounts recognized as current profit or loss		6
September 30, 2015	₩	(997)

6. Fair value of financial instruments

Fair values of financial instruments as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015				December 31, 2014			
	Book value		Fair value		Book value		Fair value	
Financial assets:								
Cash and due from banks	₩	19,551,299	₩	19,551,299	₩	9,345,799	₩	9,345,799
Financial assets at FVTPL		9,680,878		9,680,878		2,305,294		2,305,294
Available-for-sale financial assets		31,140,615		31,140,615		12,612,514		12,612,514
Held-to-maturity investments		5,630,110		5,839,910		1,948,987		1,966,171
Loans receivable		208,361,452		209,204,901		75,056,113		75,292,005
Derivative assets used for hedging purpose		122,916		122,916		36,745		36,745
Other financial assets		19,516,453		19,521,497		6,676,450		6,679,680
Merchant banking account assets		2,313,794		2,313,599		2,358,355		2,357,650
	₩	296,317,517	₩	297,375,615	₩	110,340,257	₩	110,595,858
Financial liabilities:								
Financial liabilities at FVTPL	₩	7,888,338	₩	7,888,338	₩	1,621,469	₩	1,621,469
Deposits		202,862,353		203,421,099		73,075,391		73,630,236
Borrowings		18,853,668		19,463,144		9,913,695		9,916,943
Debentures		18,560,040		19,301,441		4,976,616		5,229,551
Derivative liabilities used for hedging purpose		23,257		23,257		6,468		6,468
Other financial liabilities		27,322,200		27,401,086		10,748,236		10,747,209
Merchant banking account liabilities		2,509,567		2,509,567		2,435,300		2,435,300
	₩	278,019,423	₩	280,007,932	₩	102,777,175	₩	103,587,176

The following standards are applied in measuring the fair value of financial instruments

A. Loans and receivable: Expected cash flows, current market interest rates and discount rates including borrowers' credit risks are factors to calculate the fair value of loans and receivables. For lines of credit and loans that have a short term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value.
B. Financial investment assets: The fair value of financial assets held-to-maturity are as stated by the market, broker, or by credible sources. If none of the information from these entities is usable, published market price of financial instruments with similar credit rating, maturity, and ROI is used to estimate the fair value.
C. Depository liabilities: For deposits without an explicit maturity period including deposits with no interests, deposits that have a short term maturity (less than three months), and deposits with a floating rate readjustment period of less than three months, it is assumed that the carrying amounts approximate to their fair value. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.
D. Borrowings: For borrowings that have a short term maturity (less than three months) and borrowings with floating rate readjustment period of less than three months, it is assumed that the carrying amounts approximate to their fair value. The estimated fair value of fixed interest bearing borrowings is based on and discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.
E. Debentures: For quoted debt issued, the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads.

7. Categories of financial assets and financial liabilities

7.1 The Company categorizes its financial assets as at September 30, 2015 and December 31, 2014 as follows (Korean won in millions):

	September 30, 2015					
	Financial instruments at FVTPL	Available–for–sale financial assets	Held–to–maturity investments	Loans and receivables	Derivatives for hedging	Total
Cash and due from banks	₩ -	₩ -	₩ -	₩ 19,551,299	₩ -	₩ 19,551,299
Financial assets at FVTPL	9,680,878	-	-	-	-	9,680,878
Available–for–sale financial assets	-	31,140,615	-	-	-	31,140,615
Held–to–maturity investments	-	-	5,630,110	-	-	5,630,110
Loans and receivables	-	-	-	208,361,452	-	208,361,452
Derivative assets used for hedging	-	-	-	-	122,916	122,916
Others	-	-	-	19,516,453	-	19,516,453
Merchant banking account assets	-	-	-	2,313,794	-	2,313,794
	₩ 9,680,878	₩ 31,140,615	₩ 5,630,110	₩ 249,742,998	₩ 122,916	₩ 296,317,517

	December 31, 2014					
	Financial instruments at FVTPL	Available–for–sale financial assets	Held–to–maturity investments	Loans and receivables	Derivatives for hedging	Total
Cash and due from banks	₩ -	₩ -	₩ -	₩ 9,345,799	₩ -	₩ 9,345,799
Financial assets at FVTPL	2,305,294	-	-	-	-	2,305,294
Available–for–sale financial assets	-	12,612,514	-	-	-	12,612,514
Held–to–maturity investments	-	-	1,948,987	-	-	1,948,987
Loans and receivables	-	-	-	75,056,113	-	75,056,113
Derivative assets used for hedging	-	-	-	-	36,745	36,745
Others	-	-	-	6,676,450	-	6,676,450
Merchant banking account assets	-	-	-	2,358,355	-	2,358,355
	₩ 2,305,294	₩ 12,612,514	₩ 1,948,987	₩ 93,436,717	₩ 36,745	₩ 110,340,257

7. Categories of financial assets and financial liabilities (cont'd)

7.2 The Company categorizes its financial aliabilities as at September 30, 2015 and December 31, 2014 as follows (Korean won in millions):

	September 30, 2015				
	Financial liability at fair value through profit or loss				
Classification	Held for trading	Designated at fair value through profit or loss	Amortized cost or financial liabilities	Derivatives for hedging	Total
Financial liabilities at FVTPL	₩ 7,206,545	₩ 681,793	₩ -	₩ -	₩ 7,888,338
Deposits	-	-	202,862,353	-	202,862,353
Borrowings	-	-	18,853,668	-	18,853,668
Debentures	-	-	18,560,040	-	18,560,040
Derivative liabilities used for hedging	-	-	-	23,257	23,257
Others	-	-	27,322,300	-	27,322,300
Merchant banking account liabilities	-	-	2,509,567	-	2,509,567
	₩ 7,206,545	₩ 681,793	₩ 270,107,928	₩ 23,257	₩ 278,019,523

	December 31, 2014			
	Financial liabilites at FVTPL			
Classification	Held for trading	Amortized cost or financial liabilities	Derivatives for hedging	Total
Financial liabilities at FVTPL	₩ 1,621,469	₩ -	₩ -	₩ 1,621,469
Deposits	-	73,075,391	-	73,075,391
Borrowings	-	9,913,695	-	9,913,695
Debentures	-	4,976,616	-	4,976,616
Derivative liabilities used for hedging	-	-	6,468	6,468
Others	-	10,748,236	-	10,748,236
Merchant banking account liabilities	-	2,435,300	-	2,435,300
	₩ 1,621,469	₩ 101,149,238	₩ 6,468	₩ 102,777,175

8. Offsetting of financial assets and liabilities

8.1 Financial assets offset, the executable master netting arrangements and financial assets subject to a similar agreement at the end of the reporting period are as follows (Korean won in millions):

	September 30, 2015					
Classification	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position (*) Financial instruments	Related amounts not offset in the statement of financial position (*) Cash collateral received	Net amount
Derivatives	₩ 7,051,750	₩ -	₩ 7,051,750	₩ (4,401,967)	₩ (7,549)	₩ 2,642,234
Loaned securities	219,372	-	219,372	(219,372)	-	-
Bonds purchased under resale agreement	1,100,080	-	1,100,080	(1,100,080)	-	-
Receivables unpaid spot exchanges	3,999,642	-	3,999,642	(3,994,722)	-	4,920
Domestic exchange Settlement debts	3,770,210	193,506	3,576,704	-	-	3,576,704
Other financial instruments	73,941	70,794	3,147	-	-	3,147
	₩ 16,214,995	₩ 264,300	₩ 15,950,695	₩ (9,716,141)	₩ (7,549)	₩ 6,227,005

	December 31, 2014					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position (*) Financial instruments	Related amounts not offset in the statement of financial position (*) Cash collateral received	Net amount
Derivatives	₩ 1,464,190	₩ -	₩ 1,464,190	₩ (951,029)	₩ -	₩ 513,161
Loaned securities	273,210	-	273,210	(273,210)	-	-
Bonds purchased under resale agreement	400,000	-	400,000	(400,000)	-	-
Domestic exchange Settlement debts	11,447,953	10,605,375	842,578	-	-	842,578
Other financial instruments	100	100	-	-	-	-
	₩ 13,585,453	₩ 10,605,475	₩ 2,979,978	₩ (1,624,239)	₩ -	₩ 1,355,739

(*) The rights to offset exist only in case of default, insolvency or bankruptcy. Accordingly, the amounts are not offset in the statement of financial position as they do not meet the criteria for offsetting.

8. Offsetting of financial assets and liabilities (cont'd)

8.2 Financial liabilities offset, the executable master netting arrangements and financial liabilities subject to a similar agreement at the end of the reporting period are as follows (Korean won in millions):

	September 30, 2015					
				Amounts related are not offset in the statement of financial position (*)		
Classification	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivatives	₩ 6,619,394	₩ -	₩ 6,619,394	₩ (4,588,662)	₩ (541,082)	₩ 1,489,650
Bonds sold under repurchase agreements	499,710	-	499,710	(499,710)	-	-
Payables unpaid spot exchange	10,897,096	-	10,897,096	(3,994,722)	-	6,902,374
Domestic exchange settlement credits	2,210,244	193,506	2,016,738	-	-	2,016,738
Other non-trade payables	70,798	70,794	4	-	-	4
	₩ 20,297,242	₩ 264,300	₩ 20,032,942	₩ (9,083,094)	₩ (541,082)	₩ 10,408,766

	December 31, 2014					
				Amounts related are not offset in the statement of financial position (*)		
Classification	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivatives	₩ 1,455,648	₩ -	₩ 1,455,648	₩ (970,813)	₩ (79,398)	₩ 405,437
Bonds sold under repurchase agreements	190	-	190	(190)	-	-
Domestic exchange settlement credits	11,921,407	10,605,375	1,316,032	(1,316,032)	-	-
Other non-trade payables	143	100	43	-	-	43
	₩ 13,377,388	₩ 10,605,475	₩ 2,771,913	₩ (2,287,035)	₩ (79,398)	₩ 405,480

(*) The rights to offset exist only in case of default, insolvency or bankruptcy. Accordingly, the amounts are not offset in the statement of financial position as they do not meet the criteria for offsetting.

9. Risk management

The Company is exposed to credit risk, liquidity risk, market risk and various operating risks. The objectives of risk management are to pursue economic benefits by managing the associated risk in the changing financial environment and to utilize capital efficiently.

The basic principles of risk management are as follows:

- Minimize the rapid fluctuation in profit by balancing the risks and the income.
- Maximize long–term shareholder value.
- Comply with procedures to ensure operating activities are confined to allowable risk limits.
- Examine the type and size of risk in accordance with the changes in potential economic value of portfolios for the efficient use and distribution of assets and to establish risk management strategy.

The basic policies in order to realize the basic principles of risk management are as follows:

- Set and comply with allowable limits for each risk type.
- Establish an appropriate balance between income and associated risk.
- When a conflict between income and associated risk exists, the Company pursues income while complying with the allowable risk limits.
- Prioritize the distribution of risk in order to avoid risk concentration in certain areas.
- Analyse the effect of various market fluctuations on parts or the entire portfolio on a regular basis.
- Separate risk management segments, operational segments, and other segments which deal with trade confirmations and payments in order to maintain independence.

9.1. Strategy and procedure of risk management

The Company has built an organization–wide risk management system attributable to the new BIS standards in order to manage risks with advanced methodologies in the rapidly changing financial environment. The Company has used the Foundation Internal Ratings–Based Credit Risk Approach since November 2008, Operational Risk Advanced Internal Ratings–Based Approach since November 2008, and the Market Risk Internal Model since July 2006 (revised in January 2012) upon the Financial Supervisory Board’s approval.

The Company manages risk assets which is appropriate for the developed system and puts emphasis on the management of potential risk arising from changes in the business environment and risk management capacity strength of all personnel. For proactive and pre–emptive risk management, the Company applies Hana Financial Company’s FLS (‘Forward Looking Statements’) based upon the outlook on economic and financial markets and experience on financial losses to risk management policies.

9.2. Organization and structure of risk management

The Risk Committee is responsible for setting the allowable limits for each risk type, and the Risk Management Committee is responsible for the compliance to the limit and monitoring risk levels on a monthly basis. The Company has also established the Comprehensive Risk Management Committee, Credit Risk Management Committee, and Credit Rating Team composed of the risk office and each of these groups’ reports to the middle office on a daily basis.

The Risk Committee is the top decision–making body within the Board of Directors for risk management. The committee examines credit risk, market risk, and various operating risks, in respect of the risk limits and other controls more than once every quarter.

The Risk Management Committee is the secondary decision–making body that manages the actual conditions of risk on a monthly basis. The Risk Management Committee has the overall responsibility of implementation of risk strategy.

9. Risk management (cont'd)

9.2. Organization and structure of risk management (cont'd)

The Risk Management Office consists of the Comprehensive Risk Management Department which manages the market risk, interest rate and liquidity risks, operational risk, and internal capital; the Credit Risk Management Department which manages the credit risk and the Credit Rating Team that deals with the corporate credit ratings and industry analysis. The Risk Management Office deals with monitoring of risks, measuring of risks and assets exposed to risks, and forecasting the changes of risks. It also mainly assists the complementary system which enables the middle office of each group to function as a member of the Risk Management Organization. The Risk Management Office is responsible for reporting the contents of middle office's works including the conditions related to the risks and management status to the Risk Committee, the Risk Management Committee, as well as the management.

9.3. Credit risk

Credit risk is a risk incurred when the Company faces a loss because its customers or counterparties fail to discharge their contractual obligations. Credit risk arises from on–balance and off–balance accounts including loans, derivatives, securities, financial guarantees, and acceptances and guarantees.

To determine the possibility of bankruptcy for its customers or counterparties, the Company uses various methods comprehensively. Risks pertaining to the retail sector compared to those pertaining to the corporate sector are relatively easy to predict but cyclical and seasonal factors may influence the outcomes. The frequency of impairment loss in the overall retail sector is relatively high but in terms of individual cases, the loss rate is lower than in the corporate sector. Based on these differences, the Company manages each segment differently in terms of credit rating, pricing and subsequent management.

As for the business customers, the branch managers and credit rating team carries out the credit risk assessment by using a detailed valuation model depending on the size and the nature of the industry. The corporate financial valuation model is further subdivided based on the characteristics of the loans and is a combination of statistical and expert valuation models. Also, the Loan Review team of the Credit Risk Management regularly performs the subsequent reviews in order to establish adequacy of the credit grading. As for the retail sector, a Credit Scoring System is used to compute the credit scores of the borrower. The system includes an Application Scoring Model which is used for the application of loans and a Behavioural Scoring Model which has been used after handling of the loans.

Expected loss is calculated using the expected default rate based upon the historical default rate and the estimated loss rate gives a rise to the default rate from a collection of historical information. A measured expected loss is reflected on the client's interest rate and allowances when applying or renewing a loan.

Unexpected loss takes into account the allowance for potential volatility in the actual loss. Unexpected loss is calculated using the inner Credit Metrics model with 99.9% of the confidence level and the measured figure is used as a credit risk reference value and is used as part of the unexpected loss when calculating interest rates.

9. Risk management (cont'd)

9.3 Credit risk (cont'd)

Both retail and corporate sectors are developing and operating a credit risk management system appropriately designed for each sector. The Credit Risk Management Committee and Credit Rating Team measure and manage credit risks for the corporate sector; Credit Risk Management Committee and Personal Loans Committee measure and manage credit risks for the retail sector. The Company manages as well as controls the credit risk by setting the limits on the amount of risk willing to accept for individual counterparties and for geographical and industry concentration, and by monitoring exposures relating to such limits. The Company reviews on a monthly basis in accordance with the economic conditions and industry characteristics and examines the adequacy of the limits on a semi-annual basis. The Company continuously manages credit rating models for retail and corporate sectors and examines the adequacy of LGD (Loss Given Default) and EAD (Exposure At Default), and any related information.

The Company annually performs a comprehensive analysis on economic conditions and changes in the economic environment in order to appropriately assess the credit quality of financial assets by setting credit limits on same entities, industries, countries, and financial instruments. In addition, for the unexpected loss management, the Company regularly sets, distributes and checks for the compliance maintenance of internal capital limits according to the corporate and household sectors and the size of clients through the risk management system.

The Company measures and manages the risk indicators such as delinquency rate, roll–rate, and vintage rate of each operating segment. Also, in order to assess the credit quality of the assets, the Company operates an early warning system and regularly examines companies whose credit rating is likely to degrade.

In order to separately evaluate the characteristics of clients in the corporate sector, the Company operates a detailed valuation model based on the external and non–external audit and is in the process of continuing the stability of the corporate credit rating system through the subsequent examinations and performance improvements. The Company operates a detailed valuation model based on the credit rating model and the activity rating model for the household sector in accordance with the client's characteristics. The Company improves the efficiency of the model through the subsequent examinations and performance improvements. Credit rating on new clients as well as an automatic renewal and adjustments to the credit limits are managed by the household and SOHO credit extension system.

For a large amount of credit line, after the approval of credit extension, the Company regularly examines the borrower's credit status and the adequacy of the borrower's credit rating as in part of the subsequent management process. In addition, the Company significantly focuses on industries by increasing credit risks based on the analysis of the risk indicators and examines the sample for smaller credit extensions.

The Company obtains the collateral for the granted loans in order to reduce risks. The amount and type of the collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of the collateral obtained are as follows:

- For retail lending, mortgages over residential properties
- For commercial lending, charges over real estate properties, inventory and trade receivables
- For securities lending and reverse repurchase transactions, cash, or securities

9. Risk management (cont'd)

9.3 Credit risk (cont'd)

The Company trades the debt securities above the Investment–Grade Status level in order to manage the credit risks and manage the exposure of credit ratings to maintain credit quality of the assets.

The credit risk arising from the derivative financial instruments is, at any time, limited to those with the positive fair values, as recorded on the statement of financial position. The Company manages the exposure as a part of the unused commitment of loans.

The maximum exposure to credit risk as at September 30, 2015 and December 31, 2014 is as follows. The following table shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by geography of counterparty and by industry before the effect of mitigation through the use of master netting and collateral agreements. Equity securities in financial assets at fair value through profit or loss and financial assets available–for–sale are excluded (Korean won in millions):

Classification		September 30, 2015		December 31, 2014
On–balance item:				
Due from banks	₩	16,742,426	₩	7,780,950
Financial assets at fair value through profit or loss				
Debt liabilities		2,358,511		600,061
Financial assets held–for–trading		7,271,095		1,672,664
Available–for–sale financial assets		29,358,861		11,939,462
Held–to–maturity financial assets		5,630,110		1,948,987
Derivatives for hedging		122,916		36,745
Loans				
Household loans		86,021,406		22,017,968
Corporate loans				
Large–sized businesses		43,919,275		22,706,876
Small and medium–sized Businesses		65,040,930		22,045,981
Public sector and others		13,379,841		8,285,288
		208,361,452		75,056,113
Others		19,516,453		6,676,450
Merchant banking account assets		2,313,794		2,358,355
	₩	291,675,618	₩	108,069,787
Off–balance item:				
Financial guarantees	₩	2,497,636	₩	1,680,950
Guarantee contracts		21,465,633		15,542,251
Commitment		95,323,094		45,086,035
	₩	119,286,363	₩	62,309,236

9. Risk management (cont'd)

9.3 Credit risk (cont'd)

Details of collateral management and credit risk mitigation as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

	September 30, 2015				
	Impaired loan		Not impaired loan		
Classification	Individual assessment	Collective assessment	Past due	Non past due	Total
Guarantees	₩ 125,903	₩ 82,031	₩ 56,874	₩ 19,728,948	₩ 19,993,756
Deposits	19,380	9,509	15,813	2,574,068	2,618,770
Movable assets	13,519	330	-	24,124	37,973
Real estate	500,464	310,592	235,641	83,808,613	84,855,310
Securities	318,875	684	3	3,576,838	3,896,400
Others	594	2,010	216	297,088	299,908
	₩ 978,735	₩ 405,156	₩ 308,547	₩ 110,009,679	₩ 111,702,117

	December 31, 2014				
	Impaired loan		Not impaired loan		
Classification	Individual assessment	Collective assessment	Past due	Non past due	Total
Guarantees	₩ 88,872	₩ 31,996	₩ 5,883	₩ 6,660,769	₩ 6,787,520
Deposits	342	445	4,181	1,083,631	1,088,599
Movable assets	13,572	-	-	3,452	17,024
Real estate	₩ 194,093	₩ 71,774	₩ 34,140	₩ 23,078,104	₩ 23,378,111
Securities	263,817	893	1,571	1,929,303	2,195,584
Others	-	-	-	3,323	3,323
	₩ 560,696	₩ 105,108	₩ 45,775	₩ 32,758,582	₩ 33,470,161

Details of delinquency rates on loans as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

	September 30, 2015				
		Corporate loans			
Classification	Household loans	Large–sized businesses	Small and medium–sized businesses	Public institution and others	Total
Neither past due nor impaired	₩ 85,349,362	₩ 43,367,539	₩ 64,388,686	₩ 13,325,783	₩ 206,431,370
Past due but not impaired	232,234	6,286	154,959	25,205	418,684
Impaired	406,576	1,376,015	1,245,814	67,715	3,096,120
	85,988,172	44,749,840	65,789,459	13,418,703	209,946,174
Deferred loan fees, net of expenses	201,382	(18,170)	34,548	816	218,576
Allowance for possible loan losses	(168,148)	(812,395)	(783,077)	(39,678)	(1,803,298)
	₩ 86,021,406	₩ 43,919,275	₩ 65,040,930	₩ 13,379,841	₩ 208,361,452

9. Risk management (cont'd)

9.3 Credit risk (cont'd)

Classification	December 31, 2014 Household loans	Large–sized businesses	Small and medium–sized businesses	Public institution and others	Total
Neither past due nor impaired	₩ 21,919,754	₩ 22,243,656	₩ 21,714,297	₩ 8,277,191	₩ 74,154,898
Past due but not impaired	17,835	-	46,563	1,093	65,491
Impaired	100,422	772,900	565,401	36,645	1,475,368
	22,038,011	23,016,556	22,326,261	8,314,929	75,695,757
Deferred loan fees, net of expenses	42,854	(6,668)	1,239	(173)	37,252
Allowance for possible loan losses	(62,897)	(303,012)	(281,519)	(29,468)	(676,896)
	₩ 22,017,968	₩ 22,706,876	₩ 22,045,981	₩ 8,285,288	₩ 75,056,113

Delinquency in interest occurs when the counterparty is unable to make a principal and interest payment as at the due date. A financial item is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events which have occurred after the initial recognition of the item (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows, such as changes in arrears or economic conditions which correlate with defaults, delinquency in interest for more than 90 days, credit deterioration resulting in misleading information, damages incurred due to poor exposure and significant financial difficulty of the issuer or obligor.

Details on loans that are neither impaired nor overdue as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

	September 30, 2015				
		Corporate loans			
Classification	Household loans	Large–sized businesses	Small and medium–sized businesses	Public institution and others	Total
Grade 1	₩ 61,867,922	₩ 23,981,351	₩ 8,734,678	₩ 6,837,400	₩ 101,421,351
Grade 2	22,606,253	17,849,871	49,984,313	5,352,092	95,792,529
Grade 3	559,604	1,512,325	3,798,055	1,131,566	7,001,550
Others	315,583	23,992	1,871,640	4,725	2,215,940
	₩ 85,349,362	₩ 43,367,539	₩ 64,388,686	₩ 13,325,783	₩ 206,431,370

	December 31, 2014				
		Corporate loans			
Classification	Household loans	Large–sized businesses	Small and medium–sized businesses	Public institution and others	Total
Grade 1	₩ 16,203,366	₩ 16,479,624	₩ 4,526,800	₩ 2,748,543	₩ 39,958,333
Grade 2	5,574,742	4,861,364	13,133,677	4,061,946	27,631,729
Grade 3	104,905	875,294	2,518,553	1,133,895	4,632,647
Others	36,741	27,374	1,535,267	332,807	1,932,189
	₩ 21,919,754	₩ 22,243,656	₩ 21,714,297	₩ 8,277,191	₩ 74,154,898

9. Risk management (cont'd)

9.3 Credit risk (cont'd)

The Company classifies the grade of loan in accordance with the credit rating chart below, based on the credit worthiness of borrowers.

Classification	Household loans	Corporate loans	SOHO
Grade 1	Less or equal to 0.37% of PD	A1+ ~ A3	Grade 1 ~ 4
Grade 2	From 0.37% to 9.03% of PD	B1+ ~ B3	Grade 5 ~ 20
Grade 3	From 9.03% to 100% of PD	C1 ~ C3	Grade 21 ~ 29

The Company assesses that loans past due by less than 90 days are not impaired if no evidence of impairment is given. Loans that are past due by less than 90 days but not yet impaired as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

	September 30, 2015				
		Corporate loans			
Classification	Household loans	Large–sized businesses	Small and medium–sized businesses	Public institution and others	Total
Less than 30 days	₩ 188,344	₩ 2,626	₩ 109,202	₩ 21,789	₩ 321,961
30 to 59 days	29,678	3,660	35,339	1,500	70,177
60 to 89 days	14,212	-	10,418	1,916	26,546
	₩ 232,234	₩ 6,286	₩ 154,959	₩ 25,205	₩ 418,684

	December 31, 2014			
		Corporate loans		
	Household loans	Small and medium–sized businesses	Public institution and others	Total
Less than 30 days	₩ 8,267	₩ 30,417	₩ 962	₩ 39,646
30 to 59 days	7,234	6,342	119	13,695
60 to 89 days	2,334	9,804	12	12,150
	₩ 17,835	₩ 46,563	₩ 1,093	₩ 65,491

Types of impaired loans a-s of September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

	September 30, 2015				
		Corporate loans			
	Household loans	Large–sized businesses	Small and medium–sized businesses	Public institution and others	Total
Individual impairment					
Book value	₩ 3,333	₩ 1,346,917	₩ 966,290	₩ 62,377	₩ 2,378,917
Deferred loan fees, net of expenses	(1,780)	1	(4,121)	22	(5,878)
Allowance for possible loan losses	(372)	(630,927)	(355,473)	(12,663)	(999,435)
	1,181	715,991	606,696	49,736	1,373,604

9. Risk management (cont'd)

9.3 Credit risk (cont'd)

Classification	September 30, 2015				
		Corporate loans			
	Household loans	Large–sized businesses	Small and medium–sized businesses	Public institution and others	Total
Collective impairment					
Book value	403,243	29,098	279,524	5,338	717,203
Deferred loan fees, net of expenses	561	-	52	10	623
Allowance for possible loan losses	(76,187)	(6,259)	(79,565)	(1,626)	(163,637)
	327,617	22,839	200,011	3,722	554,189
	₩ 328,798	₩ 738,830	₩ 806,707	₩ 53,458	₩ 1,927,793

Classification	December 31, 2014				
		Corporate loans			
	Household loans	Large–sized businesses	Small and medium–sized businesses	Public institution and others	Total
Individual impairment					
Book value	₩ 494	₩ 769,263	₩ 474,227	₩ 30,372	₩ 1,274,356
Allowance for possible loan losses	(21)	(242,335)	(118,853)	(1,648)	(362,857)
	473	526,928	355,374	28,724	911,499
Collective impairment					
Book value	99,928	3,637	91,174	6,273	201,012
Allowance for possible loan losses	(32,249)	(1,242)	(35,447)	(1,465)	(70,403)
	67,679	2,395	55,727	4,808	130,609
	₩ 68,152	₩ 529,323	₩ 411,101	₩ 33,532	₩ 1,042,108

Overdue payments on debt securities as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015			
	Financial assets at fair value through profit or loss	Available–for–sale financial assets	Held–to–maturity financial assets	Total
Neither past due nor impaired	₩ 2,358,511	₩ 29,351,464	₩ 5,630,110	₩ 37,340,085
Impaired	-	7,397	-	7,397
	₩ 2,358,511	₩ 29,358,861	₩ 5,630,110	₩ 37,347,482

9. Risk management (cont'd)

9.3 Credit risk (cont'd)

Classification	December 31, 2014 Financial assets at fair value through profit or loss	Available–for–sale financial assets	Held–to–maturity financial assets	Total
Neither past due nor impaired	₩ 600,061	₩ 11,939,462	₩ 1,948,987	₩ 14,488,510

Internal credit ratings of debt securities as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015 Financial assets at fair value through profit or loss	Available–for–sale financial assets	Held–to–maturity financial assets	Total
Grade 1	₩ 2,358,511	₩ 29,284,154	₩ 5,555,064	₩ 37,197,729
Grade 2	-	67,310	75,046	142,356
Others	-	7,397	-	7,397
	₩ 2,358,511	₩ 29,358,861	₩ 5,630,110	₩ 37,347,482

Classification	December 31, 2014 Financial assets at fair value through profit or loss	Available–for–sale financial assets	Held–to–maturity financial assets	Total
Grade 1	₩ 600,061	₩ 11,927,915	₩ 1,830,014	₩ 14,357,990
Grade 2	-	11,547	118,973	130,520
	₩ 600,061	₩ 11,939,462	₩ 1,948,987	₩ 14,488,510

The credit rating classification of debt securities based on internal rating used by the company and credit rating by external rating agencies is as follows

Classification	Internal credit rating	Domestic rating agencies	Overseas rating agencies Moody's	S&P	Fitch
Grade 1	A1+ ~ A3	AAA ~ A–	Aaa ~ Baa2	AAA ~ BBB	AAA ~ BBB
Grade 2	B1+ ~ B3	BBB+ ~ BB	Baa3 ~ B3	BBB– ~ B–	BBB– ~ B–
Grade 3	C1 ~ C3	BB– ~ B–	Caa1 ~ Caa3	CCC+ ~ CCC–	CCC+ ~ CCC–

9. Risk management (cont'd)

9.3 Credit risk (cont'd)

Credit risk concentration in each major industry as at September 30, 2015 and December 31, 2014 is as follows (Korean won in millions):

		September 30, 2015			
				Total	
Classification	Industry	Korean won	Foreign currency	Amount	Ratio (%)
On balance item:					
Due from banks	Financial services	₩ 7,703,111	₩ 8,656,144	₩ 16,359,255	97.7
	Others	-	383,172	383,172	2.3
		7,703,111	9,039,316	16,742,427	100.0
Financial assets at fair value through profit or loss	Financial services	967,623	6,570	974,193	41.3
(Debt securities)	Manufacturing	133,148	-	133,148	5.6
	Public administration	1,233,773	7,114	1,240,887	52.6
	Others	10,283	-	10,283	0.5
		2,344,827	13,684	2,358,511	100.0
Available-for-sale financial assets	Financial services	10,231,901	2,405,964	12,637,865	43.0
(Debt securities)	Manufacturing	264,561	20,711	285,272	1.0
	Public administration	13,083,497	586,825	13,670,322	46.6
	Construction	363,249	-	363,249	1.2
	Wholesale & retail	50,405	-	50,405	0.2
	Others	1,253,764	1,097,984	2,351,748	8.0
		25,247,377	4,111,484	29,358,861	100.0
Held–to–maturity financial assets	Financial services	3,278,786	135,405	3,414,191	60.6
	Manufacturing	49,952	-	49,952	0.9
	Public administration	1,313,782	134,974	1,448,756	25.7
	Construction	265,932	-	265,932	4.7
	Others	451,279	-	451,279	8.1
		265,932	-	265,932	4.7
		451,279	-	451,279	8.1
		5,359,731	270,379	5,630,110	100.0

9. Risk management (cont'd)

9.3 Credit risk (cont'd)

Classification	Industry	September 30, 2015 Korean won	Foreign currency	Total Amount	Ratio (%)
Loan	Household loans	85,032,109	956,063	85,988,172	41.3
	Corporate loans				
	Financial services	5,203,865	7,190,940	12,394,805	5.9
	Manufacturing	27,693,671	15,916,110	43,609,781	20.9
	Public administration	488,682	416,911	905,593	0.4
	Construction	3,821,082	464,804	4,285,886	2.1
	Wholesale & retail	11,102,946	4,864,316	15,967,262	7.7
	Real estate rental	18,572,513	1,055,871	19,628,384	9.4
	Others	20,584,289	6,582,002	27,166,291	13.0
	Deferred loan fees and expenses	227,172	(8,596)	218,576	0.2
	Allowance for possible loan losses	(1,438,959)	(364,339)	(1,803,298)	(0.9)
		171,287,370	37,074,082	208,361,452	100.0
		₩ 211,942,416	₩ 50,508,945	₩ 262,451,361	
Off balance item:					
Financial guarantees	Manufacturing	498,452	956,589	1,455,041	58.3
	Construction	17,574	70,063	87,637	3.5
	Wholesale & retail	141,827	263,662	405,489	16.2
	Real estate rental	60,000	7,071	67,071	2.7
	Others	249,659	232,739	482,398	19.3
		967,512	1,530,124	2,497,636	100.0
Guarantee contracts	Manufacturing	765,783	8,689,528	9,455,311	44.0
	Construction	161,664	3,799,678	3,961,342	18.5
	Wholesale & retail	605,008	2,072,917	2,677,925	12.5
	Financial services	9,470	1,037,809	1,047,279	4.9
	Real estate rental	40,225	34,001	74,226	0.3
	Others	721,880	3,527,670	4,249,550	19.8
		2,304,030	19,161,603	21,465,633	100.0
Commitment	Manufacturing	24,809,390	16,390,976	41,200,366	43.2
	Construction	2,143,323	1,552,242	3,695,565	3.9
	Wholesale & retail	6,399,225	5,358,262	11,757,487	12.3
	Financial services	6,651,679	276,706	6,928,385	7.3
	Real estate rental	2,124,753	16,073	2,140,826	2.2
	Others	26,772,021	2,828,444	29,600,465	31.1
		68,900,391	26,422,703	95,323,094	100.0
		₩ 72,171,933	₩ 47,114,430	₩ 119,286,363	

9. Risk management (cont'd)

9.3 Credit risk (cont'd)

		December 31, 2014			
				Total	
Classification	Industry	Korean won	Foreign currency	Amount	Ratio (%)
On balance item:					
Due from banks	Financial services	₩ 3,146,936	₩ 4,346,118	₩ 7,493,054	96.3
	Others	-	287,896	287,896	3.7
		3,146,936	4,634,014	7,780,950	100.0
Financial assets at fair value through profit or loss	Financial services	492,107	15,220	507,327	84.6
(Debt securities)	Public administration	75,720	6,794	82,514	13.8
	Others	10,220	-	10,220	1.6
		578,047	22,014	600,061	100.0
Available-for-sale financial assets	Financial services	5,534,008	912,448	6,446,456	54.0
(Debt securities)	Manufacturing	121,962	11,888	133,850	1.1
	Public administration	4,639,597	526,000	5,165,597	43.3
	Others	193,559	-	193,559	1.6
		10,489,126	1,450,336	11,939,462	100.0
Held–to–maturity financial assets	Financial services	1,452,871	88,623	1,541,494	79.1
	Public administration	268,865	107,390	376,255	19.3
	Others	30,010	1,228	31,238	1.6
		1,751,746	197,241	1,948,987	100.0
Loan	Household loans	21,340,209	697,802	22,038,011	29.4
	Corporate loans				
	Financial services	2,755,051	2,615,169	5,370,220	7.2
	Manufacturing	12,342,679	9,123,561	21,466,240	28.6
	Public administration	530,725	147,679	678,404	0.9
	Construction	1,399,860	318,602	1,718,462	2.3
	Wholesale & retail	3,589,271	3,463,352	7,052,623	9.4
	Real estate rental	5,850,009	581,736	6,431,745	8.6
	Others	6,080,756	4,859,296	10,940,052	14.5
	Deferred loan fees and expenses	44,096	(6,644)	37,252	0.1
	Allowance for possible loan losses	(517,774)	(159,122)	(676,896)	(1.0)
		53,414,882	21,641,231	75,056,113	100.0
		₩ 69,380,737	₩ 27,944,836	₩ 97,325,573	

9. Risk management (cont'd)

9.3 Credit risk (cont'd)

Classification	Industry	December 31, 2014 Korean won	Foreign currency	Total Amount	Ratio (%)
Off balance item:					
Financial guarantees	Manufacturing	₩ 32,057	₩ 722,957	₩ 755,014	44.9
	Construction	17,522	80,078	97,600	5.8
	Wholesale & retail	5,131	223,352	228,483	13.6
	Real estate rental	60,000	8,904	68,904	4.1
	Others	8,082	522,867	530,949	31.6
		122,792	1,558,158	1,680,950	100.0
Guarantee contracts	Manufacturing	557,922	5,555,952	6,113,874	39.3
	Construction	203,190	4,159,673	4,362,863	28.1
	Wholesale & retail	286,977	1,752,759	2,039,736	13.1
	Financial services	972	1,026,505	1,027,477	6.6
	Real estate rental	12,833	25,372	38,205	0.3
	Others	493,211	1,466,885	1,960,096	12.6
		1,555,105	13,987,146	15,542,251	100.0
Commitment	Manufacturing	16,926,079	3,970,576	20,896,655	46.4
	Construction	1,298,312	580,813	1,879,125	4.2
	Wholesale & retail	5,286,147	1,757,452	7,043,599	15.6
	Financial services	3,369,836	25,726	3,395,562	7.5
	Real estate rental	1,595,899	10,090	1,605,989	3.6
	Others	9,062,666	1,202,439	10,265,105	22.7
		37,538,939	7,547,096	45,086,035	100.0
		₩ 39,216,836	₩ 23,092,400	₩ 62,309,236	

Credit risk concentration in each major country as at September 30, 2015 and December 31, 2014 is as follows (Korean won in millions, ratio in %):

Classification	Country	September 30, 2015 Korean won	Foreign currency	Total Amount	Ratio (%)
On balance item:					
Due from banks	Korea	₩ 7,703,111	₩ 1,208,386	₩ 8,911,497	53.2
	China	-	1,326,613	1,326,613	7.9
	U.S	-	3,474,440	3,474,440	20.8
	Japan	-	255,281	255,281	1.5
	Hong Kong	-	60,354	60,354	0.4
	Others	-	2,714,242	2,714,242	16.2
		7,703,111	9,039,316	16,742,427	100.0

9. Risk management (cont'd)

9.3 Credit risk (cont'd)

Classification	Country	September 30, 2015 Korean won	Foreign currency	Total Amount	Ratio (%)
Financial assets at fair value through profit or loss (Debt securities)	Korea	2,344,827	6,570	2,351,397	99.7
	U.S	-	7,114	7,114	0.3
		2,344,827	13,684	2,358,511	100.0
Available-for-sale financial assets (Debt securities)	Korea	25,247,377	2,225,729	27,473,106	93.6
	China	-	589,751	589,751	2.0
	U.S	-	145,731	145,731	0.5
	Japan	-	4,724	4,724	0.0
	Hong Kong	-	237,976	237,976	0.8
	Others	-	907,573	907,573	3.1
		25,247,377	4,111,484	29,358,861	100.0
Held–to–maturity financial assets	Korea	5,359,731	-	5,359,731	95.2
	China	-	57,252	57,252	1.0
	Hong Kong	-	22,351	22,351	0.4
	Singapore	-	190,776	190,776	3.4
		5,359,731	270,379	5,630,110	100.0
Loan	Korea	172,077,715	21,823,204	193,900,919	93.1
	China	17,238	4,431,757	4,448,995	2.1
	U.S	170,004	1,828,179	1,998,183	1.0
	Japan	17,241	457,569	474,810	0.2
	Hong Kong	4,912	1,425,573	1,430,485	0.7
	Others	212,047	7,480,735	7,692,782	3.7
		172,499,157	37,447,017	209,946,174	100.8
	Deferred loan fees and expenses	227,172	(8,596)	218,576	0.1
	Allowance for possible loan losses	(1,438,959)	(364,339)	(1,803,298)	(0.9)
		171,287,370	37,074,082	208,361,452	100.0
		₩ 204,239,305	₩ 41,469,629	₩ 245,708,934	
Off balance item:					
Financial guarantees	Korea	₩ 967,512	₩ 1,530,124	₩ 2,497,636	100.0
Guarantee contracts	Korea	2,301,321	16,996,373	19,297,694	89.9
	China	-	1,225,329	1,225,329	5.7
	U.S	-	246,116	246,116	1.1
	Japan	-	54,481	54,481	0.3
	Others	2,709	639,304	642,013	3.0
		2,304,030	19,161,603	21,465,633	100.0

9. Risk management (cont'd)

9.3 Credit risk (cont'd)

		September 30, 2015			
				Total	
Classification	Country	Korean won	Foreign currency	Amount	Ratio (%)
Commitment	Korea	68,898,014	23,870,502	92,768,516	97.3
	China	117	366,335	366,452	0.4
	U.S	1,542	307,261	308,803	0.3
	Japan	-	86,939	86,939	0.1
	Others	718	1,791,666	1,792,384	1.9
		68,900,391	26,422,703	95,323,094	100.0
		₩ 72,171,933	₩ 47,114,430	₩ 119,286,363	

		December 31, 2014			
				Total	
	Country	Korean won	Foreign currency	Amount	Ratio (%)
On balance item:					
Due from banks	Korea	₩ 3,146,936	₩ 170,696	₩ 3,317,632	42.6
	U.S	-	2,246,024	2,246,024	28.9
	China	-	55,189	55,189	0.7
	Japan	-	94,523	94,523	1.2
	Singapore	-	224,098	224,098	2.9
	Hong Kong	-	13,486	13,486	0.2
	Brazil	-	30,818	30,818	0.4
	Others	-	1,799,180	1,799,180	23.1
		3,146,936	4,634,014	7,780,950	100.0
Financial assets at fair value through profit or loss (Debt securities)	Korea	578,047	22,014	600,061	100.0
Available-for-sale financial assets (Debt securities)	Korea	10,489,126	1,156,704	11,645,830	97.5
	Hong Kong	-	176,965	176,965	1.5
	Singapore	-	14,669	14,669	0.1
	Others	-	101,998	101,998	0.9
		10,489,126	1,450,336	11,939,462	100.0
Held–to–maturity financial assets	Korea	1,751,746	28,313	1,780,059	91.3
	Brazil	-	23,613	23,613	1.2
	Hong Kong	-	20,858	20,858	1.1
	Others	-	124,457	124,457	6.4
		1,751,746	197,241	1,948,987	100.0

9. Risk management (cont'd)

9.3 Credit risk (cont'd)

Classification	Country	December 31, 2014 Korean won	Foreign currency	Total Amount	Ratio (%)
Loan	Korea	₩ 53,674,289	₩ 11,682,037	₩ 65,356,326	87.1
	China	12,087	933,203	945,290	1.3
	U.S	107,372	952,566	1,059,938	1.4
	Japan	12,916	373,827	386,743	0.5
	Hong Kong	2,926	1,196,326	1,199,252	1.6
	Others	78,970	6,669,238	6,748,208	9.0
		53,888,560	21,807,197	75,695,757	100.9
	Deferred loan fees and expenses	44,096	(6,844)	37,252	0.1
	Allowance for possible loan losses	(517,774)	(159,122)	(676,896)	(0.9)
		53,414,882	21,641,231	75,056,113	100.0
		₩ 69,380,737	₩ 27,944,836	₩ 97,325,573	
Off balance item:					
Financial guarantees	Korea	₩ 122,792	₩ 1,558,158	₩ 1,680,951	100.0
Guarantee contracts	Korea	1,342,955	12,231,844	13,574,799	87.3
	U.S	-	94,778	94,778	0.6
	Japan	-	58,776	58,776	0.4
	Hong Kong	-	31,408	31,408	0.2
	Others	212,150	1,570,340	1,782,489	11.5
		1,555,105	13,987,146	15,542,250	100.0
Commitment	Korea	37,538,939	5,682,353	43,221,292	95.9
	U.S	-	301,588	301,588	0.7
	Japan	-	90,690	90,690	0.2
	Others	-	1,472,465	1,472,465	3.3
		37,538,939	7,547,096	45,086,035	100.0
		₩ 39,216,836	₩ 23,092,400	₩ 62,309,236	

9.4 Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

The Company uses a liquidity ratio in Korean won, liquidity ratio in foreign currency currency maturity mismatch ratio, long–term access to financing ratio in accordance with the guidelines and standards of the Financial Supervisory Service. In addition, the Company has a secondary indicator which measures liquidity risks and early warning indicators in order to identify worsening trends in the beginning of the period and to respond in a timely manner.

At an early stage, the Company identifies factors affecting liquidity in order to manage liquidity risks and has achieved an adequate level of liquidity via performing a systematic management.

9. Risk management (cont'd)

9.4 Liquidity risk (cont'd)

The Company has the following basic principles for liquidity risk management:

- Set and comply an acceptable limit and early warning indicators for liquidity risks
- Regularly execute an analysis of stress tests and prepare an emergency procurement plan in case of illiquidity
- Focus on maintaining a diversified portfolio in order to avoid excessive concentrations of risks
- Evaluate and manage the effect of a large amount of money which is loaned out, invested, or procured on liquidity risks

In order to manage the liquidity risks, the Company is building the internal control systems for each department. In order to comply with Liquidity ratios and the maturity mismatch ratio set by the Financial Supervisory Service, the Comprehensive Risk Management monitors the ratios based on the calculated univariate liquidity ratio and maturity mismatch ratios. Liquidity risk status is reported to the Risk Management Committee on a monthly basis and to the Risk Committee on a quarterly basis.

In order to maintain the liquidity risk management indicators to stay within the acceptable limits, the Treasury Department and the International Finance Department recommends the necessary measures in relation to the procurement and operation of the assets and liabilities traded in the capital market.

In addition, the emergency planning in stages has been established in order to respond to liquidity emergencies. Financial planning department has established a portfolio management strategy based on the internal and external liquidity risk management requirements, procurement, and an outlook on the operating markets.

The details of the remaining contractual maturities of financial liabilities are analyzed by the earliest maturity date when the Bank would be required to pay, based on the undiscounted cash outflows of the Bank's financial liabilities. In addition, financial liabilities at fair value through profit or loss and depository liabilities (payment on demand) are shown at fair value in the immediate payment column. All derivatives used for hedging purposes are interest rate swaps, and those are shown in net cash flows as all interest rate swaps are paid by the net amount.

The remaining contractual maturities of financial liabilities as at September 30, 2015 and December 31, 2014 are summarized as follows (Korean won in millions):

	September 30, 2015						
Classification	On demand	Less than 1 month	1–3 months	3 months – 1 year	1 year – 5 years	More than 5 years	Total
On-balance accounts:							
Financial liabilities at FVTPL	₩ 7,206,545	₩ -	₩ -	₩ -	₩ -	₩ 680,796	₩ 7,887,341
Deposits	89,720,143	17,365,211	28,369,761	59,720,270	7,975,020	2,119,916	205,270,321
Borrowings	3,045,291	4,675,835	2,685,437	4,735,052	3,624,007	563,719	19,329,341
Debentures	4,022	1,331,935	992,493	4,078,209	8,508,028	5,134,827	20,049,514
Derivative liabilities used for hedging purposes	-	5,994	(1,997)	14,724	37,047	13,625	69,393
Other liabilities	3,071,075	23,155,483	6,667	32,917	5,299	-	26,271,441
Merchant banking account liabilities	-	2,259,567	250,000	-	-	-	2,509,567
	₩ 103,047,076	₩ 48,794,025	₩ 32,302,361	₩ 68,581,172	₩ 20,149,401	₩ 8,512,883	₩ 281,386,918

9. Risk management (cont'd)

9.4 Liquidity risk (cont'd)

	September 30, 2015						
Classification	On demand	Less than 1 month	1–3 months	3 months – 1 year	1 year – 5 years	More than 5 years	Total
Off-balance accounts:							
Finance guarantee	₩ 2,497,636	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 2,497,636
Loan commitment	95,323,094	-	-	-	-	-	95,323,094
	97,820,730	-	-	-	-	-	97,820,730
	₩ 200,867,806	₩ 48,794,025	₩ 32,302,361	₩ 68,581,172	₩ 20,149,401	₩ 8,512,883	₩ 379,207,648

	December 31, 2014						
Classification	On demand	Less than 1 month	1–3 months	3 months – 1 year	1 year – 5 years	More than 5 years	Total
On-balance accounts:							
Financial liabilities at FVTPL	₩ 1,621,469	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 1,621,469
Deposits	32,862,983	7,122,873	10,788,252	20,257,641	2,258,825	779,096	74,069,670
Borrowings	1,568,200	3,570,954	1,429,417	2,161,994	1,115,909	148,389	9,994,863
Debentures	1,558	15,523	62,416	774,364	3,121,765	1,731,621	5,707,247
Derivative liabilities used for hedging purposes	-	(740)	(1,279)	(4,510)	13,643	-	7,114
Other liabilities	5,245	10,673,958	2,668	61,588	4,777	-	10,748,236
Merchant banking account liabilities	1,236,876	1,097,204	101,220	-	-	-	2,435,300
	₩ 37,296,331	₩ 22,479,772	₩ 12,382,694	₩ 23,251,077	₩ 6,514,919	₩ 2,659,106	₩ 104,583,899
Off-balance accounts:							
Finance guarantee	₩ 1,680,951	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 1,680,951
Loan commitment	45,086,035	-	-	-	-	-	45,086,035
	46,766,986	-	-	-	-	-	46,766,986
	₩ 84,063,317	₩ 22,479,772	₩ 12,382,694	₩ 23,251,077	₩ 6,514,919	₩ 2,659,106	₩ 151,350,885

Available assets which exist in redeeming financial liabilities and unused loan commitments are cash and bank deposits, debt securities, equity securities, and loans. In addition, the Company is able to cope with unexpected cash flows through the sale of securities and the additional sources of funding, similar to the asset backed securitization.

9.5 Market risk

Market risk is risk incurred in asset and liabilities subject to management based on the changes in market prices such as interest rate, stocks and foreign exchange etc.

The purpose of market risk management is to manage the loss of assets and liabilities incurred due to changes in market variables such as interest rates, foreign exchanges and equity prices to remain within the allowable limits in order to ensure the profitability and stability.

9. Risk management (cont'd)

9.5 Market risk (cont'd)

Market risk management targets include marketable securities, foreign currency net positions, derivatives and other assets and liabilities with embedded market risks. The Company classifies exposures to market risk into either trading or non–trading portfolios and manages each of those portfolios separately.

The targets of the market risk managements are marketable securities, foreign currency net position, derivaties and other assets and liabilities with embedded market risks. Assets and liabilities holded are managed by separating trading position and non-trading position.

The trading portfolio includes interest rate positions, equity price positions, commodity, positions, and all foreign exchange positions:

- Financial instruments for the purpose of acquiring the differences incurred due to short–term trading or price fluctuations.
- Financial instruments for the purpose of hedging risks
- Financial instruments for the purpose of acquiring arbitrages
- Derivatives which are not applied to fair value hedge accounting under K–IFRS
- All foreign exchange and gold positions in accordance with Regulations on Supervision of Banking Business Appendix 3–2

The Risk Committee determines capital limits and annual loss limits in relation to market risks of the trading portfolio on an annual basis, and divides exposure limits and VaR limits into business units on a quarterly basis. The Risk Management Committee further subdivides the limits quarterly into quarter loss limits, exposure limit for desks and VaR limits. The Risk Management Group provides information necessary for deliberation and review by the Committee, reports trading limits, and measures risks. The Middle Office carries out the mark–to–market measures, trade violations, and examination of compliance with the limits.

The Company regularly measures the degree of market risks and complies with the allowable limits set for the various areas of the trading portfolio. In addition, the Company reviews the adequacy of the risk–reward ratio by evaluating risks and related profits and losses on a regular basis and complies with the established trading policy regulations. The Company separately examines and analyses the change in exposures with checking its compliance of the limits and emergency situations, and reports to the management on a daily basis.

Value at Risk (VaR) is a method that manages and measures the degree of market risks of the trading portfolio subject to exposure. The Company calculates the VaR by applying Historical Simulation Method for 10 days in the 99% confidence level. Furthermore, the stress test is performed to measure the size of the loss in order to account for the method's limited use in extreme cases.

Back–testing is performed daily on trading units to verify the predictive power of the value–at risk calculations. When back–testing is performed, the Company compares the daily profits and losses with VaR of the previous day and reports the result of subsequent examinations separately to the director of the Risk Management Department. The Company analyses the result of subsequent examination and reports to the Financial Supervisory Service and management. If the cumulated occurrence of excess becomes more than 10, the Company adjusts the multiplier to calculate the internal capital.

9. Risk management (cont'd)

9.5 Market risk (cont'd)

Risk VaRs as at September 30, 2015 and December 31, 2014 are summarized as follows (Korean won in millions):

	September 30, 2015	Average	Min	Max	December 31, 2014
Interest rates risk	₩ 24,142	₩ 29,813	₩ 20,069	₩ 41,362	₩ 15,611
Foreign exchange rates risk	187,075	140,388	91,176	203,522	44,611
Stock price risk	15,393	14,051	4,977	28,899	9,412
Option risk	1,947	2,722	1,412	4,953	772
Total risk(*)	₩ 180,741	₩ 142,558	₩ 105,810	₩ 200,704	₩ 60,070

(*) The Company reflects the correlation of risk factors and volatility on the moving average method. The calculation of the total risk VaR takes into consideration the correlation and diversification effects between each risk factor and therefore, it is not the same as the total VaRs.

Although commodity positions are held, only back-to-back positions are held, so commodity risk is measured as "0".

Interest rate risk of non-trading position is a risk of losses in financial assets and liabilities with interest rates due to adverse changes in interest rates and is incurred when maturity structure does not match interest rate setting cycle of the related assets and liabilities.The Company manages the interest rate risks of non-trading position in order to maintain the stability of net interest income and net asset value based on changes in interest rates. The following is subject to the Company's management of interest rate risk.

- Financial assets with interest rates such as bank deposits, debt securities, and loans
- Financial liabilities with interest rates such as depository liabilities, borrowings, and debentures
- Financial derivatives such as interest rate swaps

Interest rate risk is calculated using the interest rate gaps. The interest rate risks measure the interest rate gap ratio as a primary indicator, and the interest rate EaR, VaR and duration are used as secondary indicators. The Risk Committee establishes the interest risk limits on an annual basis; the Risk Committee as well as the Risk Management Committee measures the interest rate risk indicators on a monthly basis and reports the compliance with the limits to management.

The interest rate VaR is an estimated maximum loss of net asset due to the adverse changes of the interest rate. Details of the interest rate VaR as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

	September 30, 2015	Average	Min	Max	December 31, 2014
Interest rate VaR	₩ 898,180	₩ 786,945	₩ 725,742	₩ 898,180	₩ 188,501

The interest rate VaR is calculated by using the maturity bucket reprising gap, the interest maturity bucket on modified duration, and the expected gap due to the interest rate fluctuation in accordance with BIS standards. Assets below the substandard and amounts in checking accounts and temporary deposits are excluded from the calculated amount.

9. Risk management (cont'd)

9.5 Market risk (cont'd)

Equity price risk is a risk incurred when the fair value of equities results in changes in the level of related revenue and capital. Effects on capital due to the fluctuation in equity price risk as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

	September 30, 2015			
Classification	20% decline	10% decline	10% rise	20% rise
Equity price risk	₩ (82,153)	₩ (41,077)	₩ 41,077	₩ 82,153

The Company measures the equity price risk on domestic marketable available–for–sale equity securities only.

Currency risk is a risk incurred when the value of a financial instrument or future cash flows fluctuates due to the changes in foreign exchange rates. Currency risk arises from the financial instruments expressed in currencies other than the functional currency. Currency risk does not arise from the financial instruments expressed in the functional currency or in non–monetary items measured by using the historical foreign exchange rates. In order to establish the stop loss and limits, the Company manages the foreign exchange net exposure amount of the trading and non–trading portfolios by each currency.

Significant assets and liabilities denominated in foreign currencies as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions or U.S. dollar in thousands):

	September 30, 2015			
Account	Currency	Amounts in foreign currencies in units	U.S. dollars (*)	Korean won equivalent
Assets:				
Cash and due from bank	USD	5,412,887,665	US$ 5,412,888	₩ 6,465,694
	JPY	37,922,914,254	316,419	377,963
	EUR	434,112,649	487,622	582,464
	CNY	6,916,719,542	1,087,265	1,298,738
	IDR	677,052,427,457	46,138	55,112
	Others		737,654	881,128
			8,087,986	9,661,099
Financial assets at fair value	USD	74,302,834	74,303	88,755
Available-for-sale financial assets	USD	2,134,102,407	2,134,102	2,549,185
	CNY	3,830,395,526	603,596	720,995
	IDR	826,908,977,543	56,350	67,310
	Others		686,521	773,994
			3,480,569	4,111,484
Held–to–maturity financial assets	USD	18,711,951	18,712	22,351
	EUR	28,730,390	32,325	38,612
	CNY	304,157,414	47,929	57,252
	IDR	707,683,907,494	48,226	57,605
	Others		79,162	94,559
			226,354	270,379

9. Risk management (cont'd)

9.5 Market risk (cont'd)

		September 30, 2015		
Account	Currency	Amounts in foreign currencies in units	U.S. dollars (*)	Korean won equivalent
Loan	USD	22,243,753,757	22,243,754	26,570,164
	JPY	139,944,020,334	1,167,809	1,394,948
	EUR	1,506,558,429	1,695,026	2,024,709
	CNY	21,064,793,380	3,319,402	3,965,026
	IDR	9,706,905,348,194	661,484	790,141
	Others		1,949,847	2,329,094
			31,037,322	37,074,082
Derivative assets used for hedging	USD	102,332,058	102,332	122,235
Others	USD	1,843,377,410	1,843,377	2,201,914
	JPY	982,351,195	8,198	9,792
	EUR	49,215,520	55,372	66,143
	CNY	635,615,346	100,003	119,453
	IDR	250,073,127,422	17,041	20,356
	Others		676,524	808,108
			2,700,515	3,225,766
			US$ 45,709,381	₩ 54,553,800
Liabilities:				
Financial liabilities at fair value	USD	570,776,984	570,777	₩ 681,793
Deposits	USD	16,814,958,033	16,814,958	20,085,468
	JPY	176,285,406,241	1,471,029	1,757,144
	EUR	1,165,908,591	1,310,911	1,565,884
	CNY	24,306,761,132	3,820,092	4,563,099
	IDR	6,826,715,716,982	465,211	555,694
	Others		2,776,341	3,316,341
			26,658,542	31,843,630
Borrowings	USD	10,425,834,706	10,425,835	12,453,660
	JPY	62,710,628,909	523,310	625,093
	EUR	655,474,038	737,473	880,911
	CNY	285,461,190	44,862	53,587
	IDR	1,965,575,543,661	133,945	159,998
	Others		167,737	200,361
			12,033,162	14,373,610
Debentures	USD	5,763,918,679	5,763,919	6,885,001
	EUR	88,000,000	99,009	118,266
	CNY	1,319,910,481	207,992	248,447
	Others		158,614	189,464
			6,229,534	7,441,178
Derivative liabilities used for hedging	USD	19,469,911	19,470	23,257

9. Risk management (cont'd)

9.5 Market risk (cont'd)

		September 30, 2015		
Account	Currency	Amounts in foreign currencies in units	U.S. dollars (*)	Korean won equivalent
Others	USD	6,504,441,331	6,504,441	7,769,556
	JPY	22,153,914,815	184,871	220,828
	EUR	393,887,395	443,162	529,358
	CNY	3,104,455,699	488,907	583,999
	IDR	247,064,252,383	16,836	20,111
	Others		286,636	342,386
			7,924,853	9,466,238
			US$ 53,436,338	₩ 63,829,706

		December 31, 2014		
Account	Currency	Amounts in foreign currencies in units	U.S. dollars (*)	Korean won equivalent
Assets:				
Cash and due from bank	USD	2,832,313,058	US$ 2,832,313	₩ 3,113,279
	JPY	15,290,551,052	127,997	140,694
	EUR	599,267,610	728,651	800,933
	CNY	427,376,111	68,745	75,564
	HKD	346,079,016	44,614	49,039
	Others		898,040	987,126
			4,700,360	5,166,635
Financial assets at fair value through profit or loss	USD	79,188,404	79,188	87,044
Available-for-sale financial assets	USD	1,238,290,651	1,238,291	1,361,129
	IDR	129,033,850,000	10,365	11,394
	Others		78,919	86,748
			1,327,575	1,459,271
Held–to–maturity financial assets	USD	44,733,668	44,734	49,171
	EUR	515,990	627	690
	IDR	732,319,122,412	58,828	64,664
	BRL	57,089,730	21,482	23,613
	Others		53,770	59,103
			179,441	197,241
Loan	USD	14,838,824,301	14,838,824	16,310,836
	JPY	89,135,078,430	746,149	820,168
	EUR	1,034,269,972	1,257,571	1,382,323
	CNY	916,617,023	147,441	162,067
	Others		2,849,167	3,131,803
			19,839,152	21,807,197
Derivative assets used for hedging	USD	33,428,795	33,429	36,745

9. Risk management (cont'd)

9.5 Market risk (cont'd)

	December 31, 2014			
Account	Currency	Amounts in foreign currencies in units	U.S. dollars (*)	Korean won equivalent
Others	USD	1,979,723,975	1,979,724	2,176,113
	JPY	29,859,643,747	249,955	274,751
	EUR	155,215,546	188,727	207,449
	CNY	1,806,500,600	290,582	319,407
	HKD	556,920,484	71,794	78,916
	Others		194,072	213,323
			2,974,854	3,269,959
			US$ 29,133,999	₩ 32,024,092
Liabilities:				
Financial liabilities at fair value through profit or loss	USD	101,973,113	US$ 101,973	₩ 112,089
Deposits	USD	10,675,314,227	10,675,314	11,734,305
	JPY	143,287,936,269	1,199,463	1,318,450
	EUR	1,424,674,894	1,732,266	1,904,106
	HKD	1,399,413,913	180,401	198,297
	AUD	295,499,908	241,704	265,681
	Others		2,627,838	2,888,517
			16,656,986	18,309,356
Borrowings	USD	5,485,439,585	5,485,440	6,029,595
	JPY	15,326,307,369	128,296	141,023
	EUR	288,398,847	350,665	385,451
	CNY	29,620,299	4,765	5,237
	CAD	186,870	161	177
	Others		204,838	225,159
			6,174,165	6,786,642
Debentures	USD	2,871,747,780	2,871,748	3,156,625
	HKD	310,000,000	39,963	43,927
			2,911,711	3,200,552
Derivative liabilities used for hedging	USD	5,884,465	5,884	6,468
Others	USD	2,187,652,799	2,187,653	2,404,668
	JPY	10,979,100,402	91,906	101,023
	EUR	275,085,060	334,477	367,657
	CAD	136,496,318	117,538	129,198
	AUD	36,344,261	29,728	32,677
	Others		532,618	610,642
			3,293,920	3,645,865
			US$ 29,144,639	₩ 32,060,972

(*) All foreign currencies other than USD are expressed in USD amounts at the reporting date.

9. Risk management (cont'd)

9.6 Operating risk

Operational risk is the risk of loss arising from system failure, human error, fraud or other external events. Risks related to legal or regulatory implications are identified as operational risks but risks related to the strategy of damaging reputation are excluded from operational risks. Operational risk includes non–financial risks related to losses due to internal operational problems and externalities such as natural disasters and terrorist attacks. Operational risk does not have a direct correlation with income and the Company needs to mitigate such risk through internal controls and insurance.

The Company calculates the operational risk capital using the Advanced Measurement Approach (AMA) and sets the amount as the basic indicator to manage the limits. Length of the period in which the AMA is in use is one year with a 99.9% confidence level. The Company uses the loss distribution approach to measure 9 different business units and 7 operational risk event types. In addition, the Company combines the loss distribution of the internal and external data on losses with results of the scenario analysis to calculate the amount of capital and takes into account business environment and changes in the controls in order to adjust the amount of capital and determine the total amount.

The Risk Committee determines the operational risk limits. In the case where the capital amount is expected to exceed the internal capital limits, an approval from the Risk Committee is needed beforehand. If such a situation occurs in cases outlined as exceptions, an approval from the Risk Committee is needed for the information on exceeded amount, post hoc results, as well as the subsequent plans.

9.7 Capital management

The Company implements the BIS capital requirement system in order to secure the capital adequacy and comply with the supervisory regulations. By BIS (Bank for International Settlements) regulation, the Company keeps its BIS capital adequacy ratio (hereinafter BIS ratio) above the minimum BIS ratio (total capital ratio of 8.0%, tier 1 capital ratio of 6.0%, common equity ratio of 4.5%) for risk-weighted assets. In addition, the Company performs a capital adequacy assessment in order to cope with an unexpected loss.

Risk–weighted assets which are calculated per each risk type when calculating BIS ratio are as follows:

- Risk–weighted assets of credit risk are calculated using the Advanced Internal Ratings–Based Approach (A–IRB). The Company intends to use the permanent Standardized Approach (SA) for governments, banks, and public institutes. The Company intends to apply the Foundation Internal Ratings–Based Approach (F–IRB) for households and non–profit organizations.
- Risk–weighted assets of market risk are calculated by adding higher of (1) the VaR measured at the previous business day and (2) the average VaR measured in the last 60 business days times a multiplier to the separate risk calculated by using a standardized model.
- Risk–weighted assets of the operational risk are calculated by multiplying 12.5 to the amount of operational risk capital.

9. Risk management (cont'd)

9.7 Capital management (cont'd)

Regulatory capital in accordance with the Regulations on the Supervision of Banking Business for calculating BIS ratio as at September 30, 2015 is as follows:

- Common equity: Capital incurred in connection with common stock issued to meet the eligible requirement, capital surplus and capital adjustments, retained earnings, accumulated other comprehensive income and other capital surplus, capital adjustments, non-controlling interest on common shares issued by banks, affiliated subsidiaries, etc.
- Other basic capital: The capital securities to meet accreditation requirements of other basic capital, capital surplus associated with the issuance of the other basic capital, non-qualifying capital securities and the accredited amount as other basic capital of a non-controlling interest on equity securities issued by a subsidiary, etc.
- Supplementary capital: The capital securities to meet supplementary capital accreditation requirements, capital surplus associated with the issuance of supplementary capital, the accredited amount of supplementary capital of non-qualifying capital securities, the accredited amount as supplementary capital of a non-controlling interest on equity securities issued by a subsidiary, eligible allowance for possible loan losses on "normal" or "critical" category assets, allowance for possible loan losses in excess of the total amount of expected losses, etc.

Internal capital is the amount which allows for continuous operation of business while accounting for all risks. Internal capital is defined as the size of capital needed to cope with unexpected loss under a certain rate. The purpose of managing the internal capital is to compare the size of internal capital and available capital (Tier 1) and to serve as a measure of financial strength. Managing the internal capital also provides the amount of risk–adjusted capital and basic measurement. The indicators are composed of the risk appetite ratio as well as exhaustion ratio of foreign holding limits. The risk appetite ratio is an internal capital ratio established after taking into consideration a capital buffer in Tier 1 capital. The exhaustion ratio of foreign holding limits is a ratio used to measure the amount of internal capital used against the internal capital limits.

Internal capital limits are established after accounting for the size of current and subsequent Tier 1 capital as well as the components, quality, risk appetite, target credit rating, operational strategy and business plans. The Risk Committee determines risk types and the internal capital limits for the Company more than once a year. In the case where new operations or the expansion of operations result in the amount exceeding the internal capital limits, an approval from the Risk Committee is needed beforehand. If such a situation occurs in cases outlined as exceptions, an approval from the Risk Committee is needed for the information on exceeded amount, post hoc results, as well as the subsequent plans.

10. Operating segment information

10.1 General Information

For the strategies to achieve goal and performance assessment, the business sectors of the Bank are divided by the operations as follows..

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A. Regional segment: It consists of 6 regions (East Seoul, West Seoul, Gyung-gi, Chungcheong, Yeong-nam, and Ho-nam). It offers household loans and deposit, retirement pension benefit, company loans and deposit etc,.
B. Capital market segment: This segmentation offers investment and operation of securities, purchasing and selling of public bonds, development and operation of derivatives.
C. Others segment: It consists of overseas business segment, headquarter supporting segment, trust segment, risk segment, audit segment and after-management segment.

The Company reorganized the structure by integrating operating channels of retail financial segment and business segment and dividing it into six regional segments to create new customer base and strengthen sales capacity as a result of merger. The Board of Directors has made such decision for the purpose of creating synergy effect from having transactions with individual customers and corporate customers regardless of segments. Therefore, the Company did not restate the segment information of previous quarter based on that of current quarter and restate the segment information of current quarter based on that of the previous quarter.

10. Operating segment information (cont'd)

10.2 Profit or loss by operating segment

10.2.1 Details of net income by operating segments for the nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

	Nine-month period ended September 30, 2015									
	Regional Sector									
	East Seoul	West Seoul	Kyeonggi	Chungcheong	Yeongnam	Honam	Finance sector and other sector	Subtotal	Adjustments	Total
Operating income										
Net interest income	₩ 329,850	₩ 474,127	₩ 217,338	₩ 60,460	₩ 219,771	₩ 62,334	₩ 111,563	₩ 1,475,443	₩ 47,253	₩ 1,522,696
Net fee and commission income	70,979	110,549	42,875	11,174	44,218	11,618	87,834	379,247	(53,002)	326,245
Net other operating income (loss)	(217,516)	(331,616)	(138,779)	(55,528)	(145,767)	(37,037)	(649,086)	(1,575,329)	296,984	(1,278,345)
Net Operating income	183,313	253,060	121,434	16,106	118,222	36,915	(449,689)	279,361	291,235	570,596
Income tax expenses	44,362	61,240	29,387	3,898	28,610	8,933	(2,536)	173,894	(62,813)	111,081
Net income for the period	₩ 138,951	₩ 191,820	₩ 92,047	₩ 12,208	₩ 89,612	₩ 27,982	₩ (447,153)	₩ 105,467	₩ 354,048	₩ 459,515

	Nine-month period ended September 30, 2014						
	Retail financing segment (*2)	Corporate financing segment (*2)	Capital market segment (*2)	Others (*2)	Subtotal	Adjustments	Total
Operating income							
Net interest income	₩ 1,050,260	₩ 362,240	₩ 93,473	₩ (39,926)	₩1,466,047	₩ 253,842	₩ 1,719,889
Net fee and commission income	313,108	153,859	(10,770)	36,454	492,651	(373,157)	119,494
Net other operating income (loss)	(1,125,610)	14,698	23,425	(196,303)	(1,283,790)	(186)	(1,283,976)
Net Operating income	237,758	530,797	106,128	(199,775)	674,908	(119,501)	555,407
Income tax expenses	57,537	131,158	25,683	(48,345)	166,033	(69,045)	96,988
Net income for the period(*)	₩ 180,221	₩ 399,639	₩ 80,445	₩ (151,430)	₩ 508,875	₩ (50,456)	₩ 458,419

(*1) The gains and losses by operating segments above include gain and loss on discontinued operation.
(*2) The Bank's operating segments of the previous quarter are divided by services provided, customers and regions.

10. Operating segment information (cont'd)

A. Retail banking: It offers household and small offices with credit and saving and retirement pension benefit and others.
B. Corporate banking: It offers large and middle sized businesses with corporate credit and saving, real estate finance and project financing.
C. Capital market: It offers securities investment and operation, purchasing and selling of public securities, development and operation of derivatives and foreign exchange services.
D. Others: It is a segment other than retail finance, corporate finance and capital market segments which includes trust segment and special credit management segment

10. Operating segment information (cont'd)

10.2.2 External customers by operating sector and revenue from transactions in each sector for the nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

	Nine-month period ended September 30, 2015									
	Regional Sector									
	East Seoul	West Seoul	Kyeonggi	Chungcheong	Yeongnam	Honam	Finance sector and other sector	Subtotal	Adjustments	Total
Revenue from external customers	₩316,042	₩214,077	₩166,453	₩ 59,232	₩ 121,788	₩ 60,763	₩ 599,237	₩1,537,592	₩ 524,014	₩ 2,061,606

	Nine-month period ended September 30, 2014						
	Retail financing segment	Corporate financing segment	Money market segment	Others	Subtotal	Adjustments	Total
Revenue from external customers	₩ 1,212,991	₩ 548,383	₩ 128,951	₩ 252,515	₩ 2,142,840	₩ (129,427)	₩ 2,013,413

(*) Income (loss) from discontinued operation was included in the above net income by business segment.

10.2.3 Significant non–cash transactions included in income of operating segments for the nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

	Nine-month period ended September 30, 2015									
	Regional Sector									
	East Seoul	West Seoul	Kyeonggi	Chungcheong	Yeongnam	Honam	Finance sector and other sector	Subtotal	Adjustments	Total
Earnings from equity method Investments	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 75,528	₩ 75,528	₩ -	₩ 75,528
Depreciation and amortization	3,122	3,868	3,318	1,568	2,987	1,211	65,979	82,053	(268)	81,785
	₩ 3,122	₩ 3,868	₩ 3,318	₩ 1,568	₩ 2,987	₩ 1,211	₩141,507	₩157,581	₩ (268)	₩ 157,313

10. Operating segment information (cont'd)

	Nine-month period ended September 30, 2014						
	Retail financing segment	Corporate financing segment	Capital market segment	Others	Subtotal	Adjustments	Total
Earnings from equity method Investments	₩ -	₩ -	₩ -	₩ (288)	₩ (288)	₩ -	₩ (288)
Depreciation and amortization	13,327	8,227	-	57,321	78,875	-	78,875
	₩ 13,327	₩ 8,227	₩ -	₩ 57,033	₩ 78,587	₩ -	₩ 78,587

(*) The gains and losses by operating segments above include gain and loss on discontinued operation.

10. Operating segment information (cont'd)

10.3 Information about regions

Revenue by region from the external customers for the nine-month periods ended September 30, 2015 and 2014 and non–current assets by region as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	Revenue from external customers (*1)		Non–current assets (*2)	
	Nine-month period ended September 30, 2015	Nine-month period ended September 30, 2014 (*3)	September 30, 2015	December 31, 2014
Domestic	₩ 1,312,688	₩ 1,778,402	₩ 3,031,603	₩ 1,433,514
Foreign				
Hong Kong	34,882	38,738	4,986	4,645
Singapore	12,498	11,392	372	257
U.S	1,674	15,970	1,481	1,053
Japan	8,783	9,671	4,501	4,113
China	7,667	64,770	34,189	224
Indonesia	59,178	39,046	7,392	5,807
U.K	11,998	11,069	2,332	572
Canada	19,354	24,877	10,430	5,793
Others	68,869	53,575	6,008	3,963
	224,903	269,108	71,691	26,427
Adjustments	524,015	(34,097)	-	-
	₩ 2,061,606	₩ 2,013,413	₩ 3,103,294	₩ 1,459,941

(*1) Income from external customers is divided into categories of domestic and overseas based on the locations of operating branches..
(*2) Non-current assets consist of property and equipment, investment property, and intangible asset and are divided into categories of domestic and overseas based on the location of assets.
(*3) The gains and losses by operating segments for the previous quarter include gain and loss on discontinued operation.

11. Cash and due from banks

11.1 Cash and due from banks as at September 30, 2015 and December 31, 2014 is as follows (Korean won in millions):

Classification	Counterparty	Annual interest rate (%)	September 30, 2015	December 31, 2014
Cash		–	₩ 2,808,873	₩ 1,564,849
Due from banks in Korean won:				
Reserve deposits with BOK	Bank of Korea (“BOK”)	–	6,224,422	2,662,074
Monetary stabilization account	BOK	1.50~1.52	1,220,000	300,000
Certificates of deposit	Other banks	-	185,000	-
Other deposits	Other financial institutions	-	73,689	184,862
			7,703,111	3,146,936
Due from banks in foreign currencies:				
Due from banks on demand	BOK and other banks	0.00~0.65	4,779,068	2,654,252
Time deposits	Bayern LB, etc	0.77~3.80	1,411,460	1,008,218
Due from others on demand	Other financial institutions	–	2,848,787	971,544
			9,039,315	4,634,014
			₩ 19,551,299	₩ 9,345,799

11.2 Restricted balances in due from banks as at September 30, 2015 and December 31, 2014 are summarized as follows (Korean won in millions):

Classification	September 30, 2015	December 31, 2014	Restriction
Due from banks in Korean won:			
Reserve deposits with BOK	₩ 6,224,422	₩ 2,662,074	Required under the Bank Act and other related regulations.
Monetary stabilization account	1,220,000	300,000	Required by the Bank of Korea for the purpose of liquidity management.
Reserve for future trading	397	1	Deposits received for guarantees as margin for derivatives.
Investor’s deposits	133,082	51,019	Required under the Financial Investment Services and Capital Markets Act.
Other deposits	2	-	Pledge creation and etc.
	7,577,903	3,013,094	
Due from banks in foreign currencies:			
Reserve deposit	1,813,834	688,146	Required under the Bank Act and other related regulations.
Other due from banks	1,170,372	344,383	Deposits received for guarantees as margin for derivatives.
	2,984,206	1,032,529	
	₩ 10,562,109	₩ 4,045,623	

12. Financial assets at fair value through profit or loss

12.1 Financial assets at fair value through profit or loss as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	Interest rate (%)	Fair value (Book value) September 30, 2015	Fair value (Book value) December 31, 2014
Stocks	-	₩ 47,961	₩ 31,913
Government and public bonds	1.62~4.00	1,213,396	55,434
Financial bonds	1.58~6.30	926,935	492,107
Corporate bonds and others	2.03~4.68	204,496	30,506
Beneficiary certificates	-	3,311	-
Securities denominated in foreign currencies	2.00~4.38	13,684	22,670
Derivative assets held-for-trading (*)	-	7,271,095	1,672,664
		₩ 9,680,878	₩ 2,305,294

(*) Refer to Note 17.

12.2 Details of valuation of trading securities and bonds as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015			
	Par value	Acquisition cost	Amortized cost	Fair value (Book value)
Government and public bonds	₩ 1,172,007	₩ 1,188,474	₩ 1,186,200	₩ 1,213,396
Financial bonds	940,500	944,418	944,765	926,935
Corporate bonds and others	220,000	220,618	221,260	204,496
Bond denominated in foreign currencies	13,140	13,613	13,613	13,684
	₩ 2,345,647	₩ 2,367,123	₩ 2,365,838	₩ 2,358,511

Classification	December 31, 2014			
	Par value	Acquisition cost	Amortized cost	Fair value (Book value)
Government and public bonds	₩ 55,000	₩ 54,795	₩ 54,914	₩ 55,434
Financial bonds	490,500	491,235	491,816	492,107
Corporate bonds and others	30,000	30,005	30,064	30,506
Bond denominated in foreign currencies	20,885	21,175	21,154	22,014
	₩ 596,385	₩ 597,210	₩ 597,948	₩ 600,061

13. Available–for–sale financial assets

13.1 Available–for–sale financial assets as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	Counterparty	Annual interest rate (%)	Fair value (Book value) September 30, 2015	Fair value (Book value) December 31, 2014
Equity securities	SK Hynix and others	-	₩ 677,061	₩ 546,598
Investments in partnerships	Vogo (Private Equity Fund)	-	163,984	66,275
Government and public bonds	Treasury bonds	1.62~5.75	7,449,112	957,767
	Housing bonds	1.75~3.00	2,431,903	1,225,084
	Other local bonds	1.84~3.24	455,537	428,319
			10,336,552	2,611,170
Finance bonds	Currency stabilization bonds	1.49~2.90	4,612,410	4,197,584
	Commercial bank bonds	1.64~5.44	305,384	442,786
	Small and medium industry finance bonds	1.54~3.09	780,686	650,568
	Industrial financial bonds	1.98~4.12	1,013,601	29,829
	KEXIM bonds	1.70~3.02	280,507	120,646
			6,992,588	5,441,413
Corporate bonds and Others	State owned entity bonds	1.84~6.32	1,113,061	2,028,426
	Non–financial corporate bonds	1.59~6.33	6,805,176	408,117
			7,918,237	2,436,543
Beneficial Securities	KDB Private Equity 1	-	906,681	17,679
Securities denominated in foreign currencies	Equity securities in foreign currencies	-	9,361	8,133
	Bonds in foreign currencies	1.00~7.14	4,111,483	1,450,336
	Investment in foreign currencies	-	16,352	802
			4,137,196	1,459,271
Others	Beneficiary right certificate	-	8,316	8,023
	Other securities	-	-	25,542
			8,316	33,565
			₩ 31,140,615	₩ 12,612,514

13.2 Equity securities (including equity securities denominated in foreign currencies) as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	Book value before valuation	Accumulated other Comprehensive Income	Fair value (Book value) September 30, 2015	Fair value (Book value) December 31, 2014
Marketable equity securities	₩ 462,935	₩ (82,306)	₩ 380,629	₩ 434,327
Non–marketable equity securities	307,466	(1,673)	305,793	120,404
	₩ 770,401	₩ (83,979)	₩ 686,422	₩ 554,731

13. Available–for–sale financial assets (cont'd)

13.2.1 Shares held by the Company that are embedded with restrictions on disposal as at September 30, 2015 are summarized as follows (Korean won in millions):

Classification	September 30, 2015 Number of shares		Book value	Disposal restriction
Taihan Electric Wire Co., Ltd.	54,415,100	₩	38,254	Until October 19, 2016
Kumho Industrial Co., Ltd.	1,442,574		25,822	Until creditor's disposal decision on meeting
Happy Fund	20,822		17,629	Until December 31, 2099
Kumho Tire Co., Inc.	2,427,429		17,526	Until creditor's disposal decision on meeting
STX Engine Co., Ltd.	2,179,350		16,999	Until December 31, 2017
Samho International Co., Ltd.	788,000		15,642	Until December 31, 2016
Chinhung International, Inc.	2,823,400		6,931	Until December 31, 2016
Oriental Precision & Engineering Co., Ltd.	2,614,415		7,425	Until December 31, 2016
Daiyang Metal Co., Ltd.	7,563,000		4,795	Until October 7, 2015
Dongbu Steel Co., Ltd.	942,400		3,939	Until December 31, 2018
STX Heavy Industries Co., Ltd.	553,000		3,606	Until December 31, 2017
Osung LST Co., Ltd.	4,403,333		2,576	Until December 31, 2017
KPM Tech Co., Ltd.	462,815		2,425	Until December 31, 2015
Kukje Machinery Co., Ltd.	438,000		1,249	Until M&A be made
AJin P&P Co., Ltd	47,170		491	Until December 31, 2015
Jaeyoung Solutec Co., Ltd.	305,333		460	Until December 31, 2016
Cosmotech Co., Ltd.	2,126,000		425	Until December 31, 2016
YoungGwang Stainless Co., Ltd	111,400		136	Until December 31, 2016
SK No.2 Special Purpose Acquisition Co., Ltd.	21,886		46	Until October 21, 2015
STX Offshore & Shipbuilding Co., Ltd.	11,589,600		12	Until December 31, 2017
Seunghwa Pretech Co., Ltd.	371		-	Until February 26, 2016
Steel&Resources Co., Ltd.	770,012		-	Until February 21, 2016
Pantech Co., Ltd.	18,426,419		-	Until resolution of shareholders association
Kohap Co., Ltd.	1,844,400		-	Until liquidation at the settlement meeting
		₩	166,388	

Classification	December 31, 2014 Number of shares		Book value	Disposal restriction
Kumho Tire Co., Inc.	2,427,429	₩	23,473	Until creditor's disposal decision on meeting
Taihan Electric Wire Co., Ltd. (preferred stock)	4,869,900		12,029	Until December 31, 2015
Hyundai Cement Co.,Ltd.	1,042,500		10,998	Until December 31, 2016
Kumho Industrial Co.,Ltd	480,526		10,908	Until creditor's disposal decision on meeting
Oriental Precision & Engineering Co., Ltd.	9,958,000		6,552	Until December 31, 2016
STX Engine Co., Ltd.	2,714,000		5,816	Until December 31, 2017
Osung LST Co., Ltd.	4,403,333		5,350	Until December 31, 2017
Daiyang Metal Co., Ltd.	7,563,000		4,273	Until September 04, 2015
Taihan Electric Wire Co., Ltd.	3,019,100		1,491	Until December 31, 2015
STX Heavy Industries Co., Ltd.	2,250,000		1,391	Until December 31, 2017

13. Available–for–sale financial assets (cont'd)

	December 31, 2014		
Classification	Number of shares	Book value	Disposal restriction
SAMT Co.,Ltd.	677,264	1,117	Until February 28, 2015
Chinhung International Inc.	600,400	1,000	Until December 31, 2016
KPM Tech Co., Ltd.	462,815	889	Until December 31, 2015
AJin P&P Co., Ltd.	47,170	523	Until December 31, 2015
Kores Co., Ltd.	492,000	431	Until December 31, 2016
Jaeyoung Solutec Co., Ltd.	61,333	87	Until December 31, 2016
Young Gwang Stainless Co., Ltd.	10,000	14	Until December 31, 2016
STX Offshore & Shipbuilding Co., Ltd.	11,589,600	12	Until December 31, 2017
Hae Won Steeltech. Co., Ltd.	16,792	-	Until July 31, 2015
		₩ 86,354	

13.3 Investments in partnerships (including investments in partnerships in foreign currencies) as at September 30, 2015 and December 31, 2014 consist of the following (Korean won in millions):

Classification	Book value Before valuation	Accumulated other comprehensive income	Fair value (Book value) September 30, 2015	Fair value (Book value) December 31, 2014
Investments in partnerships	₩ 178,506	₩ 1,830	₩ 180,336	₩ 67,077

For available-for-sale financial assets over ₩1 billion, the Company uses a price measured by an external valuation agency on a semi-annual basis. Moreover, investment in equity are valued at the acquisition cost which amounts to ₩27,493 million and ₩4,532 million as at September 30, 2015 and December 31, 2014, respectively because a reliable fair value could not be reasonably estimated.

13.4 Debt securities as at September 30, 2015 and December 31, 2014 are summarized as follows (Korean won in millions):

	September 30, 2015			
Classification	Par value	Acquisition cost	Amortized cost	Fair value (Book value)
Government and public bonds	₩ 9,824,300	₩ 10,173,454	₩ 10,102,021	₩ 10,336,552
Finance bonds	6,956,300	6,965,322	6,962,176	6,992,588
Corporate bonds and others	7,781,600	7,851,861	7,819,464	7,918,237
Bonds denominated in foreign currencies	4,014,729	4,120,739	4,103,867	4,111,484
	₩ 28,576,929	₩ 29,111,376	₩ 28,987,528	₩ 29,358,861

	December 31, 2014			
Classification	Par value	Acquisition cost	Amortized cost	Fair value (Book value)
Government and public bonds	₩ 2,576,000	₩ 2,586,804	₩ 2,586,133	₩ 2,611,170
Finance bonds	5,415,139	5,420,490	5,420,136	5,441,413
Corporate bonds and others	2,408,000	2,434,075	2,425,008	2,436,543
Bonds denominated in foreign currencies	1,408,138	1,466,596	1,450,178	1,450,336
	₩ 11,807,277	₩ 11,907,965	₩ 11,881,455	₩ 11,939,462

13. Available–for–sale financial assets (cont'd)

The fair value of debt securities is measured based on the average of the valuation provided by KIS Pricing Inc., the Korea Asset Pricing Co. NICE Pricing Service, Inc.

13.5 Changes in the unrealized gain (loss) for available-for-sale financial assets for the nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	Nine-month period ended September 30, 2015					
	Beginning balance	Business combination under common control	Unrealized gain(loss)	Realized loss	Tax effect	Ending Balance
Equity securities	₩ 264,595	₩ 47,139	₩ (73,102)	₩ (80,997)	₩ 39,034	₩ 196,669
Investments in partnerships and beneficiary certificate	3,848	21,762	(13,504)	(1,071)	2,679	13,714
Government and public bonds	18,978	120,742	74,830	(26,480)	(11,697)	176,373
Finance bonds	16,127	9,875	15,680	(20,234)	1,111	22,559
Corporate bonds and others	8,745	47,332	33,505	(8,803)	(5,979)	74,800
Securities denominated in foreign currencies	274	11,082	3,197	(2,711)	(1,023)	10,819
	₩ 312,567	₩257,932	₩40,606	₩ (140,296)	₩ 24,125	₩ 494,934

Classification	Nine-month period ended September 30, 2014				
	Beginning balance	Unrealized gain	Realized loss	Tax effect	Ending Balance
Equity securities	₩ 300,318	₩ 97,793	₩ (145,424)	₩ 11,967	₩ 264,654
Investments in partnerships and beneficiary certificate	4,760	120	(693)	(338)	3,849
Government and public bonds	(1,754)	26,663	688	(6,619)	18,978
Finance bonds	(1,692)	24,208	(700)	(5,689)	16,127
Corporate bonds and others	(5,425)	16,340	2,353	(4,524)	8,744
Securities denominated in foreign currencies	1,064	219	(1,274)	265	274
	₩ 297,271	₩ 165,343	₩ (145,050)	₩ (4,938)	₩ 312,626

13.6 Realized gains and losses from disposal of available–for–sale financial assets for the three and nine month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	Three-month periods ended September 30,				Nine-month periods ended September 30,			
	2015		2014		2015		2014	
	Realized gain	Realized loss	Realized gain	Realized loss	Realized gain	Realized loss	Realized gain	Realized loss
Equity securities	₩ 13,257	₩ 2,770	₩ 7,017	₩ 395	₩ 107,741	₩ 3,716	₩ 128,331	₩ 614
Investments in partnerships and beneficiary certificate	549	1,857	161	297	1,047	1,857	357	296
Government and public bonds	20,051	-	1,719	-	48,335	-	5,898	2
Finance bonds	(3,491)	8	719	-	24,591	10	3,034	8
Corporate bonds and others	3,047	-	3,998	-	8,997	-	8,412	-

13. Available–for–sale financial assets (cont'd)

	Three-month periods ended September 30,				Nine-month periods ended September 30,			
	2015		2014		2015		2014	
Classification	Realized gain	Realized loss	Realized gain	Realized loss	Realized gain	Realized loss	Realized gain	Realized loss
Securities denominated in foreign currencies	4,382	-	503	-	10,887	-	1,600	-
	₩ 37,795	₩ 4,635	₩ 14,117	₩ 692	₩ 201,598	₩ 5,583	₩ 147,632	₩ 920

13.7 Dividend gain on available–for–sale financial assets for the three and nine-month periods ended September 30, 2015 and 2014 is as follows (Korean won in millions):

Classification	Three-month periods ended September 30, 2015	Three-month periods ended September 30, 2014	Nine-month periods ended September 30, 2015	Nine-month periods ended September 30, 2014
Equity securities	₩ 3,616	₩ 2,737	₩ 10,540	₩ 10,262
Investments in partnership and beneficiary certificate	14,620	135	16,791	416
Securities denominated in foreign currencies	236	-	236	-
	₩ 18,472	₩ 2,872	₩ 27,567	₩ 10,678

13.8 Transferred financial assets that are not fully derecognized as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

	September 30, 2015		December 31, 2014	
Classification	Book value	Fair value	Book value	Fair value
Assets:				
Available-for-sale financial Assets(*)	₩ 806,983	₩ 806,983	₩ 273,210	₩ 273,210
Held–to–maturity financial assets	70	72	-	-
Liabilities:				
Bonds sold under repurchase agreements	₩ 499,710	₩ 501,667	₩ 190	₩ 190

(*) Loaned available-for-sale securities with no associated liabilities recognized amounting to ₩219,372 million have been included.

14. Held–to–maturity financial assets

14.1 Held–to–maturity financial assets as of September 30, 2015 and December 31, 2014 consist of the following (Korean won in millions):

Classification	Category	Annual Interest rate (%)	Book value September 30, 2015	Book value December 31, 2014
Government and public bonds	Treasury bonds	3.00~5.75	₩ 357,580	₩ -
	Housing bonds	1.75~3.00	479,202	118,587
			836,782	118,587
Finance bonds	Currency stabilization bonds	1.69~2.80	1,419,907	1,310,558
	Commercial bank bonds	3.40~7.10	391,666	111,944
	Small and medium industry finance bonds	3.34~4.38	100,337	30,368
	Industrial financial debenture	3.42~3.42	10,000	-
			1,921,910	1,452,870
Corporate bonds and Others	State owned entity bonds	1.59~6.53	2,411,054	150,279
	Non–financial corporate bonds	3.44~5.11	189,985	30,010
			2,601,039	180,289
Bonds denominated in foreign currencies	Bonds In foreign currencies	1.00~7.63	270,379	197,241
			₩ 5,630,110	₩ 1,948,987

14.2 Details of held–to–maturity financial assets as at September 30, 2015 and December 31, 2014 are summarized as follows (Korean won in millions):

	September 30, 2015			
Classification	Par value	Acquisition cost	Amortized cost	Book value
Government and public bonds	₩ 875,638	₩ 816,154	₩ 836,782	₩ 836,782
Finance bonds	1,920,000	1,921,441	1,921,911	1,921,910
Corporate bonds and Others	2,593,700	2,605,588	2,601,039	2,601,039
Bonds denominated in foreign currencies	261,198	269,224	270,379	270,379
	₩ 5,650,536	₩ 5,612,407	₩ 5,630,111	₩ 5,630,110

	December 31, 2014			
Classification	Par value	Acquisition cost	Amortized cost	Book value
Government and public bonds	₩ 119,800	₩ 118,305	₩ 118,587	₩ 118,587
Finance bonds	1,450,000	1,453,363	1,452,870	1,452,870
Corporate bonds and Others	180,000	184,206	180,289	180,289
Bonds denominated in foreign currencies	193,692	192,728	197,241	197,241
	₩ 1,943,492	₩ 1,948,602	₩ 1,948,987	₩ 1,948,987

15. Pledged assets

Assets pledged as collateral as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	Category	Book value September 30, 2015	Book value December 31, 2014
Available–for–sale financial assets	Intraday overdraft	₩ 156,255	₩ 551,219
	Foreign currency borrowing	608,335	-
	Pledged securities	206,035	-
	Borrowings	939,951	-
	BOK payment	2,984,267	916,405
	Borrowings denominated in foreign currency (CSA)	31,149	47,255
	Borrowings from BOK	619,694	504,333
	Future	141,566	164,074
	Others	1,034,694	88,510
		6,721,946	2,271,796
Held–to–maturity financial assets	Future	237,259	111,004
	BOK payment	928,517	400,533
	Intraday overdraft	31,356	610,359
	Borrowings	127,054	-
	Borrowings from BOK	399,143	438,713
	Client RP	320	250
	Others	57,581	6,098
		1,781,230	1,566,957
Loans	Borrowings	53,794	-
		₩ 8,556,970	₩ 3,838,753

16. Loans and receivables

16.1 Total loans and receivables as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification		September 30, 2015		December 31, 2014
Loans receivable:				
Loans in Korean won	₩	168,935,417	₩	51,799,667
Loans denominated in foreign currencies		23,034,283		12,097,896
Domestic import usance		4,145,280		2,863,035
Call loans		3,565,701		1,781,227
Bills purchased in Korean won		335,891		70,187
Bills purchased denominated in foreign currencies		6,947,719		5,246,244
Advance payments on acceptances and guarantees		64,344		8,094
Bonds purchased under resale agreement		1,100,080		400,000
Privately-placed corporate bonds		1,172,817		780,897
Others		644,642		648,510
		209,946,174		75,695,757
Plus (less):				
Deferred loan fees and expenses		218,576		37,252
Allowance for possible loan losses		(1,803,298)		(676,896)
	₩	208,361,452	₩	75,056,113

16.2 Allocations of loans in Korean won and in foreign currencies by customer as at September 30, 2015 and December 31, 2014 are listed as follows (Korean won in millions):

	September 30, 2015					
Classification		Korean won		Foreign Currencies		Total
Corporate loans						
Large–sized businesses	₩	24,809,752	₩	19,940,088	₩	44,749,840
Small and medium–sized businesses		58,377,943		7,411,516		65,789,459
Public sector and others		4,279,353		9,139,350		13,418,703
		87,467,048		36,490,954		123,958,002
Household loans		85,032,109		956,063		85,988,172
		172,499,157		37,447,017		209,946,174
Plus (less):						
Deferred loan fees, net of expenses		227,172		(8,596)		218,576
Allowance for possible loan losses		(1,438,959)		(364,339)		(1,803,298)
		(1,211,787)		(372,935)		(1,584,722)
	₩	171,287,370	₩	37,074,082	₩	208,361,452

16. Loans and receivables (cont'd)

Classification	December 31, 2014 Korean won	Foreign Currencies	Total
Corporate loans			
Large–sized businesses	₩ 12,720,388	₩ 10,296,168	₩ 23,016,556
Small and medium–sized businesses	18,126,690	4,199,571	22,326,261
Public sector and others	1,701,273	6,613,656	8,314,929
	32,548,351	21,109,395	53,657,746
Household loans	21,340,209	697,802	22,038,011
	53,888,560	21,807,197	75,695,757
Plus (less):			
Deferred loan fees, net of expenses	44,096	(6,844)	37,252
Allowance for possible loan losses	(517,774)	(159,122)	(676,896)
	(473,678)	(165,966)	(639,644)
	₩ 53,414,882	₩ 21,641,231	₩ 75,056,113

16.3 Changes in deferred loan fees, net of expenses, for the nine-month periods ended September 30, 2015 and 2014 are summarized as follows (Korean won in millions):

Classification	Nine-month period ended September 30, 2015 Beginning balance	Business combination under common control	Increase	Decrease	Ending balance
Deferred loan fees, net of expenses	₩ 37,252	₩ 165,283	₩ 53,257	₩(37,216)	₩ 218,576

Classification	Nine-month period ended September 30, 2014 Beginning balance	Increase	Decrease	Spin-off of a credit card division	Ending balance
Deferred loan fees, net of expenses	₩ 35,944	₩ 23,997	₩ (26,535)	₩ 51	₩ 33,457

16.4 Changes in allowance for possible loan losses for the nine-month periods ended September 30, 2015 and 2014 are summarized as follows (Korean won in millions):

Classification	Nine-month period ended September 30, 2015 Loans in Korean won	Loans in foreign currencies	Advance payments on acceptances and guarantees	Bills purchased in foreign currencies	Privately –placed corporate bonds	Total
As at January 1, 2015	₩ 522,686	₩ 87,051	₩ 3,132	₩ 57,750	₩ 6,277	₩ 676,896
Business combination under common control	903,772	148,857	14,691	4,797	6,822	1,078,939
Disposal of non–performing loans	(15,781)	-	-	-	-	(15,781)
Write–offs	(229,522)	(22,275)	(14,113)	-	-	(265,910)
Collection of loans written–off in prior periods	50,539	2,447	5,762	-	-	58,748
Debt–to–equity swap	(6,535)	-	-	-	(836)	(7,371)
Currency fluctuation and others	570	9,749	1	300	23	10,643

16. Loans and receivables (cont'd)

Classification	Nine-month period ended September 30, 2015 Loans in Korean won	Loans in foreign currencies	Advance payments on acceptances and guarantees	Bills purchased in foreign currencies	Privately –placed corporate bonds	Total
Provisions (reverse) of allowance of possible loan losses, net	217,715	57,069	6,264	11,353	3,619	296,020
Interest income from impaired loans	(25,614)	(1,647)	(253)	(1,029)	(343)	(28,886)
As at September 30, 2015	₩ 1,417,830	₩ 281,251	₩ 15,484	₩ 73,171	₩ 15,562	₩ 1,803,298

Classification	Nine-month period ended September 30, 2014 Loans in Korean won	Loans in foreign currencies	Advance payments on acceptances and guarantees	Bills purchased in foreign currencies	Credit card loans	Privately –placed corporate bonds	Total
As at January 1, 2014	₩ 525,702	₩ 99,940	₩ 2,177	₩ 5,019	₩ 86,436	₩ 6,147	₩ 725,421
Business combination under common control	-	4,159	-	-	-	-	4,159
Disposal of non–performing loans	(9,785)	-	-	-	-	-	(9,785)
Write–offs	(212,485)	(5,778)	(2,007)	-	(55,683)	-	(275,953)
Collection of loans written–off in prior periods	51,327	-	-	-	20,757	-	72,084
Debt–to–equity swap	(34,518)	-	-	-	-	-	(34,518)
Currency fluctuation and others	1,394	4,927	(2)	(62)	(10)	(57)	6,190
Provisions (reverse) of allowance of possible loan losses, net	277,700	2,968	9,215	7,432	54,911	633	352,859
Interest income from impaired loans	(31,489)	(2,127)	(165)	(145)	(1,537)	(292)	(35,755)
Spinoff of a credit card division	-	-	-	-	(104,874)	-	(104,874)
As at September 30, 2014	₩ 567,846	₩ 104,089	₩ 9,218	₩ 12,244	₩ -	₩ 6,431	₩ 699,828

16.5 Total leases investment and net lease investment of the financial lease loans included in loans as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015 Shor-term	Long-term	Total
Present value of minimum lease payments	₩ 13,685	₩ 16,873	₩ 30,558
Net lease investment	13,685	16,873	30,558
Unrealized interest income	621	527	1,148
Total lease investment	₩ 14,306	₩ 17,400	₩ 31,706

Classification	December 31, 2014 Shor-term	Long-term	Total
Present value of minimum lease payments	₩ 14,018	₩ 21,477	₩ 35,495
Direct costs to initiate lease	-	79	79
Net lease investment	14,018	21,556	35,574
Unrealized interest income	963	877	1,840
Total lease investment	₩ 14,981	₩ 22,433	₩ 37,414

16. Loans and receivables (cont'd)

16.6 Total leases investment and net lease investment of the financial lease loans by period as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

	September 30, 2015	
Classification	Total lease investment	Net lease investment
Within 1 year	₩ 14,306	₩ 13,685
After 1 year but no later than 5 years	17,401	16,873
	₩ 31,707	₩ 30,558

	December 31, 2014	
Classification	Total lease investment	Net lease investment
Within 1 year	₩ 14,981	₩ 14,018
After 1 year but no later than 5 years	22,433	21,556
	₩ 37,414	₩ 35,574

17. Derivative instruments

17.1 Details of amounts of the unsettled derivative contract and fair value of derivatives held by the Company as at September 30, 2015 and December 31, 2014 are as follows.

	Amounts of unsettled contract		As at September 30, 2015		As at December 31, 2014	
Classification	September 30, 2015	December 31, 2014	Assets	Liabilities	Assets	Liabilities
Currency:						
Forward	₩ 167,189,975	₩ 55,164,572	₩ 4,150,138	₩ 3,607,029	₩ 958,385	₩ 957,711
Swap	56,523,287	18,848,287	1,960,125	2,296,819	376,292	274,772
Options purchased	1,551,857	1,466,537	45,800	-	37,987	-
Options sold	1,747,098	2,014,436	-	28,772	-	33,504
Futures	524,839	868,363	-	-	-	-
	227,537,056	78,362,195	6,156,063	5,932,620	1,372,664	1,265,987
Interest:						
Swap	108,704,681	49,038,993	1,088,757	1,155,145	292,084	342,230
Options purchased	1,300,500	890,000	30,662	-	7,062	-
Options sold	4,722,890	1,480,000	-	99,374	-	1,845
Futures	935,419	824,462	-	-	-	-
	115,663,490	52,233,455	1,119,419	1,254,519	299,146	344,075
Stock:						
Options purchased	67,858	42,284	234	-	854	-
Options sold	154,013	50,750	-	2,674	-	442
Futures	8,170	11,308	-	-	-	-
	230,041	104,342	234	2,674	854	442
Others:						
Other derivatives	244,198	20,000	16,732	16,732	-	1,316
Credit risk adjustment	-	-	(21,353)	-	-	4,480
Bid-ask spread adjustment	-	-	-	-	-	5,169
	244,198	20,000	(4,621)	16,732	-	10,965
	₩ 343,674,785	₩ 130,719,992	₩ 7,271,095	₩ 7,206,545	₩ 1,672,664	₩ 1,621,469

17. Derivative instruments (cont'd)

17.2 16-2 Details of valuation gain (loss) of the derivatives for the three and nine-month periods ended September 30, 2015 and 2014 are as follows..

	Three-month periods ended September 30				Nine-month periods ended September 30			
	2015		2014		2015		2014	
Classification	Gain	Loss	Gain	Loss	Gain	Loss	Gain	Loss
Currency:								
Forward	₩ 1,020,935	₩ 765,939	₩ (33,465)	₩ (94,530)	₩ 1,814,188	₩ 1,432,379	₩ 553,846	₩ 654,653
Swap	710,976	894,738	(312,653)	(194,864)	871,955	1,138,021	172,727	119,517
Options purchased	13,366	(5,856)	(7,791)	(1,555)	17,479	827	4,557	13,260
Options sold	(10,492)	2,121	(5,466)	(11,446)	481	4,116	13,527	3,733
	1,734,785	1,656,942	(359,375)	(302,395)	2,704,103	2,575,343	744,657	791,163
Interest:								
Swap	146,604	171,191	90,962	67,543	219,858	281,130	203,346	197,541
Options purchased	4,956	364	2,406	740	6,200	691	3,900	2,515
Options sold	599	13,628	648	1,345	761	14,038	3,852	1,723
	152,159	185,183	94,016	69,628	226,819	295,859	211,098	201,779
Stock:								
Options purchased	(943)	66	(1,516)	(63)	11	66	440	1,061
Options sold	(161)	(3)	101	(145)	(110)	13	204	-
	(1,104)	63	(1,415)	(208)	(99)	79	644	1,061
Others:								
Other derivatives	964	970	(20)	72	964	970	-	72
Credit risk adjustment	(1,974)	1,494	(438)	15	65	1,494	8,806	27
Bid-ask spread adjustment	-	-	-	400	-	-	-	1,634
	(1,010)	2,464	(458)	487	1,029	2,464	8,806	1,733
	₩ 1,844,830	₩ 1,844,652	₩ (267,232)	₩ (232,488)	₩ 2,931,852	₩ 2,873,745	₩ 965,205	₩ 995,736

17.3 Derivative instruments used for hedging purposes held by the Bank as at September 30, 2015 and December 31, 2014 are as follows. (Korean won in millions):

	September 30, 2015	Three-month period ended September 30, 2015		Nine-month period ended September 30, 2015		September 30, 2015	
Classification	Unsettled contract amounts	Net Valuation gain	Net Valuation loss	Net Valuation gain	Net Valuation loss	Assets	Liabilities
Currency swaps	₩ 154,845	₩ 355	₩ 1,371	₩ 355	₩ 1,371	₩ 680	₩ 16,962
Interest rate swaps	7,412,835	46,129	(872)	55,881	7,073	122,236	6,295
	₩ 7,567,680	₩ 46,484	₩ 499	₩ 56,236	₩ 8,444	₩ 122,916	₩ 23,257

	December 31, 2014	Three-month period ended September 30, 2014		Nine-month period ended September 30, 2014		December 31, 2014	
Classification	Unsettled contract amounts	Net Valuation gain	Net Valuation loss	Net Valuation gain	Net Valuation loss	Assets	Liabilities
Interest rate swaps	₩ 3,132,720	₩ (4,728)	₩ 6,896	₩ 8,770	₩ 11,298	₩ 36,745	₩ 6,468

17. Derivative instruments (cont'd)

Derivative transactions of which purchase and sale incur simultaneously like foreign exchange forward transaction, currency futures and currency swap, do not distinguish purchase contract amount from sale contract amount. For a derivative transaction involving both Korean won and foreign currencies, the contract amount based on foreign currencies is denominated using a fair exchange rate prevailing at the end of reporting period. For a derivative transaction involving only foreign currencies, the contract amount based on foreign currencies purchased are denominated using a fair exchange rate prevailing at the end of reporting period.

17.4 Gain or loss on valuation of hedged items for the three and nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

	Three-month periods ended September 30,				Nine-month periods ended September 30,			
	2015		2014		2015		2014	
Classification	Net valuation gain	Net valuation loss	Net valuation gain	Net valuation loss	Net valuation gain	Net valuation loss	Net valuation gain	Net valuation loss
Finance debentures(*)	₩ 832	₩ 38,669	₩ 5,204	₩ (6,609)	₩ 9,329	₩ 49,031	₩ 9,213	₩ 8,790
Depository liabilities	-	5,656	-	-	-	5,656	-	-
	₩ 832	44,325	₩ 5,204	₩ (6,609)	₩ 9,329	₩ 54,687	₩ 9,213	₩ 8,790

(*)Fair value hedge accounting was applied to fair value fluctuation risk which is subject to hedge incurred due to interest rate change in financial debenture of foreign currency issued as at September 30, 2015. Fair value changes incurred due to interest rate change in financial debenture of foreign currency issued subject to hedge or interest rate change in foreign currency interest rate swap used as hedge method are taken into account as gain or loss on derivatives used for hedging.

17.5 Details of the amount of exchange rate differences reflected on transaction of foreign operations with reference to hedge accounting of the net investment in the foreign operation for three and nine month period ended September 30, 2015 are as follows.

	Three-month period ended September 30, 2015		Nine-month period ended September 30, 2015	
Classification	Gain	Loss	Gain	Loss
Debentures denominated in foreign currencies	₩ -	₩ 1,583	₩ -	₩ 1,583
Borrowings denominatedin foreign currencies:	-	20,956	-	20,956
Tax effect	-	(5,454)	-	(5,454)
	₩ -	₩ 17,085	₩ -	₩ 17,085

18. Investments in associates

18.1 Details of investments in associates as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

	September 30, 2015					
Classification	Country	Reporting date	Industry	Number of shares	Ownership (%)	Book value
Bank of Jilin (*2)	China	September 30	Bank	1,200,000,000	16.98	₩ 632,379
UAMCO., Ltd (*2)	Korea	September 30	Financial services	85,050	17.50	124,026
Hana First Private Equity Fund (*3)	Korea	September 30	Financial services	-	29.97	79,063
Korea Credit Bureau (*2)	Korea	September 30	Credit investigation and Collection agency	108,000	5.40	5,024
Darby Hana Infrastructure Fund Management ("DHIF") (*2)	Korea	September 30	Asset Management Company	79,200	9.90	888
CM International financing leases	China	September 30	Other financial sevices	600,000,000	25.00	113,966
Somesevit Corparatio (*2) (*4)	Korea	December 31	Construction	165,000	1.92	-
MIDAN City Development Co., Ltd. (*2)	Korea	December 31	Construction	387,800	2.17	622
Masan Marine New Town Co.,Ltd. (*2)	Korea	December 31	Construction	20,000	10.00	100
Hyundai Cement Co., Ltd.	Korea	June 30	Manufacturing	2,138,400	25.12	29,869
Company KStartup winwin fund (*3)	Korea	September 30	Investment	-	23.80	9,000
MIRAEASSETKEB First Securitization Specialty Co., Ltd.	Korea	September 30	Asset securitization	1,000	40.00	1,358
ETKEB Second Securitization Specialty Co.,Ltd.(*4)	Korea	September 30	Asset securitization	450	45.00	-
PT Sinarmas Hana Finance	Indonesia	September 30	Financial services	450	30.00	3,663
						₩ 999,958

	December 31, 2014					
Classification	Country	Reporting date	Industry	Number of shares	Ownership (%)	Book value
Hana Bank (China) Co., Ltd. (Formerly, KEB Bank (China) Co., Ltd.). (*1) (*3)	China	December 31	Financial services	-	40.30	₩ 361,620
Somesevit Corporation (Formerly, Flossom Co., Ltd.) (*2) (*4)	Korea	December 31	Construction	165,000	1.92	-
MIDAN City Development Co.,Ltd. (*2)	Korea	December 31	Construction	387,800	2.17	460
Masan Marine New Town Co.,Ltd(*2)	Korea	December 31	Construction	20,000	10.00	23
KEB Mirae Asset First Securitization Specialty Co., Ltd.	Korea	December 31	Asset liquidation	1,000	40.00	783
KEB Mirae Asset Second Securitization Specialty Co., Ltd. (*4)	Korea	December 31	Asset liquidation	450	45.00	-
						₩ 362,886

18. Investments in associates (cont'd)

(*1) The Bank has changed classification of PT Bank KEB Hana from investments in associates to investments in subsidiaries since the Bank lost controlling power as a result of business combination as at December 31, 2014
(*2) These companies are included in investment in associates as the Company exercises a significant influence on the investee's Board of Directors.
(*3) Hana First Private Equity Fund and HCS Private Equity Fund are established on a fund basis and therefore, there are no shares issued.
(*4) The equity method is no longer appropriate because current balance for investment is below "0"

18.2 Condensed financial statements as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

	September 30, 2015				
Classification	Assets	Liabilities	Equity (accumulated deficit)	Net income (loss)	Comprehensive income (loss)
Bank of Jilin	₩ 60,067,005	₩ 56,438,895	₩ 3,628,110	₩ 412,644	₩ 429,480
UAMCO., Ltd.	3,843,778	3,120,333	723,445	54,557	54,544
Hana First Private Equity Fund	305,916	42,094	263,822	43,883	43,883
Korea Credit Bureau	56,521	6,764	49,757	19,757	19,757
Darby Hana Infrastructure Fund Management ("DHIF")	10,965	1,993	8,972	889	889
CM International financing leases	879,484	287,926	591,558	14,776	14,776
Somesevit Corporation (Formerly, Flossom Co., Ltd.)	93,601	131,062	(37,461)	(734)	(7,319)
MIDAN City Development Co.,Ltd.	904,201	875,551	28,650	7,480	7,480

	September 30, 2015				
Classification	Assets	Liabilities	Equity (accumulated deficit)	Net income (loss)	Comprehensive income (loss)
Masan Marine New Town Co.,Ltd	145,991	144,992	999	771	771
Hyundai Cement Co., Ltd.	479,292	479,373	(81)	(55,476)	(55,999)
Company KStartup winwin fund	36,838	-	36,838	(619)	(619)
KEB Mirae Asset First Securitization Specialty Co., Ltd.	22,680	19,286	3,394	1,436	1,436
KEB Mirae Asset Second Securitization Specialty Co., Ltd.	42,318	42,946	(628)	(374)	(374)
PT Sinarmas Hana Finance	12,630	-	12,630	-	-
	₩ 66,901,220	₩ 61,591,215	₩ 5,310,005	₩ 498,990	₩ 508,705

18. Investments in associates (cont'd)

	December 31, 2014				
Classification	Assets	Liabilities	Equity (accumulated deficit)	Net income (loss)	Comprehensive income (loss)
Hana Bank (China) Co., Ltd. (Formerly, KEB Bank (China) Co., Ltd.).	₩ 7,748,870	₩ 6,851,549	₩ 897,321	₩ (759)	₩ 8,459
Somesevit Corporation (Formerly, Flossom Co., Ltd.)	99,465	134,011	(34,546)	(4,404)	(4,404)
MIDAN City Development Co.,Ltd.	909,859	888,689	21,170	(27,748)	(27,748)
Masan Marine New Town Co.,Ltd	148,741	148,513	228	(90)	(90)
KEB Mirae Asset First Securitization Specialty Co., Ltd.	30,788	28,830	1,958	448	448
KEB Mirae Asset Second Securitization Specialty Co., Ltd.	72,802	73,056	(254)	(264)	(264)
	₩ 9,010,525	₩ 8,124,648	₩ 885,877	₩ (32,817)	₩ (23,599)

18. Investments in associates (cont'd)

18.3 Changes in the investment in an associate for the nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

	Nine-month period ended September 30, 2015								
						Equity method valuation			
Classification	Ownership (%)	Beginning balance	Acquisition, disposal and others	Business combination under common control	Book value before valuation	Earnings (loss)	Impairment of equity method	Changes in equity	Ending Balance
Bank of Jilin	16.98	₩ -	₩ -	₩ 602,478	₩ 602,478	₩ 16,023	₩ -	₩ 13,878	₩ 632,379
UAMCO., Ltd.	17.50	-	-	121,132	121,132	2,895	-	(1)	124,026
Hana First Private Equity Fund	29.97	-	-	63,538	63,538	14,484	-	1,041	79,063
Korea Credit Bureau	5.40	-	-	4,744	4,744	280	-	-	5,024
Darby Hana Infrastructure Fund Management ("DHIF")	9.90	-	-	839	839	49	-	-	888
CM International financing leases	25.00	-	-	110,107	110,107	3,694	-	165	113,966
Hana Bank (China) Co., Ltd. (Formerly, KEB Bank (China) Co., Ltd.).	43.30	361,620	-	(385,468)	(23,848)	9,405	-	14,443	-
Somesevit Corporation (Formerly, Flossom Co., Ltd.)	1.92	-	-	-	-	-	-	-	-
MIDAN City Development Co.,Ltd.	2.17	460	-	-	460	162	-	-	622
Masan Marine New Town Co.,Ltd	10.00	23	-	-	23	76	-	1	100
Hyundai Cement Co., Ltd.	25.12	-	-	32,637	32,637	27,885	(30,657)	4	29,869
Company KStartup winwin fund	23.80	-	-	9,000	9,000	-	-	-	9,000
KEB Mirae Asset First Securitization Specialty Co., Ltd.	40.00	783	-	-	783	575	-	-	1,358
KEB Mirae Asset Second Securitization Specialty Co., Ltd.	45.00	-	-	-	-	-	-	-	-
PT Sinarmas Hana Finance	30.00	-	3,663	-	3,663	-	-	-	3,663
		₩ 362,886	₩ 3,663	₩ 559,007	₩ 925,556	₩ 75,528	₩ (30,657)	₩ 29,531	₩ 999,958

18. Investments in associates (cont'd)

	Nine-month period ended September 30, 2014				
Classification	Acquisition cost	Beginning balance	Acquisition, disposal and others	Equity method valuation	Ending Balance
Somesevit Corporation (Formerly, Flossom Co., Ltd.)	₩ 825	₩ -	₩ -	₩ -	₩ -
MIDAN City Development Co.,Ltd.	1,492	671	-	(211)	460
Masan Marine New Town Co.,Ltd	100	100	-	(77)	23
KEB Mirae Asset First Securitization Specialty Co., Ltd.	604	-	604	-	604
KEB Mirae Asset Second Securitization Specialty Co., Ltd.	4	-	4	-	4
	₩ 3,025	₩ 771	₩ 608	₩ (288)	₩ 1,091

19. Property and equipment

19.1 Property and equipment as at September 30, 2015 and December 31, 2014 consist of the following (Korean won in millions):

	September 30, 2015			
Classification	Acquisition cost	Accumulated depreciation	Government grants	Book value
Land	₩ 1,534,893	₩ -	₩ -	₩ 1,534,893
Buildings	908,007	(279,493)	-	628,514
Leasehold improvements	405,272	(327,177)	(383)	77,712
Equipment and vehicles	1,025,809	(882,331)	-	143,478
Construction in progress	29,574	-	-	29,574
Others	77,952	-	-	77,952
	₩ 3,981,507	₩ (1,489,001)	₩ (383)	₩ 2,492,123

	December 31, 2014			
Classification	Acquisition cost	Accumulated depreciation	Government grants	Book value
Land	₩ 778,480	₩ -	₩ -	₩ 778,480
Buildings	454,565	(190,758)	-	263,807
Leasehold improvements	187,522	(142,938)	(279)	44,305
Equipment and vehicles	556,646	(476,768)	-	79,878
	₩ 1,977,213	₩ (810,464)	₩ (279)	₩ 1,166,470

19.2 Changes in property and equipment for the nine-month period ended September 30, 2015 and the year ended December 31, 2014 are as follows (Korean won in millions):

	Nine-month period ended September 30, 2015							
Classification	January 1, 2015	Business combination under common control	Additions	Disposal	Depreciation	Transfer out	Others	September 30, 2015
Land	₩ 778,480	₩ 783,823	₩ 2,321	₩ (12,155)	₩ -	₩ (17,675)	₩ 99	₩ 1,534,893
Buildings	263,807	359,899	21,078	(532)	(9,855)	(6,417)	534	628,514
Leasehold improvements	44,305	28,120	16,900	13	(11,842)	-	216	77,712
Equipment and vehicles	79,878	81,347	21,142	(658)	(39,122)	-	891	143,478
Construction in progress	-	25,845	3,729	-	-	-	-	29,574
Others	-	77,952	-	-	-	-	-	77,952
	₩ 1,166,470	₩1,356,986	₩ 65,170	₩ (13,332)	₩ (60,819)	₩ (24,092)	₩ 1,740	₩ 2,492,123

	Nine-month period ended September 30, 2014								
Classification	January 1, 2014	Common control transaction	Additions	Disposal	Depreciation (*1)	Transfer out	Others	Spinoff of a credit card division	December 31, 2014
Land	₩ 811,634	₩ 37	₩ 100	₩ (28)	₩ -	₩ (504)	₩ (58)	₩ (120)	₩ 811,061
Buildings	276,515	26	11,392	-	(8,700)	(839)	1,345	(1,273)	278,466
Leasehold improvements	43,696	-	7,917	(830)	(9,596)	-	(74)	(313)	40,800
Equipment and vehicles	87,741	2,733	28,736	(464)	(39,469)	-	799	(4,840)	75,236
	₩ 1,219,586	₩ 2,796	₩ 48,145	₩ (1,322)	₩ (57,765)	₩ (1,343)	₩ 2,012	₩ (6,546)	₩ 1,205,563

(*1) Loss from discontinued operation in the amount of ₩2,353 million was included.

20. Investment properties

20.1 Details of investment property as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

	September 30, 2015			
Classification	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 336,326	₩ -	₩ (2)	₩ 336,324
Buildings	203,805	(82,705)	(30)	121,070
	₩ 540,131	₩ (82,705)	₩ (32)	₩ 457,394

	December 31, 2014			
Classification	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 155,255	₩ -	₩ (2,356)	₩ 152,899
Buildings	145,918	(66,049)	(2,388)	77,481
	₩ 301,173	₩ (66,049)	₩ (4,744)	₩ 230,380

20.2 Changes in investment property for the nine-month period ended September 30, 2015 and the year ended December 31, 2014 are as follows (Korean won in millions):

	Nine-month period ended September 30, 2015					
Classification	Beginning balance	Business combination under common control	Disposal	Depreciation	Transfer (*1)	Ending Balance
Land	₩ 152,898	₩ 167,391	₩ (1,640)	₩ -	₩ 17,674	₩ 336,323
Buildings	77,482	39,752	-	(2,581)	6,418	121,071
	₩ 230,380	₩ 207,143	₩ (1,640)	₩ (2,581)	₩ 24,092	₩ 457,394

	Nine-month period ended September 30, 2014				
Classification	Beginning balance	Depreciation	Transfer (*1)	Others	Ending Balance
Land	₩ 119,732	₩ -	₩ 504	₩ 111	₩ 120,347
Buildings	63,530	(1,970)	839	-	62,399
	₩ 183,262	₩ (1,970)	₩ 1,343	₩ 111	₩ 182,746

(*1) Due to the changes in the ratio of the leased investment properties.

Fair values of investment property are in the amount of ₩456,647 million and ₩156,244 million as at September 30, 2015 and December 31, 2014, respectively, which were measured by external independent agencies. They fall under level 3 of fair value hierarchy.

20. Investment properties (cont'd)

20.3 Rental income and operating expenses arising from the Company's investment properties for the three and nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	Three-month periods ended September 30, 2015	Three-month periods ended September 30, 2014	Nine-month periods ended September 30, 2015	Nine-month periods ended September 30, 2014
Rental income	₩ 1,343	₩ 676	₩ 3,000	₩ 2,077

20.4 Investment properties not in use as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015	December 31, 2014
Land	₩ -	₩ 1,640
Buildings	130	184
	₩ 130	₩ 1,824

21. Intangible assets

21.1 Intangible assets as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

	September 30, 2015			
Classification	Acquisition Cost	Accumulated amortization	Accumulated impairment loss	Book value
Goodwill	₩ 892	₩ -	₩ -	₩ 892
Industrial proprietary rights	406	(272)	-	134
Software	113,884	(85,805)	-	28,079
Systems development costs	605,511	(535,354)	-	70,157
Memberships	39,591	(208)	(9,531)	29,852
Others	83,964	(59,271)	(30)	24,663
	₩ 844,248	₩ (680,910)	₩ (9,561)	₩ 153,777

	December 31, 2014			
Classification	Acquisition Cost	Accumulated amortization	Accumulated impairment loss	Book value
Systems development costs	₩ 297,733	₩ (252,991)	₩ -	₩ 44,742
Memberships	21,112	-	(7,477)	13,635
Others	11,465	(6,721)	(30)	4,714
	₩ 330,310	₩ (259,712)	₩ (7,507)	₩ 63,091

21. Intangible assets (cont'd)

21.2 Changes in the carrying amount of intangible assets for the nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	January 1, 2015	Business combination under common control	Acquisition	Disposal	Depreciation	Others	September 30, 2015
Goodwill	₩ -	₩ 892	₩ -	₩ -	₩ -	₩ -	₩ 892
Industrial proprietary rights	-	139	-	-	(5)	-	134
Software	-	26,452	2,312	-	(817)	132	28,079
Systems development Costs	44,742	30,954	9,789	-	(15,434)	106	70,157
Memberships	13,635	17,804	-	(1,666)	(1)	80	29,852
Others	4,714	17,953	4,424	(108)	(2,127)	(193)	24,663
	₩ 63,091	₩ 94,194	₩ 16,525	₩ (1,774)	₩ (18,384)	₩ 125	₩ 153,777

Classification	January 1, 2014	Acquisition	Disposal	Depreciation(*)	Others	Spinoff of credit card business	September 30, 2014
Systems Development Costs	₩ 50,669	₩ 12,398	₩ -	₩ (16,575)	₩ -	₩ (4,600)	₩ 41,892
Memberships	10,098	4,414	(1,591)	-	(7)	(689)	12,225
Others	117	-	-	(50)	(2)	-	65
	₩ 60,884	₩ 16,812	₩ (1,591)	₩ (16,625)	₩ (9)	₩ (5,289)	₩ 54,182

(*) Income (loss) from discontinued operation in the amount of ₩1,406 million was included.

22. Non-current assets held for sale

There is one collateral acquired for the purpose of loan repayment for tangible assets of non-business use appropriated as non-current assets held-for-sale as at December 31, 2014. It was classified as non-current asset held-for-sale based on the management's decision and it is not disposed as at December 31, 2014.

Details of non-current assets held-for-saleas at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015	December 31, 2014
Acquisition cost	₩ 22	₩ 749
Accumulated depreciation	-	(220)
	₩ 22	₩ 529

23. Other assets and merchant banking account assets

23.1 Details of other assets as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015	December 31, 2014
Guarantee deposits paid	₩ 1,141,678	₩ 626,936
Accounts receivable	14,136,470	4,853,742
Accrued income	638,483	252,869
Prepaid expenses	198,920	97,239
Suspense payments	69,950	26,620
Expenditures	1,650	1,324
Deposit money to court	10,846	8,120
Domestic exchange settlement debits	3,576,704	842,576
Others	22,366	97,899
Allowance for possible other asset losses	(12,796)	(7,729)
	₩ 19,784,271	₩ 6,799,596

23.2 Changes in the allowance for possible losses for the nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	Nine-month period ended September 30, 2015	Nine-month period ended September 30, 2014
Beginning balance	₩ 7,730	₩ 8,212
Business combination under common control	5,176	-
Write-offs	(1,350)	(2,271)
Provision for allowance for possible losses	1,399	676
Interest income on impaired assets	(163)	(181)
Changes in foreign exchange and others	4	-
Ending balance	₩ 12,796	₩ 6,436

23.3 Details of merchant banking account assets as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015	December 31, 2014
Merchant banking account loans	₩ 60,000	₩ -
Merchant banking account trading bonds	1,724,095	1,850,793
CMA assets:		
Loans receivable	10,000	78,400
Trading bonds	519,768	429,237
	529,768	507,637
Allowance for possible loan losses	(69)	(75)
	₩ 2,313,794	₩ 2,358,355

24. Financial liabilities at fair value through profit and loss

24.1 Details of financial liabilities held-for-trading as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions)

Classification	September 30, 2015	December 31, 2014
Derivative liabilities held-for-trading(*)	₩ 7,206,545	₩ 1,621,469

(*) Refer to Note 17.

24.2 Details of financial liabilities at FVTPL as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions)

Classification	September 30, 2015	December 31, 2014
Deposits	₩ 580,889	₩ -
Debentures	99,907	-
Deferred Day 1 profit	997	-
	₩ 681,793	₩ -

(*) In order to eliminate or significantly reduce the inconsistencies between the recognized and measured amounts, the financial liabilities designated at fair value through profit or loss have been categorized accordingly.

24.3 Differences between the book value and maturity amount of the financial liabilities designated at fair value through profit or loss as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions)::

Classification	September 30, 2015	December 31, 2014
Book value	₩ 681,793	₩ -
Maturity amount	680,000	-
Difference	₩ 1,793	₩ -

25. Deposits

25.1 Deposit liabilities as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification		September 30, 2015		December 31, 2014
Demand deposits				
Demand deposits in Korean won	₩	7,721,412	₩	20,555,569
Demand deposits in foreign currency		19,530,037		11,581,101
		27,251,449		32,136,670
Time and savings deposits				
Time and savings deposits in Korean won		162,955,780		34,045,737
Time and saving deposits in foreign currency		11,972,815		6,728,255
		174,928,595		40,773,992
Certificate of deposits		682,309		164,729
	₩	202,862,353	₩	73,075,391

25.2 Classification of deposits by customers as at September 30, 2015 and December 31, 2014 is listed as follows (Korean won in millions):

Classification		September 30, 2015		December 31, 2014
Individuals	₩	72,471,966	₩	22,636,544
Corporations		55,215,794		24,059,198
Other banks		7,405,628		969,021
Public institutions		5,219,394		1,134,095
Other financial institutions		28,556,479		6,419,958
Government		6,269,939		182,485
Non–profit corporations		11,508,450		4,073,703
Foreign corporations		8,117,968		7,862,944
Others		8,096,735		5,737,443
	₩	202,862,353	₩	73,075,391

26. Borrowings

Borrowings as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	Lender	Annual interest rate(%)	September 30, 2015	December 31, 2014
Borrowings in Korean won:				
BOK borrowings	BOK	0.50~0.75	₩ 1,983,972	₩ 889,633
Government borrowings	Korea Energy Management Corporation, etc.	0.00~3.10	2,763,616	1,220,659
Other borrowings	Small & medium Business Corporation, etc.	0.00~4.25	1,274,908	310,515
			6,022,496	2,420,807
Borrowings in foreign currencies:				
Bank overdrafts	Deutsche Bank Trust Company, etc.	0.00~18.38	514,375	133,662
Other borrowings	The Export-Import Bank of Korea, etc.	0.00~4.90	10,189,852	5,907,422
			10,704,227	6,041,084
Call money:				
Call money in Korean cureencies	-	-	-	641,000
Call money in foreign currencies	CITI, etc.	0.12~0.70	1,501,550	745,558
			1,501,550	1,386,558
Bonds sold under repurchase agreements:				
Bonds sold under repurchase agreements in Korean Won	General customers	0.00~3.95	232	190
Bonds sold under repurchase agreements in foreign currencies	Nomura International	0.22~3.14	499,478	-
			499,710	190
Others				
Bills sold	General customers	0.90~2.24	125,685	65,056
			₩ 18,853,668	₩ 9,913,695

27. Debentures

Debentures as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	Lenders	Annual interest rate(%)	September 30, 2015	December 31, 2014
Debentures in Korean won:				
Debentures	Institutions	1.82~3.95	₩ 6,790,000	₩ 830,000
Subordinated bonds	Institutions and genera customers	3.07~3.98	4,352,082	951,558
Net loss on fair value hedges (current period)			(2,097)	-
Net loss on fair value hedges (previous periods)			4,583	-
(Less present value discount)			(25,706)	(5,494)
			11,118,862	1,776,064
Debentures in foreign currencies:				
Debentures	Morgan Stanley, etc	1.75~4.88	6,410,289	2,651,365
Subordinated bonds	BOA-Merrill Lynch , Barclays, etc	4.25~4.63	955,600	549,600
Net loss on fair value hedges (current period)			38,532	14,097
Net loss on fair value hedges (previous period)			59,761	2,921
Less present value discount			(23,004)	(17,431)
			7,441,178	3,200,552
			18,560,040	4,976,616

28. Net defined benefit liability

28.1 Net defined benefit liability

Details of net defined benefit liability as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015	December 31, 2014
Present value of defined benefit obligation	₩ 1,224,956	₩ 434,094
Fair value of plan assets	(1,015,603)	(368,069)
Pension benefits, net	₩ 209,353	₩ 66,025

28.2 Defined benefit obligations

28.2.1 Changes in present value of defined benefit obligation

Changes in present value of defined benefit obligation for the nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	Nine-month period ended September 30, 2015	Nine-month period ended September 30, 2014
Beginning balance	₩ 434,094	₩ 361,462
Business combination under common control	754,447	785

28. Net defined benefit liability (cont'd)

Classification	Nine-month period ended September 30, 2015		Nine-month period ended September 30, 2014	
Current service cost		49,370		41,119
Interest cost		11,122		10,199
Remeasurements of the net defined benefit liability		(187)		-
Benefit provided		(22,233)		(13,341)
Others		(1,657)		(16,926)
	₩	1,224,956	₩	383,298

28.2.2 Total costs recognized in accordance to defined benefit plans

Total costs occurred in operating defined benefit pension plan for the nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	Nine-month period ended September 30, 2015		Nine-month period ended September 30, 2014	
Current service cost	₩	49,370	₩	41,119
Interest cost		11,112		10,199
Interest income on plan assets		(10,265)		(10,271)
	₩	50,217	₩	41,047

28.3 Plan assets

28.3.1 Details of changes in the value of plan assets

Changes in the fair value of plan assets for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	Nine-month period ended September 30, 2015		Nine-month period ended September 30, 2014	
Beginning balance	₩	368,069	₩	319,190
Acquisition due to the business combination		660,050		-
Employer contributions		-		200
Interest income on plan assets		10,265		10,271
Remeasurements of the net defined benefit liability		(1,976)		(2,910)
Benefit provided		(20,806)		(10,920)
Others		-		(13,530)
	₩	1,015,602	₩	302,301

28.3.2 Details of plan assets

Details of plan assets as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015		December 31, 2014	
Time deposits	₩	554,258	₩	164,362

28. Net defined benefit liability (cont'd)

Classification	September 30, 2015		December 31, 2014	
Others		461,345		203,707
	₩	1,015,603	₩	368,069

29. Contingent liabilities, Agreements, and Provisions

29.1 Details of provisions as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015		December 31, 2014	
Allowance for possible losses on acceptances and guarantees				
Financial acceptances and guarantees(*1)	₩	2,442	₩	1,514
Non–financial acceptances and guarantees		38,591		29,895
Bills endorsed		126		410
		41,159		31,819
Allowances for unused commitments		60,197		34,769
Other allowance				
Allowances for asset retirement obligation		38,626		18,115
Allowance for lawsuits(*2)		51,769		49,336
Others		24,039		13,347
		114,434		80,798
	₩	215,790	₩	147,386

(*1) The Company recognizes the amount exceeding the unamortized amount of the initial fair value at subsequent measurement of the financial guarantee contract as provisions for guarantees. The Company recognizes the unamortized amount as financial guarantee contract liabilities in the amount of ₩38,311 million and ₩22,723 million as at September 30, 2015 and December 31, 2014, respectively.
(*2) On August 8, 2008, Olympus Capital KEB Cards Ltd. (Olympus) filed ICC international arbitration request to claim compensation against the Company and Lone Star Management Co. IV, Ltd. (Lone Star), alleging illegal acts in the course of sales of shares of Korea Exchange Bank Credit Service Co., Ltd. in 2003. On December 21, 2011, the court ruled that the Company and Lone Star should jointly compensate Olympus for principal, interests, legal expenses, and arbitration expenses and pay US$ 64.8 million. Following the court's verdict, Lone Star paid 'Olympus' the entire amount on February 27, 2012, and filed an international arbitration request for the recourse amounts against the Company on October 17, 2012. To reflect this amount, the Company appropriated approximately ₩42.7 billion for a provision for lawsuit on December 31, 2014. The Company received the verdict on the case on January 2, 2015, and paid Lone Star US$ 37.75 million on January 9, 2015.

29. Contingent liabilities, Agreements, and Provisions (cont'd)

29.2 Changes in provisions for the nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

	Nine-month period ended September 30, 2015					
Classification	Beginning balance	Business combination under common control	Net expense of allowance (reversal of allowance)	Allowance used	Others	Ending Balance
Allowance for possible losses on acceptances and guarantees	₩ 31,819	₩ 22,771	(15,061)	₩ -	₩ 1,630	₩ 41,159
Allowances for unused commitments	34,769	30,973	(7,521)	-	1,976	60,197
Other allowances						
Allowances for asset retirement obligation	18,115	20,256	107	-	147	38,625
Allowance for lawsuits	49,336	25,241	22,170	(45,992)	1,014	51,769
Others	13,347	2,889	20,776	(12,057)	(915)	24,040
	80,798	48,386	43,053	(58,049)	246	114,434
	₩ 147,386	₩102,130	20,471	₩ (58,049)	₩ 3,852	₩ 215,790

	Nine-month period ended September 30, 2014				
Classification	Beginning balance	Net expense of allowance (reversal of allowance)	Allowance used	Others	Ending Balance
Allowance for possible losses on acceptances and guarantees	₩ 27,022	₩ (1,605)	₩ -	₩ 107	₩ 25,524
Allowances for unused commitments	33,388	(342)	-	9	33,055
Other allowances					
Allowances for asset retirement obligation	18,336	135	(209)	1,028	19,290
Allowance for lawsuits	18,755	(2,795)	(1,792)	-	14,168
Others	23,795	2,558	(185)	1	26,169
	60,886	(102)	(2,186)	1,029	59,627
	₩ 121,296	₩ (2,049)	₩ (2,186)	₩ 1,145	₩ 118,206

29.3 Details of guarantees as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015	December 31, 2014
Acceptances and guarantees		
Financial guarantees in Korean won:		
Collateral for loans	₩ 108,551	₩ 93,763
Purchasing loans	837,882	-
Others	21,079	29,029
	967,512	122,792
Financial guarantees in foreign currencies		
Local financial acceptances and guarantees	1,530,124	1,558,158

29. Contingent liabilities, Agreements, and Provisions (cont'd)

Classification	September 30, 2015	December 31, 2014
Confirmed acceptance and guarantees in Korean won	2,214,890	1,438,316
Confirmed acceptance and guarantees in foreign currencies:		
Acceptance on letter of credit	852,409	353,889
Acceptance on letter of guarantees	123,066	82,069
Others	13,633,320	9,989,992
	14,608,795	10,425,950
Contingent acceptance and guarantees		
Letters of credit	3,731,408	3,609,601
Others	871,599	36,622
	4,603,007	3,646,223
Bills endorsed	38,941	31,762
	₩ 23,963,269	₩ 17,223,201

29.4 Commitments

Details of unused commitments as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015	December 31, 2014
Commitments on loans in Korean won	₩ 66,403,879	₩ 35,870,548
Commitments on loans in foreign currencies	26,422,703	7,547,096
Commitments on purchase of asset-backed commercial papers	406,434	430,818
Commitments on credit lines on Asset–Backed Securities	1,359,633	1,237,573
Commitments on purchase of securities	730,445	-
	₩ 95,323,094	₩ 45,086,035

29.5 Lawsuits

As at September 30, 2015, the Company is involved in 192 lawsuits as a plaintiff and 186 lawsuits as a defendant. The aggregate amounts of claims as plaintiff and defendant are ₩349,441 million and ₩365,685 million, respectively. The Company's major lawsuits in progress as a defendant are summarized as follows (Korean won in millions):

Plaintiff	Amount	Status of lawsuit: First trial	Status of lawsuit: On appeal	Content
Hyundai Merchant Marine Co., Ltd	80,033	Partially lose	In-progress	Return of deposit
Individual	57,015	In-progress	-	Return of deposit
Fairfield Sentry Limited Bankruptcy administrator	40,127	In-progress	-	Return of an illicit gain
Emirates and 4 others	36,230	In-progress	-	Return of deposit
Shinhan Bank	31,701	Partially lose	In-progress	Return of a prepayment

30. Other liabilities and merchant banking account liabilities

30.1 Details of other liabilities as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015	December 31, 2014
Borrowing from trust accounts	₩ 5,133,631	₩ 1,176,858
Foreign exchanges settlement credits	654,261	356,377
Domestic exchange settlement credits	2,016,803	-
Accounts payables	14,341,381	4,773,442
Accrued expense payables	1,669,777	746,783
Income in advance	83,579	45,795
Deferred income	2,478	3,240
Deposits for letter of guarantees and others	185,053	174,117
Suspense receipt	82,108	53,988
Withholding taxes	60,139	28,393
Security deposits received	52,313	-
Accounts for agency businesses	563,976	86,764
Liability incurred by agency relationship	2,654,018	2,095,157
Financial acceptance and guarantees:	38,311	22,723
Other liabilities:	10,500	1,344,989
	₩ 27,548,328	₩ 10,908,626

30.2 Details of merchant banking account liabilities as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015	December 31, 2014
Deposits	₩ 2,508,891	₩ 2,434,562
Others:		
Provision for unused commitments	689	964
Other liabilities (*1)	703	753
	1,392	1,717
	₩ 2,510,283	₩ 2,436,279

(*1) Including accrued expenses, unearned income, and others.

31. Common stock and capital surplus

31.1 Issued capital as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015		December 31, 2014	
Number of shares authorized		1,000,000,000		1,000,000,000
Par value per share (Korean won)	₩	5,000	₩	5,000
Number of shares issued		1,071,915,717		516,906,826
Common stock(*)	₩	5,359,578	₩	2,584,534

(*1) With reference to business combinations of Hana Bank and Korea Exchange Bank under common control, original shareholders listed on the roster of shareholders of Hana Bank, the extinct corporation, as at the merger date (September 1, 2015) received 2.5250728 ordinary shares (par value at KRW 5,000) of KEB, the surviving corporation, per one ordinary share (par value at KRW 5,000) of Hana Bank.

31.2 Other paid-in capital as at September 30, 2015 and December 31, 2014 is as follows (Korea won in millions):

Classification	September 30, 2015		December 31, 2014	
Capital surplus (*1)	₩	9,668,021	₩	946
Hybrid securities (*2)		179,737		179,737
Capital adjustments:				
Stock option		1,082		488
Others		(27,324)		(27,411)
		(26,242)		(26,923)
	₩	9,821,516	₩	153,760

(*1) The appropriated amount of other capital surplus as at September 30, 2015 is replaced with the amount recognized in business combinations under common control and stock options that were extinguished (not exercised) and accounted for as capital adjustments
(*2) There is expiry date of hybrid securities but the Company has the right to continuously extend the maturity so accordingly, the requirements for capital are fulfilled.

32. Accumulated other comprehensive income

Changes in accumulated other comprehensive income for the nine-month periods ended September 30, 2015 and 2014 are as follows. (Korean won in millions):

	Nine–month period ended September 30, 2015					
Classification	Gain (loss) on valuation of available-for-sale financial assets	Changes in capital from valuation of equity method for investments in associates	Gain (loss) on valuation of net investment hedges of foreign operations	Exchange differences on translating foreign operations	Remeasurement of the net defined benefit liability	Total
Beginning balance	₩ 312,567	₩ -	₩ -	₩ (155,708)	₩ (44,799)	₩ 112,060
Business combination under common control	257,932	(5,759)	(3,825)	12,359	(139,152)	121,555
Changes in the unrealized gain of available-for-sale financial asset	(99,690)	-	-	-	-	(99,690)
Changes in capital from valuation of equity method for investments in associates	-	34,141	-	-	-	34,141
Increase in gain (loss) on valuation of net investment hedges of foreign operations	-	-	(22,540)	-	-	(22,540)
Exchange differences on transaction of foreign operations	-	-	-	11,831	-	11,831
Changes in remeasurement of the net defined benefit liability	-	-	-	-	(1,790)	(1,790)
Tax effect	24,125	(8,262)	5,455	-	433	21,751
Ending balance	₩ 494,934	₩ 20,120	₩ (20,910)	₩ (131,518)	₩ (185,308)	₩ 177,318

	Nine–month period ended September 30, 2014			
Classification	Gain (loss) on valuation of available-for-sale financial assets	Exchange differences on transaction of foreign operations	Remeasurement of the net defined benefit liability	Total
Beginning balance	₩ 297,160	₩ (138,545)	₩ (10,028)	₩ 148,587
Changes in the unrealized gain of available-for-sale financial asset	138,339	-	-	138,339
Realized loss of available-for-sale financial asset (including disposal)	(135,134)	-	-	(135,134)
Exchange differences on transaction of foreign operations	-	(20,863)	-	(20,863)
Changes in remeasurement of the net defined benefit liability	-	-	(2,910)	(2,910)
Spinoff of a credit card division	-	-	497	497
Tax effect	(927)	-	509	(418)
Ending balance	₩ 299,438	₩ (159,408)	₩ (11,932)	₩ 128,098

33. Retained earnings

33.1 Details of retained earnings as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification		September 30, 2015		December 31, 2014
Legal reserve:				
Earned surplus reserve (*1)	₩	862,400	₩	823,800
Voluntary reserve:				
Revaluation reserves on tangible assets (*2)		431,876		431,918
Other reserves (*3)		84,631		79,695
Regulatory reserve for bad debts (*4)		651,397		794,762
		1,167,904		1,306,375
Unappropriated retained earnings		4,316,327		3,921,755
	₩	6,346,631	₩	6,051,930

(*1) The Korean Banking Law requires the Company to appropriate at least 10% of net income after income tax to legal reserve, until such reserve equals 100% of its paid-in capital. This reserve is restricted to the payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital. In addition, KEBIS accumulates indemnity reserve for an electronic financial incident in the amount of ₩500 million as at September 30, 2015.
(*2) The Company records gains from revaluation of property and equipment previously recognized as other comprehensive income to the voluntary reserve, as it applies the revaluation amount as deemed cost at the first-time adoption of KIFRS. The reserve is recognized in distributable retained earnings when the relevant property and equipment are disposed.
(*3) Relevant Japanese regulations require the Company's overseas branches located in Japan to appropriate a minimum of 10% of net income for the period as a legal reserve, until such reserve equals ¥2,000 million. This reserve is restricted to be used upon liquidation of the Japanese branches. Singapore, Hong Kong and Hanoi branches' statutory reserves are included in other reserves in accordance to their regulations.
(*4) The Company has provided allowances for possible loan losses in accordance with KIFRS. The difference in this amount and the provision of allowance accumulated in accordance to the minimum accumulation ratio required by FSS is reserved as regulatory reserve for bad debts.

33.2 Changes in appropriated retained earnings for the nine-month period ended September 30, 2015 and the year ended December 31, 2014 are as follows (Korean won in millions):

Classification		Nine-month period ended September 30, 2015		Year ended December 31, 2014
Beginning balance	₩	6,051,930	₩	5,796,603
Appropriation to loss on disposal of treasury stock		-		(17,869)
Appropriation to other capital adjustments		(228)		(160)
Net income for the period		448,673		365,115
Dividends		(146,384)		(77,433)
Dividends on hybrid securities		(7,360)		(14,326)
Ending balance	₩	6,346,631	₩	6,051,930

34. Regulatory reserve for bad debts

Regulatory reserve for bad debt is calculated and disclosed in accordance with Article 27, Section 1 and 2 of the Financial Holding Company Act.

34.1 Details of regulatory reserve for bad debts as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015		December 31, 2014	
Beginning balance (*1)(*2)	₩	679,004	₩	794,762
Planned reserve for (reversal of) bad debts		1,229,225		(115,758)
Ending balance	₩	1,908,229	₩	679,004

(*1) The disposal of retained earnings of reserve for bad debt was determined at the shareholder's meeting on March 26, 2015.
(*2) Before merger, previous reserve for bad loan disposed as retained earnings in merged corporation amounted to ₩ 1,205,928 million. However, due to the merger during the current year, it was replaced with capital surplus and it is indicated that reserve for bad loan does not exist. The previous reserve for bad loan amounting to ₩ 1,205,928 million is taken into account as subordinate item under capital surplus.

34.2 Provisions for bad debt reserve and income adjusted for deductions of provisions for bad debt for the nine-month periods ended September 30, 2015 and 2014 are as follows:

	Nine-month periods ended September 30,			
Classification	2015		2014	
Net income attributable to equity holders of the parent before deducting provisions for bad debt	₩	448,673 million	₩	450,986 million
Reversal of (provisions for) bad debt reserve(*1)		(23,297) million		76,153 million
Adjusted income after deducting provisions for bad debt		425,376 million		527,139 million
Basic earnings per share on adjustment after reflecting reserve for bad debt (*2)		723		816
Diluted earnings per share on adjustment after reflecting reserve for bad debt (*3)		723		816

(*1) The amount needed for provision of bad debt reserve is calculated by deducting the balance of reserve for bad loan (including the amount not reserved) as at January 1, 2015 from that of September 30, 2015. This amount is also the difference between the previous reserve for bad loan (₩ 1,205,928 million) reflected on capital surplus and the estimated reserve for bad loan to be transferred (₩1,229,225 million).
(*2) The dividend on hybrid equity securities in the amount of ₩7,360 million and ₩11,873 million for the nine-month periods ended September 30, 2015 and 2014 were deducted from the adjusted income after reflecting the bad debt reserve for the calculation of earnings per share after reflecting reserve for bad debt for each period.
(*3) Because it does not have dilutive potential ordinary stock, basic earnings per share is the same as diluted earnings per share.

35. Operating income and operating expenses

35.1 Operating income for the three and nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	Three–month periods ended September 30		Nine–month periods ended September 30	
	2015	2014	2015	2014
Interest income	₩ 1,146,455	₩ 866,702	₩ 2,650,778	₩ 2,570,859
Fees and commission Income	160,963	104,151	399,421	311,810
Gains on financial instruments at fair value through profit or loss	4,372,690	277,337	6,627,347	2,375,005
Gains on fair value hedging derivative instruments	48,666	495	67,050	18,018
Gains on financial instruments available-for-sale	37,795	14,117	201,598	147,632
Gains on financial instruments held-to-maturity	-	492	-	492
Impairment loss of financial Instruments	(5,697)	64,279	4,485	79,199
Other operating income	588,037	313,824	1,937,814	1,062,100
	₩ 6,348,909	₩ 1,641,397	₩ 11,888,493	₩ 6,565,115

35.2 Operating expenses for the three and nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	Three–month periods ended September 30		Nine–month periods ended September 30	
	2015	2014	2015	2014
Interest expense	₩ 493,598	₩ 378,965	₩ 1,128,082	₩ 1,149,673
Fees and commission expenses	30,854	19,429	73,176	59,910
Losses on financial instruments at fair value through profit or loss	4,223,773	280,191	6,461,970	2,371,496
Losses on fair value hedging derivative instruments	46,222	297	64,536	20,113
Losses on financial instruments available-for-sale	4,635	692	5,583	920
Losses on financial instruments held-to-maturity	-	-	-	-
Impairment loss of financial Instruments	18,972	169,283	335,974	459,959
General and administrative Expenses	527,775	345,980	1,246,459	1,041,495
Other operating expense	774,861	284,350	2,089,055	930,379
	₩ 6,120,690	₩ 1,479,187	₩ 11,404,835	₩ 6,033,945

36. Net interest income

36.1 Interest income for the three and nine-month periods ended September 30, 2015 and 2014 is as follows (Korean won in millions):

Classification	Three–month periods ended September 30				Nine–month periods ended September 30			
	2015		2014		2015		2014	
Interest income on due from banks	₩	15,767	₩	23,807	₩	40,392	₩	73,755
Interest income on available–for–sale financial assets		93,421		69,602		226,436		196,743
Interest income on held–to–maturity financial assets		24,081		16,212		50,359		49,010
Interest income on loans		1,006,110		751,745		2,318,581		2,235,819
Interest income on financial assets at fair value through profit or loss		7,076		5,336		15,010		15,532
	₩	1,146,455	₩	866,702	₩	2,650,778	₩	2,570,859

36.2 Interest expense for the three and nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	Three–month periods ended September 30				Nine–month periods ended September 30			
	2015		2014		2015		2014	
Interest expense on deposit liabilities	₩	368,436	₩	316,093	₩	872,662	₩	931,960
Interest expense on financial assets At fair value through profit or loss		1,891		-		1,891		-
Interest expense on borrowings		32,868		27,589		81,957		84,063
Interest expense of debentures		64,223		27,468		127,275		110,557
Others		26,180		7,815		44,297		23,093
	₩	493,598	₩	378,965	₩	1,128,082	₩	1,149,673

37. Net fees and commission income

37.1 Fees and commission income for the three and nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	Three–month periods ended September 30		Nine–month periods ended September 30	
	2015	2014	2015	2014
Commissions received from loans and others	₩ 93,891	₩ 42,867	₩ 214,981	₩ 127,161
Commissions received on guarantee	15,185	14,858	41,666	43,948
Commissions related foreign exchange	51,887	46,426	142,774	140,701
	₩ 160,963	₩ 104,151	₩ 399,421	₩ 311,810

37.2 Fees and commission expenses for the three and nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	Three–month periods ended September 30		Nine–month periods ended September 30	
	2015	2014	2015	2014
Commissions paid borrowings and others	₩ 17,983	₩ 9,478	₩ 39,166	₩ 29,450
Commissions related foreign exchange	12,871	9,951	34,010	30,460
	₩ 30,854	₩ 19,429	₩ 73,176	₩ 59,910

38. Net gains from financial instruments at fair value through profit or loss

38.1 Details of gain (loss) on financial assets and liabilities at FVTPL for the three and nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

	Three–month periods ended September 30		Nine–month periods ended September 30	
Classification	2015	2014	2015	2014
Gains from financial instruments at fair value through profit or loss				
Gains from financial assets and liabilities held–for–trading				
Gain on valuation	₩ 1,996	₩ 975	₩ 3,550	₩ 4,081
Gain on disposal	5,922	5,036	19,183	11,144
Gain on redemption	3	-	3	-
Others	205	-	205	-
	8,126	6,011	22,941	15,225
Trading derivatives instruments				
Gain on valuation of derivatives				
Currency related derivatives	1,734,785	(359,374)	2,704,103	744,658
Interest related derivatives	149,919	94,016	226,819	211,097
Stock related derivatives	(1,006)	(1,415)	-	644
Others	(1,757)	(459)	964	8,806
	1,881,941	(267,232)	2,931,886	965,205
Gain on transaction of derivatives				
Currency related derivatives	2,320,520	496,848	3,395,065	1,285,094
Interest related derivatives	158,656	40,695	272,687	104,135
Stock related derivatives	1,638	973	2,790	5,242
Others	1,582	42	1,751	104
	2,482,396	538,558	3,672,293	1,394,575
	₩ 4,372,463	₩ 277,337	₩ 6,627,120	₩ 2,375,005
Lossed from financial instruments at fair value through profit or loss				
Losses from financial assets and liabilities held–for–trading				
Loss on valuation	₩ (547)	₩ 286	₩ 251	₩ 869
Loss on disposal	4,435	3,149	10,289	7,277
Loss on redemption	53	-	53	-
Others	297	-	297	-
	4,238	3,435	10,890	8,146

38. Net gains from financial instruments at fair value through profit or loss (cont'd)

Classification	Three–month periods ended September 30		Nine–month periods ended September 30	
	2015	2014	2015	2014
Loss on valuation of derivatives				
Currency related derivatives	1,656,942	(302,395)	2,575,342	791,164
Interest related derivatives	182,943	69,628	295,859	201,779
Stock related derivatives	162	(208)	178	1,061
Others	846	486	970	1,732
	1,840,893	(232,489)	2,872,349	995,736
Loss on transation of derivatives				
Currency related derivatives	2,211,430	448,773	3,284,465	1,225,636
Interest related derivatives	161,382	58,901	285,987	135,772
Stock related derivatives	1,372	1,565	3,815	6,170
Others	1,489	6	1,495	36
	2,375,673	509,245	3,575,762	1,367,614
Loss on securities sold	55	-	55	-
	4,220,859	280,191	6,459,056	2,371,496
	₩ 151,604	₩ (2,854)	₩ 168,064	₩ 3,509

38.2 Details of gain (loss) on financial assets and liabilities at FVTPL) for the three and nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	Three–month periods ended September 30		Nine–month periods ended September 30	
	2015	2014	2015	2014
Gain on financial assets and liabilities designated at FVTGL				
Deposits				
Gain on disposal	₩ 6	₩ -	₩ 6	₩ -
Borrowings				
Gain on valuation	221	-	221	-
	227	-	227	-
Loss on financial assets and liabilities designated at FVTGL				
Deposits				
Loss on valuation	1,683	-	1,683	-
Borrowings				
Loss on valuation	1,231	-	1,231	-
	2,914	-	2,914	-
	₩ (2,687)	₩ -	₩ (2,687)	₩ -

39. Gains or losses from derivative financial instruments used for hedging

Gains (losses) from derivative instruments used for hedging for the three and nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	Three–month periods ended September 30		Nine–month periods ended September 30	
	2015	2014	2015	2014
Gains from derivative instruments used for hedging				
Hedged item				
Gain on valuation				
Gain on valuation of debentures	₩ 832	₩ 5,203	₩ 9,329	₩ 9,213
Gain on valuation of deposits	-	-	-	-
	832	5,203	9,329	9,213
Gain on transaction				
Gain on transaction of Debentures	653	-	653	-
Derivative instruments used for hedging				
Gain on valuation of derivatives				
Gain on valuation of currency related derivatives	355	-	355	-
Gain on valuation of interest related derivatives	46,000	(4,728)	55,881	8,770
	46,355	(4,728)	56,236	8,770
Gain on transaction of derivatives:				
Gain on transaction of currency related derivatives	675	7	675	7
Gain on transaction of interest related derivatives	151	13	157	28
	826	20	832	35
	48,666	495	67,050	18,018
Losses from derivative instruments used for hedging				
Hedged item				
Loss on valuation				
Gain on valuation of debentures	38,668	(6,609)	49,031	8,790
Gain on valuation of deposits	5,656	-	5,656	-
	44,324	(6,609)	54,687	8,790
Loss on transaction				
Loss on transaction of deposits	151	-	151	-
Derivative instruments used for hedging				
Loss on valuation of derivatives				
Loss on valuation of currency related derivatives	1,371	-	1,371	-
Loss on valuation of interest related derivatives	(871)	6,896	7,073	11,298
	500	6,896	8,444	11,298

39. Gains or losses from derivative financial instruments used for hedging (cont'd)

Classification	Three–month periods ended September 30		Nine–month periods ended September 30	
	2015	2014	2015	2014
Loss on transaction of derivatives				
Loss on transaction of currency related derivatives	600	-	600	-
Loss on transaction of interest related derivatives	647	10	654	25
	1,247	10	1,254	25
	46,222	297	64,536	20,113
	₩ 2,444	₩ 198	₩ 2,514	₩ (2,095)

40. Net Income on other financial instruments

Net income on other financial instruments for the three and nine-month periods ended September 30, 2015 and 2014 is as follows (Korean won in millions):

Classification	Three–month periods ended September 30		Nine–month periods ended September 30	
	2015	2014	2015	2014
Other income on financial instruments				
Available–for sale financial assets				
Gain on disposal	₩ 37,795	₩ 14,117	₩ 201,598	₩ 147,632
Held-to maturity financial assets				
Gain on disposal	-	492	-	492
Other losses on financial instruments				
Available–for sale financial assets				
Loss on disposal	4,635	692	5,583	920
	₩ 33,160	₩ 13,917	₩ 196,015	₩ 147,204

41. Impairment loss on financial assets

Impairment loss on financial assets for the three and nine-month periods ended September 30, 2015 and 2014 is as follows (Korean won in millions):

Classification	Three–month periods ended September 30		Nine–month periods ended September 30	
	2015	2014	2015	2014
Impairment loss of available–for–sale financial assets	₩ 15,204	₩ 11,707	₩ 34,070	₩ 78,164
Provision for possible loan losses	10,158	94,438	296,020	302,108
Provision for (Reversal of) possible other asset losses	(693)	(1,141)	1,399	488
	₩ 24,669	₩ 105,004	₩ 331,489	₩ 380,760

42. General and administrative expenses

General and administrative expenses for the three and nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	Three–month periods ended September 30		Nine–month periods ended September 30	
	2015	2014	2015	2014
Salaries	₩ 288,047	₩ 180,650	₩ 663,949	₩ 552,712
Post-employment benefits	21,189	13,082	50,687	39,807
Termination benefits	22,805	-	44,426	18,320
Employee welfare benefits	3,579	15,733	21,621	35,076
Depreciation on property and equipment	(12,300)	20,086	60,819	55,820
Depreciation on investment property	(3,113)	660	2,581	1,970
Amortization	(17,218)	6,267	18,384	18,090
Entertainment expenses	87,091	3,175	88,809	8,854
Rental expense	(3,407)	32,606	7,601	98,137
Taxes and dues	28,854	8,438	51,910	32,190
Advertising expense	12,666	11,168	30,989	21,613
Others	99,582	53,172	204,683	158,906
	₩ 527,775	₩ 345,037	₩ 1,246,459	₩ 1,041,495

43. Other operating income

Other operating income for the three and nine-month periods ended September 30, 2015 and 2014 is as follows (Korean won in millions):

Classification	Three–month periods ended September 30		Nine–month periods ended September 30	
	2015	2014	2015	2014
Gain on sales of loans	₩ 30,776	₩ 18,629	₩ 42,526	₩ 20,614
Reversal of allowances for acceptance and guarantees	14,654	(373)	15,061	-
Reversal of allowances for unused commitments	7,521	1,172	7,521	1,172
Reversal of other allowance	-	17,648	-	17,648
Trust commissions	14,717	12,801	44,334	38,667
Gain on foreign exchange transaction	482,041	240,571	1,750,256	909,620
Gain on merchant banking accounts (*1)	11,693	19,561	40,253	60,668
Dividends on available-for-sale securiies	18,472	2,872	27,567	10,678
Others	8,163	943	10,296	3,033
	₩ 588,037	₩ 313,824	₩ 1,937,814	₩ 1,062,100

(*1) Details of gain on merchant banking accounts for the three and nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	Three–month periods ended September 30		Nine–month periods ended September 30	
	2015	2014	2015	2014
Interest income	₩ 8,054	₩ 13,537	₩ 27,224	₩ 43,674
Fee and commission income	165	195	708	670
Gain on disposal of trading bonds	582	563	2,739	1,376
Gain on valuation of trading bonds	(29)	78	1	81
Gain on valuation of CMA securities	(3)	13	4	23
Gain on disposal of bills	2,792	5,197	9,297	14,217
Reversal of possible loan losses	(25)	51	5	627
Reversal of unused commitments	157	(73)	275	-
	₩ 11,693	₩ 19,561	₩ 40,253	₩ 60,668

44. Other operating expenses

Other operating expenses for the three and nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	Three–month periods ended September 30		Nine–month periods ended September 30	
	2015	2014	2015	2014
Loss on sales of loans	₩ 15,601	₩ 13,141	₩ 15,622	₩ 13,514
Provision of allowances for acceptance and guarantees	-	181	-	181
Provision of allowances for unused commitments	(706)	(19)	-	-
Provision of other allowance	23,318	(1,470)	43,035	-
Contribution to guarantee fund	49,015	37,251	113,561	106,140
Insurance fee on deposit	43,372	28,503	101,837	83,911
Loss on foreign exchange transaction	634,444	192,108	1,782,772	680,044
Loss on merchant banking accounts (*1)	8,559	14,092	29,688	44,804
Others	1,258	563	2,540	1,785
	₩ 774,861	₩ 284,350	₩ 2,089,055	₩ 930,379

(*1) Details of loss on merchant banking accounts for the three and nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	Three–month periods ended September 30		Nine–month periods ended September 30	
	2015	2014	2015	2014
Interest expense	₩ 8,567	₩ 14,057	₩ 29,622	₩ 44,637
Provision for unused commitments	-	166	-	166
Others	(8)	(131)	66	1
	₩ 8,559	₩ 14,092	₩ 29,688	₩ 44,804

45. Other non-operating income

Other non–operating income for the three and nine-month periods ended September 30, 2015 and 2014 is as follows (Korean won in millions):

Classification	Three–month periods ended September 30		Nine–month periods ended September 30	
	2015	2014	2015	2014
Rental fee income	₩ 1,343	₩ 676	₩ 3,000	₩ 2,077
Gain on disposal of property and equipment	6,177	228	6,264	152
Gain on disposal of intangible asset	-	-	131	561
Gain on equity method	69,340	-	75,528	-
Gain from liabilities forgiven	1,841	3,239	9,620	7,023
Others	3,775	984	35,204	4,468
	₩ 82,476	₩ 5,127	₩ 129,747	₩ 14,281

46. Other non-operating expenses

Other non–operating expenses for the three and nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	Three–month periods ended September 30		Nine–month periods ended September 30	
	2015	2014	2015	2014
Loss on disposal of property and equipment	₩ 515	₩ 170	₩ 575	₩ 350
Loss on disposal of intangible asset	32	-	49	5
Loss on equity method	-	288	-	288
Collection expenses for written-off claims	189	116	459	460
Collection commissions for written-off claims	515	247	818	608
Impairment loss of investment stock of associates	30,657	-	30,657	-
Donations	771	1,363	4,313	4,761
Others	2,184	6,512	5,938	16,059
	₩ 34,863	₩ 8,696	₩ 42,809	₩ 22,531

47. Income tax expense

47.1 The major components of income tax expense for the nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification	Nine-month period ended September 30, 2015	Nine-month period ended September 30, 2014 (*2)
< Hana>		
Income tax currently payable (receivable) (*1)	₩ 104,293	₩ 144,054
Changes of deferred income taxes	(35,892)	(43,087)
Current and deferred income taxes recognized directly to equity	25,605	(197)
Tax effect of consolidated tax return	(9,457)	(27,300)
Income tax expense of Hana	84,549	73,470
<Subsidiaries>		
Income tax currently payable (*1)	26,482	24,709
Changes of deferred income taxes	(278)	(1,357)
Current and deferred income taxes recognized directly to equity	328	166
Income tax expense of subsidiaries	26,532	23,518
	₩ 111,081	₩ 96,988

(*1) It includes additional income taxes and refund of income taxes.
(*2) Income tax expense for the nine-month period ended September 30, 2014 is the sum of the corporate income tax expenses of continued operations and discontinued operations.

47. Income tax expense (cont'd)

47.2 Reconciliations of income tax expense applicable to income before income tax at the Korea statutory tax rate to income tax expense at the effective income tax rate of the Company for the nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

Classification		Nine–month periods ended September 30, 2015		Nine–month periods ended September 30, 2014(*1)
Income before income tax	₩	570,596	₩	555,407
Tax at domestic statutory income tax rate(24.2%)		138,084		134,066
Income not subject to tax		(3,786)		(3,882)
Expenses not deductible for tax purposes		14,412		3,055
Refund of prior year's income tax		(11,712)		(23,540)
Income tax expense(income) of foreign branches		30,371		3,241
Tax effect of consolidated tax return		(9,457)		(27,300)
Others		(46,831)		11,348
Income tax expense	₩	111,081	₩	96,988
Effective income tax rate (%)		19.5%		17.5%

(*1) Income tax expense for the nine-month period ended September 30, 2014 is the sum of the corporate income tax expenses of continued operations and discontinued operations.

Details of deferred income tax assets as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification		September 30, 2015		December 31, 2014
Hana Bank	₩	5,777	₩	-
KEB F&I		28,519		28,831
KEB CHINA		16,117		-
KEBIS		305		305
NYFinCo		3,340		3,074
USAI		6		5
LAFinCo		2,010		1,850
KEBOC		628		667
PT. Bank KEB Hana		-		60
KEBB		331		543
	₩	57,033	₩	35,335

Details of deferred income tax liabilities as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification		September 30, 2015		December 31, 2014
Hana Bank	₩	256,360	₩	71,641
KEBF		1,685		1,802
KEBB		1,477		2,116
Korea exchange bank RUSLLC		3		-
PT. Bank KEB Hana		1,161		915
Trust accounts guaranteeing the repayment of principal		4,127		4,126
	₩	264,813	₩	80,600

47. Income tax expense (cont'd)

47.3 Changes in temporary differences and deferred income tax assets (liabilities) for the nine-month period ended September 30, 2015 are as follows (Korean won in millions):

	Deductible (taxable) temporary differences					Deferred income tax assets (liabilities) (*2)				
Classification	January 1, 2015 (*1)	Business combination under common control	Decrease	Increase	September 30, 2015	January 1, 2015 (*1)	Business combination under common control	Decrease	Increase	September 30, 2015
Temporary differences:										
Gain or loss on valuation of securities	₩ 89,789	₩ 363,615	₩ 824,934	₩ 825,348	₩ 453,818	₩ 21,729	₩ 87,995	₩ 199,634	₩ 185,279	₩ 95,369
Accrued income	(77,732)	(34,898)	(112,630)	(169,000)	(169,000)	(18,811)	(8,445)	(27,256)	(40,898)	(40,898)
Other provisions and others	129,344	137,408	266,752	226,529	226,529	31,301	33,253	64,554	54,820	54,820
Gain or loss on valuation and transaction of derivatives	(85,533)	(39,983)	(125,516)	(181,089)	(181,089)	(20,699)	(9,676)	(30,375)	(43,824)	(43,824)
Debt-for-equity swap securities	129,869	266,214	62,837	9,930	343,176	31,428	64,424	15,207	2,403	83,048
Advanced depreciation provisions	(62,466)	(117,849)	-	-	(180,315)	(15,117)	(28,519)	-	-	(43,636)
Investment in kind at KEB China	18,479	-	-	-	18,479	4,472	-	-	-	4,472
Financial guarantee contract	22,723	1,617	24,340	37,260	37,260	5,499	391	5,890	9,017	9,017
Deferred reward points income	3,240	-	3,240	2,478	2,478	784	-	784	600	600
Accrued charges	84,097	42,641	126,738	118,568	118,568	20,351	10,319	30,671	28,693	28,692
Gain or loss from revaluation of tangible assets	(553,729)	(592,220)	-	-	(1,145,949)	(134,011)	(143,317)	-	-	(277,328)
Others	214,723	(71,173)	(379,580)	(440,115)	83,015	51,963	(17,224)	(82,720)	(106,496)	10,963
	(87,196)	(44,628)	691,115	429,909	(393,030)	(21,111)	(10,799)	176,389	89,594	(118,705)
Accumulated other comprehensive income:										
Unrealized gain or loss of available-for-sale financial assets	(401,879)	(356,895)	(758,774)	(663,687)	(663,687)	(97,256)	(86,368)	(183,623)	(160,612)	(160,613)
Remeasurement of the net defined benefit liability	58,408	-	58,408	59,939	59,939	14,135	-	14,135	14,505	14,505
Exchange differences on translation of foreign operations	-	2,810	2,810	-	-	-	680	680	-	-
	₩ (343,471)	₩ (354,085)	₩ (697,556)	₩ (603,748)	₩ (603,748)	₩ (83,121)	₩ (85,688)	₩ (168,808)	₩ (146,107)	₩ (146,108)
Domestic deferred income tax liabilities										(264,813)
Foreign deferred income tax assets(*3)										57,033
										₩ (207,780)

(*1) Beginning balance reflects the adjustments for the difference in the reserved amount of ₩132,188 million at the time of the final tax return as at 47.

47. Income tax expense (cont'd)

December 31, 2014 Deferred tax assets decreased by ₩32,591 million compared to that of December 31, 2014 after reflecting the adjustments.
(*2) The tax rate used for calculating deferred income tax assets and liabilities is the average tax rate applicable to the period for which the temporary differences are expected to reverse (24.2%).
(*3) Deferred income tax assets of foreign branches are not offset against the deferred income tax liabilities due to the differences in tax jurisdictions.

48. Earnings per share

48.1 Weighted-average number of ordinary shares for the three and nine-month periods ended September 30, 2015 and 2014 are as follows (shares in units):

Classification	Three−month periods ended September 30		Nine−month periods ended September 30	
	2015	2014	2015	2014
Beginning	₩ 516,929,802	₩ 644,869,681	₩ 516,873,174	₩ 644,844,691
Number of treasury stocks after disposal stocks	-	2,417	-	20,783
Exercise	-	(40,347,826)	34,188	(13,597,070)
New issue of stock	174,948,455	-	60,989,988	-
Ending	₩ 691,878,257	₩ 604,524,272	₩ 577,897,350	₩ 631,268,404

48.2 The Company's basic earnings per share for the three and nine-month periods ended September 30, 2015 and 2014 are calculated as follows (Korean won in millions and per share amounts in units):

Classification	Three−month periods ended September 30		Nine−month periods ended September 30	
	2015	2014	2015	2014
Net income attributable to equity holders of the parent for the period	₩ 217,403	₩ 131,505	₩ 448,673	₩ 450,986
Dividends on hybrid equity securities	(2,460)	(2,460)	(7,360)	(11,873)
Net income attributable to common stock	214,943	129,045	441,313	439,113
Net income from continuing operations	214,943	130,847	441,313	414,485
Net income from a discontinued operation	-	(1,802)	-	24,628
Weighted-average number of shares of ordinary stocks outstanding	691,878,257	604,524,272	577,897,350	631,268,404
Basic earnings per share (Korean won)	₩ 311	₩ 213	₩ 764	₩ 696
Continuing operations (Korean won)	311	216	764	657
Discontinued operation (Korean won)	-	(3)	-	39

Basic earnings per share are the same as diluted earnings per share for the nine-month periods ended September 30, 2015 and 2014.

49. Share-based payment

When the stock options are exercised, the Company has the option to settle either through issuance of new shares or treasury stock or through payment of cash equivalents to the difference between the market price and the exercise price. The number of exercisable stock option is determined in accordance with management performance and the calculation criteria for the number of exercisable shares. Also, the Company granted the equity-linked special incentive (Rose Bonus and\or Rose Share) to employees for the purpose of motivation to improve long-term performance. The equity-linked special incentive is settled in cash. It can be exercised from 1 to 3 years after the grant date for the following 3 to 4 years.

Details of the share-based payment as at September 30, 2015 are as follows:
Stock optionsare measured at fair value based on black-scholes model. (Korean won and share):

Grant date	Exercise period	Risk-free rate	Expected service period	Volatility of the underlying stock price	Expected dividends	Stock price at grant date	Fair value
2009-03-12	2011-03-13 ~ 2016-03-12	1.13%	7.01	30.02%	₩ 483	₩ 5,700	₩ 127
2009-08-04	2011-08-05 ~ 2016-08-04	1.62%	7.01	27.93%	483	11,700	-
2010-03-10	2013-03-11 ~ 2017-03-10	1.68%	7.01	26.44%	483	13,450	1
2010-03-30	2013-03-31 ~ 2017-03-30	1.68%	7.01	26.14%	483	13,600	1
2010-08-04	2013-08-05 ~ 2017-08-04	1.71%	7.01	25.20%	483	12,300	3
2010-09-29	2013-09-29 ~ 2017-09-28	1.73%	7.01	27.39%	483	13,550	3
2011-08-10	2014-08-11 ~ 2018-08-10	1.81%	7.01	28.31%	483	8,060	122
2011-08-26	2014-08-27 ~ 2018-08-26	1.82%	7.01	28.28%	483	7,720	164
2011-09-02	2014-09-03 ~ 2018-09-02	1.82%	7.01	28.20%	483	7,930	181

Changes in shares of stock options for the nine-month period ended September 30, 2015 are as follows (Korean won and share):

Grant date	Shares at beginning	Exercise	Divesture	Extinction at maturity	Shares at ending	Stock option outstanding	Exercise price
2009-03-12	252,705	-	-	-	252,705	252,705	₩ 5,800
2009-08-04	415,610	-	-	-	415,610	415,610	10,900
2010-03-10	312,350	-	-	-	312,350	312,350	13,200
2010-03-30	237,140	-	-	-	237,140	237,140	13,500
2010-08-04	251,890	-	-	-	251,890	251,890	12,400
2010-09-29	17,810	-	-	-	17,810	17,810	13,500
2011-08-10	333,000	-	-	-	333,000	333,000	9,100
2011-08-26	42,290	-	-	-	42,290	42,290	8,500
2011-09-02	11,250	-	-	-	11,250	11,250	8,400
	1,874,045	-	-	-	1,874,045	1,874,045	

There is no exercise of the stock options for the Nine-month period ended September 30, 2015.

Weighted average residual expiration of exercisable stock options is 1.54 years as at September 30, 2015.

49. Share-based payment (cont'd)

Equity-linked special incentives are measured at fair value based on the binomial model and become exercisable from 1 to 3 years after the grant date for the following 3 to 4 years. Details of the equity-linked special incentives as at September 30, 2015 are as follows (shares in units):

Classification	Grant date	Exercise period	Payment date	Stock option outstanding
Rose 6	2011-09-21	2013-09-21 ~ 2016-09-20	2013-09-21	66,920
Rose share 4-2	2011-02-21	2013-02-21 ~ 2016-02-21	2013-02-21	14,330
Rose share 5-2	2011-02-21	2013-02-21 ~ 2016-02-21	2013-02-21	8,760
Rose share 6-2	2011-03-21	2013-03-20 ~ 2016-03-19	2013-03-20	366
Rose share 6-3	2011-03-21	2014-03-20 ~ 2017-03-19	2014-03-20	344
Rose share 7-1	2011-09-08	2012-09-08 ~ 2015-09-08	2012-09-08	500
Rose share 7-2	2011-09-08	2013-09-08 ~ 2016-09-07	2013-09-08	430
Rose share 8-1	2012-02-21	2013-02-22 ~ 2017-02-21	2013-02-22	3,535
Rose share 8-2	2012-02-21	2014-02-22 ~ 2017-02-21	2014-02-22	11,415
Rose share 9-1	2012-02-21	2013-02-22 ~ 2017-02-21	2013-02-22	715
Rose share 9-2	2012-02-21	2014-02-22 ~ 2017-02-21	2014-02-22	35,465
				142,780

Changes in shares of equity linked special incentives for the nine-month period ended September 30, 2015 and the year ended December 31, 2014 are as follows (shares in units):

Classification	Outstanding number of shares	
	Nine-month period ended September 30, 2015	Year ended December 31, 2014
Beginning	244,505	493,521
Divesture	(6,540)	-
Number of shares exercised	(95,185)	(249,016)
Ending	142,780	244,505

Weighted average stock price of equity linked special incentives at the exercise date are in the amount of ₩5,617 for the nine-month period ended September 30, 2015.

Weighted average residual maturity of equity linked is 1.08 years as at September 30, 2015.

Hana Financial Group (HFG) provided the Company's employees with stock rights and stock grants linked to performance and computed the compensation costs by applying the fair value approach. Details of share-based payment arrangement and share-based payment linked to performance as at September 30, 2015 are as follows:

Classification	3rd	4th	5th
Grant date	2013-01-01	2014-01-01	2015-01-01
Grant method	Either share or cash settlement selected by HFG	Either share or cash settlement selected by HFG	Either share or cash settlement selected by HFG
Grant period	2013-01-01~2015-12-31	2014-01-01~2016-12-31	2015-01-01~2017-12-31
Payment date	2015-12-31	2016-12-31	2017-12-31
Shares at settlement date (*1)	118,862	133,433	73,925

(*1) The maximum number of shares to be compensated is pre-determined before the grant date, and vested shares are determined by performance measures. The performance assessment consists of the group performance assessment (relative shareholder return) constituting 40% and the business unit performance assessment (unit ROE, ROIC) constituting 60% of the total performance scorecard.

49. Share-based payment (cont'd)

Details of liabilities related to share-based payment and total intrinsic value of rights accounted for as accounts payable in case that option holders achieve rights to receive cash or other assets as at September 30, 2015 and December 31, 2014 are as follows (Korean won in millions):

Classification	September 30, 2015		December 31, 2014	
Book value of liabilities related to share-based payment:				
Stock options	₩	83	₩	195
Equity-linked special incentives (granted by HANA)		1,823		3,186
Equity-linked special incentives (granted by HFG)		9,136		3,645
	₩	11,042	₩	7,026

The compensation costs for the three and nine-month periods periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

	Three–month periods ended September 30				Nine–month periods ended September 30			
Classification	2015		2014		2015		2014	
Costs recognized due to share-based payment:								
Stock options	₩	(148)	₩	(68)	₩	(112)	₩	(389)
Equity-linked special incentive (granted by the Bank)		(43)		138		(235)		(30)
Equity-linked special incentive (granted by HFG)		473		1,261		1,270		2,426
	₩	282	₩	1,331	₩	923	₩	2,007

50. Cash flow information

50.1 Cash on hand as at September 30, 2015 and December 31, 2014 is summarized as follows (Korean won in millions):

Classification	September 30, 2015		December 31, 2014	
Cash	₩	2,808,873	₩	1,564,849
Due from banks in Korean won		7,703,111		3,146,936
Due from banks In foreign currencies		9,039,315		4,634,014
		19,551,299		9,345,799
Restricted balances		10,562,109		4,045,623
Deposits which have a maturity period of three months or above		440,988		246,940
	₩	8,548,202	₩	5,053,236

50.2 Significant non–cash transactions for the nine-month periods ended September 30, 2015 and 2014 are as follows (Korean won in millions):

	Nine-month periods ended September 30			
Classification	2015		2014	
Written–off loans	₩	(265,910)	₩	(275,953)
Changes in the unrealized loss on valuation of available–for–sale financial assets		(99,690)		138,339
Decrease in allowance for possible loan losses due to sale of non–performing loans		(15,781)		(9,785)

51. Related parties

51.1 Equity interests among the Company and its affiliates as at September 30, 2015 and December 31, 2014 are summarized as follows (shares in units):

Type	Related Parties
Controlling company	HFG
subsidiaries	Hana Bank (China) Co., Ltd.
	PT Bank KEB Hana
	Hana Micro Finance Ltd
	Korea Exchange Bank (Deutschland) A.G. (KEBDAG)
	Korea Exchange Bank RUSLLC
	KEB USA Int'l Corp. (USAI)
	Banco KEB do Brazil S. A. (KEBB)
	KEB NY Financial Corp.(NYFinCo)
	KEB LA Financial Corp.(LAFinCo)
	Hana Futures Co., Ltd.
	Hana F&I Inc.
	Hana Investors Services Company
	Korea Exchange Bank of Canada (KEBOC)
	KEB Asia Finance Limited
	LS Leading Solution PEF Invest Trust 143 and Others
	Sevenstar Co., Ltd. and Others
	Trust accounts
Entity under common control	Hana Daetoo Securities Co., Ltd
	Hana Card, Co, Ltd
	Hana Capital, Co, Ltd
	Hana Asset Trust Co. Ltd
	Hana I&S
	Hana Institute of Finance
	Hana Life Insurance Co., Ltd.
	Hana Savings Bank
	Hana Bancorp

51.2 Transactions with related parties for the nine-month periods ended September 30, 2015 and 2014 are summarized as follows (Korean won in millions):

51. Related parties (cont'd)

	Nine-month period ended September 30, 2015						
	Income			Expense			
Classification	Interest income	Fee and commission income	Other income	Bad debt expense	Interest expenses	Fee and commission expenses	Other expenses
Controlling company							
HFG	₩ -	₩ -	₩ 1,368	₩ -	₩ 33	₩ -	₩ 12
Investment in an associate							
UAMCO	-	-	18	-	-	-	-
Korea Travels Co., Ltd.	-	8	-	-	5	-	-
Korea Credit Bureau	-	-	-	-	18	-	-
Darby Hana Infrastructure Fund Management	-	-	-	-	12	-	-
Hyundai Cement Co., Ltd	40	3	112	(422)	6	-	-
Hana the First PEF	-	-	-	-	7	-	-
Masan Marine New Town Co., Ltd.	68	37	2	(4)	5	-	-
MIDAN City Development Co., Ltd	-	25	-	-	40	-	-
	108	73	132	(426)	93	-	-
Entity under common control							
Hana Daetoo Securities Co., Ltd.	11	1,120	36,886	-	1,371	-	4,285
Hana Card, Co, Ltd	36	31,553	30,772	-	1,930	-	82
Hana Capital, Co, Ltd	19	5	217	(32)	79	-	4
Hana Asset Trust Co., Ltd	-	-	-	-	329	-	-
Hana Asset Management Co, Ltd.	-	-	-	-	102	-	-
Hana I&S	-	-	76	-	14	33,464	-
Hana Institute of Finance	-	-	5	-	11	4,653	-
Hana Savings Bank	-	-	26	-	-	-	14
Hana Life Insurance	-	3,205	7,490	-	314	-	4

51. Related parties (cont'd)

	Nine-month period ended September 30, 2015						
	Income			Expense			
Classification	Interest income	Fee and commission income	Other income	Bad debt expense	Interest expenses	Fee and commission expenses	Other expenses
Hana Bancorp	-	-	-	-	-	144	-
	66	35,883	75,472	(32)	4,150	38,261	4,389
Other related parties							
Warden 1 SPC Ltd.	-	-	-	-	20	-	-
Saenggakdaero T 17th Securitization Specialty Co.,Ltd.	-	6	-	-	268	-	-
Doosan Capital Co., Ltd.	125	-	-	(31)	6	-	-
Mirae Credit Information Services Corp	-	-	-	-	81	-	-
UBS Hana Asset Management Co., Ltd.	91	-	-	-	7	-	-
Plakor Co., Ltd	34	1	-	3	23	-	-
LIG Nex1 Co., Ltd	1	38	-	(1)	-	-	5
Sambo Moters Co., Ltd	8	-	-	-	-	-	-
AJ Rent a Car Co., Ltd.	1	62	-	(1)	-	-	-
	260	107	-	(30)	405	-	5
	₩ 434	₩ 36,063	₩ 76,972	₩ (488)	₩ 4,681	₩ 38,261	₩ 4,406

51. Related parties (cont'd)

	Nine-month period ended September 30, 2014						
	Income			Expense			
Classification	Interest income	Fee and commission income	Other income	Bad debt expense	Interest expenses	Fee and commission expenses	Other expenses
Investment in an associate							
Masan Marine New Town Co., Ltd.	₩ 189	₩ -	₩ 1	₩ 2	₩ -	₩ -	₩ -
MIDAN City Development Co., Ltd	636	-	5	(55)	-	-	-
	825	-	6	(53)	-	-	-
Entity under common control							
Hana Card, Co, Ltd	-	3,102	-	-	56	-	-
Hana HSBC Life Insurance Co., Ltd.	-	3,109	-	-	-	-	-
Hana Card, Co, Ltd	-	14,011	-	-	-	-	-
Hana Institute of Finance	-	-	-	-	-	1,851	-
Hana Asset Trust Co., Ltd	-	-	-	-	26	-	-
Hana Daetoo Securities Co., Ltd.	3	9	90	-	198	74	238
Hana I&S	-	-	-	-	-	577	-
Hana Bank	-	-	65,083	-	-	116	58,704
Hana Equity Partners I,L.P	-	-	-	-	1	-	-
Hana Capital	-	9	-	-	-	-	-
	3	20,240	65,173	-	281	2,618	58,942
	₩ 828	₩ 20,240	₩ 65,179	₩ (53)	₩ 281	₩ 2,618	₩ 58,942

51. Related parties (cont'd)

51.3 In 2015, money transactions with related parties are as follows: (Korean won in millions):

Type	Related Parties	Loan transaction	Borrowing transaction
Investment in an associate	UAMCO	₩ -	₩ 3
	Korea Travels Co., Ltd.	-	2,318
	Korea Credit Bureau	-	(33)
	Darby Hana Infrastructure Fund Management	-	(114)
	Hyundai Cement Co., Ltd	(3,505)	(47)
	Hana the First PEF	-	(2,513)
	Masan Marine New Town Co., Ltd.	(1,748)	501
	MIDAN City Development Co., Ltd	-	17,450
		(5,253)	17,565
Entity under common control	Hana Daetoo Securities Co., Ltd.	-	(737,700)
	Hana Card, Co, Ltd	-	174,410
	Hana Capital, Co, Ltd	(20,000)	3,346
	Hana Asset Trust Co., Ltd	-	(766,156)
	Hana Asset Management Co, Ltd.	-	(1,866)
	Hana I&S	-	959
	Hana Institute of Finance	-	(560)
	Hana Life Insurance	-	(1)
	Hana Bancorp	-	(109)
		(20,000)	(1,327,677)
Other related parties	Warden 1 SPC Ltd.	-	87,328
	Doosan Capital Co., Ltd.	(8,000)	(25,022)
	Mirae Credit Information Services Corp	-	641
	UBS Hana Asset Management Co., Ltd.	-	173
	Plakor Co., Ltd	1,562	(486)
	Najeon Co., Ltd	-	1,806
	LIG Nex1 Co., Ltd	(300)	-
	F & U Credit Information	-	(426)
	Taewon Lighting co., Ltd.	-	131
	AJ Rent a Car Co., Ltd.	(417)	1,000
		(7,155)	65,145
Key management personnel		(113)	(725)
		₩ (32,521)	₩ (1,245,692)

51. Related parties (cont'd)

51.4 Outstanding balances with related parties arising from the above transactions as at September 30, 2015 and December 31, 2014 are summarized as follows (Korean won in millions):

		September 30, 2015				
Type	Related Parties	Loans	Others Bonds	Allowance for possible loan losses	Deposit	Others Liabilities
Controlling company	HFG	₩ -	₩ -	₩ -	₩ 3,574	₩ 13,775
Investment in an associate	UAMCO	-	-	-	3	-
	Korea Travels Co., Ltd.	-	-	-	6,084	-
	Korea Credit Bureau	-	-	-	2,018	-
	Darby Hana Infrastructure Fund Management	-	-	-	8,749	-
	Hyundai Cement Co., Ltd	-	-	-	594	-
	Hana the First PEF	-	-	-	72	-
	Masan Marine New Town Co., Ltd.	1,513	8	(3)	783	19
	MIDAN City Development Co., Ltd	-	-	-	29,957	-
		1,513	8	(3)	48,260	19
Entity under common control	Hana Daetoo Securities Co., Ltd.	-	38,204	-	137,004	9,351
	Hana Card, Co, Ltd	-	83	-	367,295	39,023
	Hana Capital, Co, Ltd	-	-	-	17,686	499
	Hana Asset Trust Co., Ltd	-	-	-	17,363	29
	Hana Asset Management Co, Ltd.	-	-	-	6,186	-
	Hana I&S	-	-	-	2,170	5,389
	Hana Institute of Finance	-	-	-	2,249	556
	Hana Savings Bank	-	-	-	-	915
	Hana Life Insurance	-	1,028	-	3	24,568
		-	39,315	-	549,956	80,330
Other related parties	Warden 1 SPC Ltd.	-	-	-	87,329	13
	Radian 1 SPC Co., Ltd	-	-	-	9	-
	Odin2.LLC	26,287	-	288	-	-
	Doosan Capital Co., Ltd.	-	-	-	37	-
	Mirae Credit Information Services Corp	-	-	-	7,049	-
	UBS Hana Asset Management Co., Ltd.	-	-	-	6,077	-
	Plakor Co., Ltd	14,416	-	51	74	150
	Najeon Co., Ltd	-	-	-	2,037	-
	LIG Nex1 Co., Ltd	-	-	-	3	-
	F & U Credit Information Co., Ltd	-	-	-	5	-
	Sambo Moters Co., Ltd	3,000	-	17	-	-
	Taewon Lighting co., Ltd.	-	-	-	131	-
	AJ Rent a Car Co., Ltd.	24,167	-	39	1,963	-
		67,870	-	395	104,714	163
Key management personnel		1,219	-	-	8,062	-
		₩ 70,602	₩ 39,323	₩ 392	₩ 714,566	₩ 94,287

51. Related parties (cont'd)

		December 31, 2014				
Type	Related Parties	Loans	Others Bonds	Allowance for possible loan losses	Deposit	Others Liabilities
Controlling company	HFG	₩ -	₩ -	₩ -	₩ -	₩ 3,053
Entity under common control	Hana Bancorp	-	-	-	109	-
	Hana Life Insurance	-	338	-	-	-
	Hana Card, Co, Ltd	-	17	-	8,696	4,114
	Hana Institute of Finance	-	-	-	-	5
	Hana Asset Trust Co., Ltd	-	-	-	13,000	41
	Hana Daetoo Securities Co., Ltd.	-	859	-	7,890	976
	Hana I&S	-	-	-	-	140
	Hana Bank	-	50,925	-	-	98,528
	Hana the First PEF	-	-	-	2,585	1
	Hana Capital, Co, Ltd	-	-	-	1	-
		-	52,139	-	32,281	103,805
Investment in an associate	Masan Marine New Town Co., Ltd.	-	-	-	12,507	-
	MIDAN City Development Co., Ltd	3,261	19	(7)	282	21
		3,261	19	(7)	12,789	21
Key management personnel		1,449	-	-	4,138	-
		₩ 4,710	₩ 52,158	₩ (7)	₩ 49,208	₩ 106,879

51.5 Details of compensation for standing directors and executive officers for the three and nine-month periods ended September 30, 2015 and 2014 are summarized as follows (Korean won in millions of people in units):

Classification	Three–month periods ended September 30		Nine–month periods ended September 30	
	2015	2014	2015	2014
Short–term employee payment	₩ 1,076	₩ 1,545	₩ 4,463	₩ 4,574
Severance payment	1,604	45	1,756	136
Stock options	924	(11)	923	3

52. Merger of (former) Hana bank and (former) KEB

Hana Bank and KEB agreed on the merger at the Board of Director's meeting on October 29, 2014. The merger date is September 1, 2015, and KEB became the surviving corporation, and changed the corporate name from KEB to Hana Bank.
With reference to business combinations of Hana Bank and Korea Exchange Bank under common control, the original shareholders listed on the roster of shareholders of Hana Bank, the extinct corporation, as at the merger date (September 1, 2015) received 2.5250728 ordinary shares (par value at KRW 5,000) of KEB, the surviving corporation, per one ordinary share (par value at KRW 5,000) of Hana Bank

52.1 Accounting treatment after merger
With reference to business combinations of Hana Bank and Korea Exchange Bank under common control, the accounting treatment is conducted using book values of assets and liabilities from the ultimate controlling company's consolidated financial statement.

52.2 Summary of financial information of the merged corporation (Korean won in millions):

	Assets	Liabilities	Equity	Revenue	Net income (loss)	Comprehensive Income (loss)
Hana Bank	₩ 183,247,615	₩ 170,190,497	₩ 13,057,118	₩ 757,240	₩ 641,317	₩ 553,407

53. Spin-off of a credit card division

On December 24, 2013, HFG and KEB's Board of Directors approved spinoff of a credit card division aiming for the expertise and competiveness in credit card business and for the improvement of risk management. Accordingly, spin-off of a credit card division finalized as at August 31, 2014 was executed on September 1, 2014.

53.1 Details of assets and liabilities transferred from KEB to KEB Card as at September 1, 2014 are as follows (Korean won in millions):

Classification		Amount
Assets acquired:		
Cash and due from banks	₩	330,419
Loans receivable		2,719,701
Property and equipment		6,546
Intangible assets		5,289
Deferred income tax assets		46,354
Other assets		93,596
	₩	3,201,905
Liabilities assumed:		
Debentures	₩	1,979,489
Provisions		53,743
Other liabilities		529,181
	₩	2,562,413
Equity:		
Common stock	₩	640,000
Capital adjustments		(11)
Accumulated other comprehensive income		(497)
	₩	639,492

53. Spin-off of a credit card division (cont'd)

Details of income from discontinued operation for the nine-month period ended September 30, 2014 are summarized as follows (Korean won in millions):

Classification	Nine-month period ended September 30, 2014			
	Three-month period ended September 30, 2014		Nine-month period ended September 30, 2014	
Net interest income	₩	76,457	₩	298,703
Interest income		86,819		338,565
Interest expenses		(10,362)		(39,862)
Net fee and commission income		(41,638)		(132,406)
Fee and commission income		21,664		82,088
Fee and commission expenses		(63,302)		(214,494)
Impairment loss		(10,339)		(54,443)
Impairment loss on financial assets		(10,339)		(54,443)
General and administrative expenses		(16,265)		(56,448)
Net other operating expenses		(10,722)		(25,664)
Other operating income		7,060		26,452
Other operating expenses		(17,782)		(52,116)
Operating income		(2,507)		29,742
Non-operating income		130		2,745
Non-operating income		179		2,891
Non-operating expenses		(49)		(146)
Net income before income tax expense		(2,377)		32,487
Income tax expense		575		(7,859)
Net income from discontinued operations	₩	(1,802)	₩	24,628

Cash inflow related to a discontinued operation for the nine-month period ended September 30, 2014 is as follows (Korean won in millions):

Classification	Nine-month period ended September 30, 2014	
Operating activities	₩	(120,063)
Investing activities		1,194
Financing activities		(49,810)

Korea Exchange Bank and its subsidiaries

Consolidated financial statements
For the years ended December 31, 2014 and 2013
with independent auditors' report

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Building a better working world

Independent auditors' report

To the shareholders and board of directors of
Korea Exchange Bank

Reporting on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Korea Exchange Bank (KEB) and its subsidiaries (collectively, the Company), which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of comprehensive income, consolidated statements of changes in 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 Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards (KIFRS), and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Korea Exchange Bank and its subsidiaries as at December 31, 2014 and 2013, and its financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other Matter

The 2013 comparative consolidated financial statements were audited in accordance with previous auditing standards generally accepted in the Republic of Korea.

Matter of Emphasis

The users of this audit report need to pay attention to Note 52 to the consolidated financial statements of the Company, which discloses that the KEB decided to merge with Hana Bank at the Board of Director's meeting on October 29, 2014, and on February 4, 2015, the Seoul Central District Court ordered an injunction to hold-off on the merger between the KEB and Hana Bank until June 30, 2015. These matters have no impact on our audit opinion.

Ernst & Young Han Young

March 5, 2015

This audit report is effective as at March 5, 2015, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditors' report to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

Korea Exchange Bank and its subsidiaries
Consolidated statements of financial position
As at December 31, 2014 and 2013
(Korean won in millions)

	Notes	December 31, 2014	December 31, 2013
Assets			
Cash and due from banks	5, 6, 7, 8, 10, 47	₩ 9,345,799	₩ 8,247,437
Financial assets at FVTPL	5, 6, 7, 8, 11, 18	2,305,294	2,133,946
Derivative assets used for hedging purposes	5, 6, 7, 8, 18	36,745	23,070
Available-for-sale financial assets	5, 6, 7, 8, 12, 14, 15, 17	12,612,514	9,203,594
Held-to-maturity investments	5, 6, 7, 8, 13, 14, 15	1,948,987	2,330,877
Loans receivable	5, 6, 7, 8, 16	75,056,113	73,684,397
Investments in associates	19	362,886	771
Property and equipment	20	1,166,470	1,219,586
Investment property	21	230,380	183,262
Intangible assets	22	63,091	73,500
Current income tax assets		17,542	2,087
Deferred income tax assets	44	35,335	38,008
Other assets	5, 6, 7, 8, 23	6,799,596	6,776,785
Merchant banking account assets	5, 6, 7, 8, 23	2,358,355	2,715,835
Non-current assets held for sale	24	529	660
Total assets		₩ 112,339,636	₩ 106,633,815
Liabilities and equity			
Liabilities			
Deposits	5, 6, 7, 8, 26	₩ 73,075,391	₩ 69,777,325
Financial liabilities at FVTPL	5, 6, 7, 8, 25	1,621,469	1,286,745
Derivative liabilities used for hedging purposes	5, 6, 7, 8, 18	6,468	12,562
Borrowings	5, 6, 7, 8, 27	9,913,695	6,832,731
Debentures	5, 6, 7, 8, 28	4,976,616	6,769,818
Provisions	29, 50	147,386	274,038
Current income tax liabilities		80,400	38,309
Deferred income tax liabilities	44	80,600	91,905
Other liabilities	5, 6, 7, 8, 30, 31, 46, 48	10,974,651	10,286,614
Merchant banking account liabilities	5, 6, 7, 8, 30	2,436,279	1,680,804
Total liabilities		103,312,955	97,050,851
Equity			
Issued capital	32	2,584,534	3,224,534
Capital surplus	32	946	940
Hybrid equity securities	32	179,737	429,509
Capital adjustments		(26,923)	(18,724)
Retained earnings	33	6,051,930	5,796,603
(Regulatory reserve for bad debts in the amount of ₩794,762 and ₩737,322 as at December 31, 2014 and 2013, respectively)	34		
(Required provision for (reversal of) bad debts in the amount of ₩(115,758) and ₩57,440 as at December 31, 2014 and 2013, respectively)			
(Planned provision for (reversal of) bad debts in the amount of ₩(115,758) and ₩57,440 as at December 31, 2014 and 2013, respectively)			
Accumulated other comprehensive income	35	112,060	148,587
Equity attributable to equity holders of the parent		8,902,284	9,581,449
Non-controlling shareholder's equity		124,397	1,515
Total equity		9,026,681	9,582,964
Total liabilities and equity		₩ 112,339,636	₩ 106,633,815

The accompanying notes are an integral part of the consolidated financial statements.

Korea Exchange Bank and its subsidiaries
Consolidated statements of comprehensive income
For the years ended December 31, 2014 and 2013

(Korean won in millions, except per share amounts)

	Notes	2014	2013
Net interest income	9, 37		
Interest income		₩ 3,412,592	₩ 3,400,366
Interest expenses		(1,521,641)	(1,620,260)
		1,890,951	1,780,106
Net fee and commission income	9, 38		
Fee and commission income		432,473	421,851
Fee and commission expenses		(82,620)	(78,200)
		349,853	343,651
Net gain on financial instruments at FVTPL	39		
Gain on financial instruments at FVTPL		3,900,435	3,307,846
Loss on financial instruments at FVTPL		(3,894,556)	(3,227,566)
		5,879	80,280
Net gain on derivative financial instruments used for hedging purposes	39		
purposes		35,098	34,027
purposes		(31,976)	(30,382)
		3,122	3,645
Net gain on available-for-sale financial assets	39		
Gain on available-for-sale financial assets		170,854	85,717
Loss on available-for-sale financial assets		(1,224)	(5,804)
		169,630	79,913
Net gain on held-to-maturity investments	39		
Gain on held-to-maturity investments		492	-
		492	-
Impairment loss	40		
Impairment loss on financial assets		(576,789)	(456,043)
		(576,789)	(456,043)
General and administrative expenses	9, 41, 46	(1,423,336)	(1,452,004)
Net other operating income	42		
Other operating income		1,540,699	1,536,965
Other operating expenses		(1,382,483)	(1,429,320)
		158,216	107,645
Operating income		578,018	487,193
Non-operating expenses	43		
Non-operating income		29,708	19,697
Non-operating expenses		(181,642)	(43,721)
		(151,934)	(24,024)
Net income from continuing operations before income tax expense		426,084	463,169
Income tax expense from continuing operations	9, 44	(74,319)	(97,785)
Net income from continuing operations		351,765	365,384
Net income from a discontinued operation		24,628	78,739

(Continued)

Korea Exchange Bank and its subsidiaries
Consolidated statements of comprehensive income
For the years ended December 31, 2014 and 2013

(Korean won in millions, except per share amounts)

	Notes	2014	2013
Net income			
Equity holders of the parent	34	365,115	444,320
(Adjusted income after deducting regulatory reserve for bad debt in the amount of ₩480,873 and ₩386,880 for the years ended December 31, 2014 and 2013, respectively)			
Non-controlling interests		11,278	(197)
		376,393	444,123
Other comprehensive expenses	35		
Items that may be reclassified subsequently to profit or loss:			
Gain on valuation of available-for-sale financial assets		20,531	95,356
Exchange differences on translation of available-for-sale financial assets		68	(31)
Exchange differences on translation of foreign operations		(18,644)	(74,206)
Tax effect		(4,953)	(23,109)
		(2,998)	(1,990)
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of the net defined benefit liability		(46,520)	(35,407)
Tax effect		11,252	8,716
		(35,268)	(26,691)
Total comprehensive income		₩ 338,127	₩ 415,442
Equity holders of the parent		328,091	416,014
Non-controlling interests		10,036	(572)
Earnings per share	45		
Continuing and discontinued operations			
Basic earnings per share		₩ 582	₩ 660
Diluted earnings per share		₩ 582	₩ 660
Discontinued operation			
Basic earnings per share		₩ 41	₩ 122
Diluted earnings per share		₩ 41	₩ 122

The accompanying notes are an integral part of the consolidated financial statements.

Korea Exchange Bank and its subsidiaries
Consolidated statements of changes in equity
For the years ended December 31, 2014 and 2013
(Korean won in millions)

	Common stock	Capital surplus	Hybrid equity securities	Capital adjustments	Retained earnings	Accumulated other comprehensive income	Equity attributable to equity holders of the parent	Non-controlling shareholders' equity	Total
As at January 1, 2013	₩ 3,224,534	₩ 940	₩ 249,772	₩ 40	₩ 5,404,592	₩ 176,893	₩ 9,056,771	₩ 2,087	₩ 9,058,858
Dividends on hybrid equity securities	-	-	-	-	(20,064)	-	(20,064)	-	(20,064)
Issuance of hybrid equity securities	-	-	179,737	-	-	-	179,737	-	179,737
Share-based payment transactions	-	-	-	(277)	-	-	(277)	-	(277)
Other capital adjustment	-	-	-	(618)	-	-	(618)	-	(618)
Loss on disposal of treasury stock	-	-	-	(17,869)	-	-	(17,869)	-	(17,869)
Dividends	-	-	-	-	(32,245)	-	(32,245)	-	(32,245)
	3,224,534	940	429,509	(18,724)	5,352,283	176,893	9,165,435	2,087	9,167,522
Net income for the period	-	-	-	-	444,320	-	444,320	(197)	444,123
Gain on valuation of available-for-sale financial assets	-	-	-	-	-	72,243	72,243	(3)	72,240
Exchange differences on transaction of foreign operations	-	-	-	-	-	(73,834)	(73,834)	(372)	(74,206)
Exchange differences on translation of available-for-sale financial assets	-	-	-	-	-	(24)	(24)	-	(24)
Changes in remeasurement of the net defined benefit liability	-	-	-	-	-	(26,691)	(26,691)	-	(26,691)
Total comprehensive income (expenses) for the period	-	-	-	-	444,320	(28,306)	416,014	(572)	415,442
As at December 31, 2013	₩ 3,224,534	₩ 940	₩ 429,509	₩ (18,724)	₩ 5,796,603	₩ 148,587	₩ 9,581,449	₩ 1,515	₩ 9,582,964

	Common stock	Capital surplus	Hybrid equity securities	Capital adjustments	Retained earnings	Accumulated other comprehensive income	Equity attributable to equity holders of the parent	Non-controlling shareholders' equity	Total
As at January 1, 2014	₩ 3,224,534	₩ 940	₩ 429,509	₩ (18,724)	₩ 5,796,603	₩ 148,587	₩ 9,581,449	₩ 1,515	₩ 9,582,964
Dividends on hybrid equity securities	-	-	-	-	(14,326)	-	(14,326)	-	(14,326)
Redemption of hybrid equity securities	-	-	(249,772)	(228)	-	-	(250,000)	-	(250,000)
Share-based payment transactions	-	6	-	714	-	-	720	-	720
Other capital adjustment	-	-	-	213	-	-	213	-	213
Appropriation to loss on sale of treasury stock	-	-	-	17,869	(17,869)	-	-	-	-
Appropriation to other capital adjustments	-	-	-	160	(160)	-	-	-	-
Spinoff of a credit card division	(640,000)	-	-	11	-	497	(639,492)	-	(639,492)
Dividends	-	-	-	-	(77,433)	-	(77,433)	-	(77,433)
Acquisition of subsidiary	-	-	-	(19,444)	-	-	(19,444)	125,291	105,847
Acquisition of treasury stock of subsidiary	-	-	-	(7,494)	-	-	(7,494)	(12,445)	(19,939)
	2,584,534	946	179,737	(26,923)	5,686,815	149,084	8,574,193	114,361	8,688,554
Net income for the period	-	-	-	-	365,115	-	365,115	11,278	376,393
Gain on valuation of available-for-sale financial assets	-	-	-	-	-	15,355	15,355	240	15,595
Exchange differences on transaction of foreign operations	-	-	-	-	-	(17,163)	(17,163)	(1,482)	(18,645)
Exchange differences on translation of available-for-sale financial assets	-	-	-	-	-	52	52	-	52
Changes in remeasurement of the net defined benefit liability	-	-	-	-	-	(35,268)	(35,268)	-	(35,268)
Total comprehensive income (expenses) for the period	-	-	-	-	365,115	(37,024)	328,091	10,036	338,127
As at December 31, 2014	₩ 2,584,534	₩ 946	₩ 179,737	₩ (26,923)	₩ 6,051,930	₩ 112,060	₩ 8,902,284	₩ 124,397	₩ 9,026,681

The accompanying notes are an integral part of the consolidated financial statements.

Korea Exchange Bank and its subsidiaries
Consolidated statements of cash flows
For the years ended December 31, 2014 and 2013
(Korean won in millions)

	2014	2013
Operating activities		
Net income	₩ 376,393	₩ 444,123
Adjustments to reconcile net income to net cash flows:		
Income tax expense	82,178	122,923
Interest income, net	(2,189,657)	(2,227,373)
Gain on valuation of financial assets held-for-trading, net	(2,888)	(592)
Gain on valuation of derivatives held-for-trading, net	(2,141)	(36,902)
Gain on valuation of derivatives used for hedging purposes, net	(3,122)	(3,616)
Gain on disposal of available-for-sale financial assets, net	(169,631)	(79,913)
Impairment loss on available-for-sale financial assets	134,996	29,392
Provision for possible loan losses	496,714	504,400
Impairment loss on investments in associates	-	821
Depreciation on property and equipment	79,071	81,349
Depreciation on investment property	2,796	2,549
Amortization	24,772	24,934
Loss on disposal of property and equipment, net	632	321
Impairment loss on intangible assets	265	2,980
Gain on disposal of non-current assets held for sale	-	(100)
Gain on investment in associates, net	(10,592)	-
Gain on disposal of intangible assets	(1,556)	(301)
Gain on sale of loans receivable	(1,946)	(34,304)
Provision for post-employment benefit obligation	55,751	54,751
Long-term compensation expense for performance bonus	72	20,794
Provision for (reversal of) acceptances and guarantees	(7,116)	4,230
Provision for unused commitments, net	1,572	1,140
Provision for (reversal of) other allowances	(48,541)	50,418
Loss (gain) on foreign currency transactions, net	45,185	(15,861)
Dividend income	(12,758)	(11,229)
Rental income	(2,917)	(3,043)
Provision for share based payment expense	138	462
Loss on valuation of financial assets held-for-trading (Merchant banking account), net	81	172
Provision for possible loan losses (Merchant banking account), net	-	320
Provision for (reversal of) unused commitments (Merchant banking account), net	45	(59)
Reversal of impairment loss on loans receivable (Merchant banking account)	(594)	-
Loss on valuation of CMA securities (Merchant banking account), net	3	11
	(1,529,188)	(1,511,326)
Changes in operating assets and liabilities:		
Financial assets held-for-trading	148,614	(255,551)
Derivative assets held-for-trading	(313,855)	36,573
Derivative assets used for hedging purposes	3,579	(18,598)
Loans receivable	(3,369,079)	(3,431,504)
Other assets	760,251	(1,607,601)
Merchant banking account assets	357,990	(138,122)
Deposits	2,849,226	2,351,353
Derivative liabilities at FVTPL	334,531	(21,973)
Derivative liabilities used for hedging purposes	(6,094)	12,562
Payments of severance benefits	(3,349)	(4,812)
Contribution to plan assets	(71,981)	(64,970)
Provisions	(40,052)	(14,049)
Other liabilities	(106,963)	(454,987)
Merchant banking account liabilities	755,475	1,152,138
	1,298,293	(2,459,541)

(Continued)

Korea Exchange Bank and its subsidiaries
Consolidated statements of cash flows
For the years ended December 31, 2014 and 2013
(Korean won in millions)

	2014	2013
Cash received from operating activities:		
Interest receipts	3,758,856	3,926,982
Dividend receipts	12,659	11,228
Income tax refunds	37,786	48,968
	3,809,301	3,987,178
Cash payment for operating activities:		
Interest payments	1,655,027	1,891,378
Payment of income tax	55,084	125,481
	(1,710,111)	(2,016,859)
Net cash flows provided by (used in) operating activities	2,244,688	(1,556,425)
Investing activities		
Cash inflow related to investing activities:		
Decrease in restricted due from banks, net	-	248,336
Proceeds from disposal of available-for-sale financial assets	11,265,089	5,872,362
Proceeds from disposal of held-to-maturity investments	1,892,774	5,902,931
Proceeds from disposal of property and equipment	1,159	489
Proceeds from disposal of intangible assets	3,174	2,429
Decrease in assets not used for business purpose	106	778
Decrease in guarantee deposits paid, net	14,720	-
Cash inflow related to lease	39,827	2,773
	13,216,849	12,030,098
Cash outflow related to investing activities:		
Increase in restricted due from banks, net	771,961	-
Purchase of available-for-sale financial assets	14,550,713	8,000,204
Purchase of held-to-maturity investments	1,509,321	3,109,803
Acquisition of intangible assets	25,995	20,492
Acquisition of property and equipment	90,562	86,592
Increase in guarantee deposits paid, net	-	23,329
Spinoff of a credit card division	330,419	-
	(17,278,971)	(11,240,420)
Net cash flows provided by (used in) investing activities	(4,062,122)	789,678
Financing activities		
Cash inflow related to financing activities:		
Increase in call money, net	538,666	602,977
Increase in bills sold, net	-	40,223
Increase in borrowings	4,746,674	1,386,809
Issuance of debentures	1,506,427	3,280,638
Issue of hybrid equity securities	-	179,737
	6,791,767	5,490,384

(Continued)

Korea Exchange Bank and its subsidiaries
Consolidated statements of cash flows
For the years ended December 31, 2014 and 2013
(Korean won in millions)

		2014		2013
Cash outflow related to financing activities:				
Acquisition of treasury stock of subsidiary		19,939		-
Decrease in bills sold, net		19,140		-
Redemption of hybrid equity securities		249,772		-
Decrease in borrowings		2,612,947		2,124,259
Redemption of debentures		1,627,539		2,257,315
Dividends paid		77,433		32,245
Dividends on hybrid equity securities		14,326		20,064
		(4,621,096)		(4,433,883)
Net cash flows provided by financing activities		2,170,671		1,056,501
Net increase in cash and cash equivalents		353,237		289,754
Cash and cash equivalents at the beginning of the year		4,726,835		4,484,904
Effect of exchange rate changes on cash and cash equivalents		(26,836)		(47,823)
Cash and cash equivalents at the end of the year	₩	5,053,236	₩	4,726,835

The accompanying notes are an integral part of the consolidated financial statements.

1. Company information

The accompanying consolidated financial statements include Korea Exchange Bank (KEB) and its controlled subsidiaries (collectively, the Company). General information describing KEB, the Company and joint ventures is provided below.

KEB was established on January 30, 1967, as a government-invested bank which primarily engages in foreign exchange and trade finance business under the Korea Exchange Bank Act published on July 28, 1966. On December 30, 1989, the Korea Exchange Bank Act was repealed and KEB was reorganized as a corporation under the Commercial Code of the Republic of Korea. On April 4, 1994, KEB was listed on the Korean Stock Exchange. The merger between KEB and the Korea Exchange Bank Credit Service Co., Ltd. was finalized on February 28, 2004. Then, the spinoff of credit card division was finalized on August 31, 2014 (Note 54).

KEB primarily provides commercial banking services, trust banking services, foreign exchange, merchant banking business as a result of the merger with Korea International Merchant Bank, a domestic subsidiary KEB, and other related operations as permitted under the Korea Exchange Bank Act and other relevant laws and regulations in the Republic of Korea. As of December 31, 2014, KEB operates through 345 branches (including 32 depositary offices) and 3 subsidiaries in the Republic of Korea and 23 branches (including 3 depositary offices and 6 offices) and 10 subsidiaries overseas.

As at December 31, 2014, KEB is authorized to issue 1,000 million shares (at ₩5,000 par value) and has issued 516,906,826 ordinary shares amounting to ₩2,584,534 million in issued capital.

On April 5, 2013, KEB became a wholly-owned subsidiary of Hana Financial Group resulting from a share-for-share exchange.

Details of the Company's scope of consolidation as at December 31, 2014 and 2013 are as follows (shares in thousands):

				December 31, 2014		December 31, 2013	
Subsidiaries	Business	Location	Financial statements date	Number of shares	Percentage of ownership (%)	Number of shares	Percentage of ownership (%)
KEB's subsidiaries:							
KEB F&I (formerly, KEB Capital Inc.) (*1)	Finance and banking service	Korea	December 31, 2014	14,976	99.31	14,976	99.31
KEB Futures Co., Ltd. (KEBF)	Finance and banking service	Korea	December 31 2014	3,000	100.00	3,000	100.00
KEB Fund Services Co., Ltd. (KEBIS)	Finance and banking service	Korea	December 31, 2014	510	100.00	510	100.00
Korea Exchange Bank of Canada (KEBOC)	Finance and banking service	Canada	December 31 2014	334	100.00	334	100.00
KEB (Australia) Holdings (KEBH) (*3)	Finance and banking service	Australia	December 31, 2014	-	-	-	-
Korea Exchange Bank (Deutschland) A.G. (KEBDAG)	Finance and banking service	Germany	December 31, 2014	40	100.00	20	100.00

1. Company information (cont'd)

Subsidiaries	Business	Location	Financial statements date	December 31, 2014		December 31, 2013	
				Number of shares	Percentage of ownership (%)	Number of shares	Percentage of ownership (%)
PT. Bank KEB Hana (formerly, PT. Bank KEB Indonesia (KEBI))(*2)	Finance and banking service	Indonesia	December 31, 2014	573,462	50.88	1	99.00
Banco KEB do Brazil S. A. (KEBB)	Finance and banking service	Brazil	December 31, 2014	69,726	100.00	69,726	100.00
KEB NY Financial Corp.(NYFinCo)	Finance and banking service	USA	December 31, 2014	0.1	100.00	0.1	100.00
KEB LA Financial Corp.(LAFinCo)	Finance and banking service	USA	December 31, 2014	0.2	100.00	0.2	100.00
KEB USA Int'l Corp. (USAI)	Finance and banking service	USA	December 31, 2014	0.1	100.00	0.1	100.00
KEB Asia Finance Limited (KAF)	Finance and banking service	Hong Kong	December 31, 2014	50,000	100.00	50,000	100.00
KOREA EXCHANGE BANK RUSLLC (*3)	Finance and banking service	Russia	December 31, 2014	-	99.99	-	-
Trust accounts guaranteeing a fixed rate of return and the repayment of principal (*4)	Trust service	Korea	December 31, 2014	-	-	-	-
Trust accounts guaranteeing the repayment of principal (*4)	Trust service	Korea	December 31, 2014	-	-	-	-
Athenae 1st (*4)	Asset liquidation	Korea	December 31, 2014	-	-	-	-
Athenae 2nd (*4)	Asset liquidation	Korea	December 31, 2014	-	-	-	-
KEB (Australia) Holding's subsidiaries:							
KEB Australia Ltd. (KEBA)	Finance and banking service	Australia	December 31, 2014	0.0	100.00	55,000	100.00
KEBF&I subsidiaries:							
KEBW First Securitization Specialty Co., Ltd.(*4)	Asset liquidation	Korea	December 31, 2014	0.1	5.00	-	-
KEB VERITAS First Co., Ltd. (*4)	Asset liquidation	Korea	December 31, 2014	0.6	29.00	-	-
KEB VERITAS Second Co., Ltd.(*4)	Asset liquidation	Korea	December 31, 2014	0.1	49.00	-	-
KEBS First Securitization Specialty Co., Ltd.(*4)	Asset liquidation	Korea	December 31, 2014	0.0	5.00	-	-
KEBS Second Securitization Specialty Co., Ltd.(*4)	Asset liquidation	Korea	December 31, 2014	0.0	5.00	-	-
KEBPEPPER First Securitization Specialty Co., Ltd.(*4)	Asset liquidation	Korea	December 31, 2014	0.0	5.00	-	-

1. Company information (cont'd)

Subsidiaries	Business	Location	Financial statements date	December 31, 2014 Number of shares	December 31, 2014 Percentage of ownership (%)	December 31, 2013 Number of shares	December 31, 2013 Percentage of ownership (%)
KEBI Fisrt Securitization Specialty Co., Ltd.(*4)	Asset liquidation	Korea	December 31, 2014	0.0	9.00	-	-
KEBBS First Securitization Specialty Co., Ltd.(*4)	Asset liquidation	Korea	December 31, 2014	0.0	5.00	-	-

(*1) At the Board of Directors' meeting held on October 17, 2013, the Company voted to change its operations to asset management and investments regarding insolvent assets under the Asset-Backed Securitization Act and changed its name to KEB F&I.
(*2) PT. Bank KEB Indonesia and PT. Bank Hana have completed their merger process and changed the name to PT. Bank KEB Hana on February, 2014.
(*3) These investees do not maintain any shares as they were incorporated as either a private equity investment vehicle or others.
(*4) Included in the scope of consolidation under consideration of the control model.

Summary of the financial statements of subsidiaries as at December 31, 2014 and 2013 are as follows(Korean won in millions):

Subsidiaries	December 31, 2014 Assets	Liabilities	Equity	Net income (loss)
KEB F&I (formerly, KEB Capital Inc.)(*1)	₩ 405,810	₩ 378,198	₩ 27,612	₩ 638
KEB Futures Co., Ltd. (KEBF)	692,094	626,611	65,483	360
KEB Fund Services Co., Ltd. (KEBIS)	21,040	2,711	18,329	3,262
Korea Exchange Bank of Canada (KEBOC)	1,394,560	1,241,436	153,124	11,112
KEB (Australia) Holdings (KEBH)(*1)	-	730	(730)	(1,157)
Korea Exchange Bank (Deutschland) A.G. (KEBDAG)	758,195	673,503	84,692	3,691
PT. Bank KEB Hana	1,942,998	1,690,153	252,845	25,323
Banco KEB do Brasil S. A. (KEBB)	191,950	150,075	41,875	3,192
KEB NY Financial Corp. (NYFinCo)	536,108	491,744	44,364	2,541
KEB LA Financial Corp. (LAFinCo)	328,704	278,781	49,923	3,677
KEB USA Int'l Corp. (USAI)	7,371	6	7,365	36
KEB Asia Finance Limited (KAF)	189,482	130,406	59,076	1,799
KOREA EXCHANGE BANK RUSLLC	28,795	9,660	19,135	(1,532)
Trust accounts guaranteeing a fixed rate of return and the repayment of principal	85	83	2	-
Trust accounts guaranteeing the repayment of principal	776,618	765,662	10,956	(1,242)
Athenae 1st	11,571	11,500	71	69
Athenae 2nd	51	50	1	-

(*1) The amounts presented are based on consolidation.

1. Company information (cont'd)

Subsidiaries	December 31, 2013 Assets	Liabilities	Equity	Net income (loss)
KEB Capital Inc. (KEBC)	₩ 259,926	₩ 232,348	₩ 27,578	₩ (47,927)
KEB Futures Co.,Ltd. (KEBF)	546,310	480,759	65,551	19
KEB Fund Services Co., Ltd. (KEBIS)	17,346	2,073	15,273	3,207
Korea Exchange Bank of Canada (KEBOC)	1,304,312	1,155,571	148,741	14,926
KEB (Australia) Holdings (KEBH)(*1)	394,551	316,747	77,804	7,456
Korea Exchange Bank (Deutschland) A.G. (KEBDAG)	765,741	688,074	77,667	2,646
(formerly) PT. Bank KEB Indonesia (KEBI)	507,969	375,422	132,547	13,289
Banco KEB Do Brasil S. A. (KEBB)	160,226	118,179	42,047	5,399
KEB NY Financial Corp. (NYFinCo)	465,773	425,715	40,058	4,374
KEB LA Financial Corp. ("LAFinCo")	278,932	234,688	44,244	3,026
KEB USA Int'l Corp. (USAI)	7,038	3	7,035	47
KEB Asia Finance Limited (KAF)	126,584	71,637	54,947	1,873
(formerly) KEB Bank (China) Co., Ltd. (KEB China)	2,630,733	2,205,309	425,424	10,637
Trust accounts guaranteeing a fixed rate of return and the repayment of principal	86	84	2	-
Trust accounts guaranteeing the repayment of principal	719,831	707,633	12,198	(728)
Athenae 1st	11,502	11,500	2	2
Athenae 2nd	5,152	5,150	2	2

(*1) The amounts presented are based on consolidation.

There is no entity excluded from the Company's scope of consolidation as at December 31, 2014 even though the Company holds a majority of voting rights.

Details of the subsidiaries that are newly included in the Company's scope of consolidation for the year ended December 31, 2014 are as follows:

Company	Reasons
KEBW First Securitization Specialty Co., Ltd.	Newly invested
KEB VERITAS First Co., Ltd.	Newly invested
KEB VERITAS Second Co., Ltd.	Newly invested
KEBS First Securitization Specialty Co., Ltd.	Newly invested
KEBS Second Securitization Specialty Co., Ltd.	Newly invested
KOREA EXCHANGE BANK RUSLLC	Newly established
KEBPEPPER First Securitization Specialty Co., Ltd.	Newly invested
KEBI First Securitization Specialty Co., Ltd.	Newly invested
KEBBS First Securitization Specialty Co., Ltd.	Newly invested

1. Company information (cont'd)

The company that was eliminated from the consolidated financial statements in 2014 is as follows:

Company	Reason for elimination
(formerly) KEB Bank (China) Co., Ltd. (KEB China)	As KEB China merged into Hana Bank (China) Co., Ltd. in 2014, the Bank lost control of KEB China and reclassified it as associates.

Details of subsidiaries that have significant non-controlling interests are as follows(Korean won in millions):

Classification	Profit or loss allocated to non-controlling interests of the subsidiary	Accumulated non-controlling interests of the subsidiary	Dividends paid to non-controlling interests
PT. Bank KEB Hana	₩ 8,672	₩ 96,149	₩ -
Others	2,606	28,248	-
	₩ 11,278	₩ 124,397	₩ -

There were no significant restrictions and defence rights of non-controlling interests that can significantly restrict the ability to approach or use the assets of the Company to repay the Company's liabilities.

Nature and reason of the contractual arrangements for providing the financial support to a consolidated structured entity as at December 31, 2014 are as follows:

Company	Contractual arrangement to financially support	Intended to provide support
Athenae 1st	The Company provided loan in the amount of ₩11.5 billion to Athenae 1st which acquired privately-placed corporate bonds issued by other banks in the amount of ₩10.2 billion. The Company establishes the right of pledge on privately-placed corporate bonds.	Operating activities
Athenae 2nd	The Company provided loan in the amount of ₩5.2 billion to Athenae 2nd which acquired privately-placed corporate bonds issued by other banks in the amount of ₩4.8 billion. The Company establishes the right of pledge on privately-placed corporate bonds.	Operating activities
Trust accounts guaranteeing a fixed rate of return and the repayment of principal	The Company is exposed to the risk that the Company shall guarantee a fixed rate of return and the repayment of principal to the trustee for which the Company manages the trustee's assets.	Credit enhancement of the fund management of trust accounts
Trust accounts guaranteeing the repayment of principal	The Company is exposed to the risk that the Company shall make up a loss incurred in the principle of trustee's assets which are managed by the Company.	Credit enhancement of the fund management of trust accounts

1. Company information (cont'd)

Company	Contractual arrangement to financially support	Intended to provide support
KEBW First Securitization Specialty Co., Ltd.	The Company purchased the unsubordinated securities and subordinated securities issued by KEBW First Securitization Specialty Co., Ltd. both in the amounts of ₩34.7 million.	Operating activities
KEB VERITAS First Co., Ltd. (*1)	The Company purchased the first class bond, the second class bond and the third class bond issued by KEB VERITAS First Co., Ltd. in the amount of ₩8.8 billion,₩10.2 billion and ₩1.0 billion, respectively.	Operating activities
KEB VERITAS Second Co., Ltd. (*1)	The Company purchased the first class bond, the second class bond and the third class bond issued by KEB VERITAS Second Co., Ltd.in the amount of ₩7.8 billion,₩2.7 billion and ₩0.3 billion, respectively.	Operating activities
KEBS First Securitization Specialty Co., Ltd.	The Company purchased the securities issued by KEBS First Securitization Specialty Co., Ltd. in the amount of ₩21.8 million.	Operating activities
KEBS Second Securitization Specialty Co., Ltd.	The Company purchased the securities issued by KEBS Second Securitization Specialty Co., Ltd. in the amount of ₩18.3 million.	Operating activities

(*1) The bonds issued were classified into corresponding levels in accordance to priority.

2. Basis of preparation

The Company prepares statutory consolidated financial statements in the Korean language in accordance with Korea International Financial Reporting Standards (KIFRS) enacted by the Corporate External Audit Law.

3. Significant accounting policies

The Company applied, for the first time, certain standards and amendments that require restatement of previous financial statements.

The nature and impact of each new standard and amendment are described below:

Investment Entities (**Amendments to** ***KIFRS 1110, KIFRS 1112 and KIFRS 1027)***

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under *KIFRS 1110*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be significantly relevant to the Company since none of the entities in the Company would qualify to be an investment entity under *KIFRS 1110*.

KIFRS 1032 Offsetting Financial Assets and Financial Liabilities – Amendments

These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments are not expected to be significantly relevant to the Company.

KIFRS 1039 Novation of Derivatives and Continuation of Hedge Accounting – Amendments

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Company has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to ***KIFRS 1036 Impairment of Assets***

These amendments remove the unintended consequences of *KIFRS 1113* on the disclosures required under *KIFRS 1036*. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are not expected to be relevant to the Company.

KIFRS 2121 Levies – Amendments

KIFRS 2121 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Company does not expect that *KIFRS 2121* will have material financial impact in future financial statements.

The Company has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

3. Significant accounting policies (cont'd)

Principles of consolidation

The consolidated financial statements incorporated the financial statements of the Company and entities controlled by the Company. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. Subsidiaries are no longer consolidated from the date on which the Company loses control over them.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Company.

The difference between the cost of investment and the Company's share of fair value of identifiable net assets and liabilities of the subsidiaries at the date of purchase accounting method application is presented as goodwill or negative goodwill. A review of impairment is performed at the end of each reporting date.

Changes in the Company's ownership interests in subsidiaries, without loss of control, are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e., reclassified to net income or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under *KIFRS 1039*, Financial Instruments: Recognition and Measurement, or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3. Significant accounting policies (cont'd)

Principles of consolidation (cont'd)

All significant intercompany transactions and account balances among consolidated companies are eliminated on consolidation. Unrealized gains or losses included in loans and borrowings arising from transactions between consolidated companies are eliminated on consolidation. The related accounts receivable and payable are also eliminated on consolidation.

Investments in entities over which the Company has control or significant influence are accounted for using the equity method. Under the equity method of accounting, the Company's initial investment in an investee is recorded at acquisition cost. Subsequently, the carrying amount of the investment is adjusted to reflect the Company's share of income or loss of the investee in the statement of comprehensive income and share of changes in equity that have been recognized directly in the equity of the investee in the related equity account of the Company on the statement of financial position. If the Company's share of losses of the investee equals or exceeds its interest in the investee, it suspends recognizing its share of further losses. However, if the Company has other long-term interests in the investee, it continues recognizing its share of further losses to the extent of the carrying amount of such long-term interests. The Company resumes the application of the equity method if the Company's share of income or change in equity of an investee exceeds the Company's share of losses accumulated during the period of suspension of the equity method of accounting.

At the date of acquisition, the excess of the cost of the investment over the Company's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as goodwill or negative goodwill. The amortization expense is included as a part of valuation gain or loss on the equity method investments in the statement of comprehensive income. The difference related to goodwill is recorded as the carrying amount. Goodwill is reviewed for impairment when signs of damage arise and is not amortized over its useful life.

Further, the Company's share of any difference between the net fair value of the investee's identifiable assets and liabilities, and the net book value of such assets and liabilities are amortized based on the investee's accounting treatments on the related assets and liabilities and charged or credited to the valuation gain or loss on the equity method investments in the statement of comprehensive income.

The Company's share in the investee's unrealized profits and losses resulting from transactions between the Company and its investee are eliminated to the extent of the interest in the investee.

Revenue recognition

Interest income (expense)

Interest income (expense) is recognized on an effective interest basis. The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income or interest expense over the relevant period.

3. Significant accounting policies (cont'd)

Revenue recognition (cont'd)

Fee and commission income

Based on the purpose of the fee and commission and related accounting standards for financial instruments, fee and commission income are classified as and accounted for as follows:

Classification	Details
Fee and commission composing effective income of the financial instruments	Accounted for as an adjustment to the effective interest rate
Fee and commission by rendering services	Recognized when the services are provided
Fee and commission by performing significant activities	Recognized when significant activities have been completed

Dividend income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established.

Financial assets

Financial assets, except for those financial assets classified as at FVTPL which are initially measured at fair value, are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of financial assets,. Fair value is the amount for which an asset could be exchanged, or liabilities settled, between knowledgeable, willing parties in an arm's length transaction. Fair values of financial instruments are generally determined from a quoted price in an active market for identical financial assets or financial liabilities where these are available.

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

All financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract that terms require delivery of the financial asset within the period established by the market concerned.

3. Significant accounting policies (cont'd)

Financial assets (cont'd)

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held-for-trading and financial assets designated at FVTPL upon initial recognition. A financial asset is classified as held-for-trading if it has been acquired principally for selling it in the near term. A financial instrument, containing one or more embedded derivatives, treated separately from the host contract, is classified as held-for-trading if it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. Transaction costs attributable to acquisition upon initial recognition are immediately recognized in net income in the period incurred.

A financial asset is classified as held-for-trading if:

- It has been acquired principally for the purpose of selling it in the near term,
- On initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking, or,
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held-for-trading may be designated at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise,
- In accordance with the Company's documented risk management or investment strategy, the financial asset forms a part of a group of financial assets or financial liabilities, or both, which is recorded at fair value, performance is evaluated based on its fair value, and this information is provided internally on that basis, or,
- It forms a part of a contract containing one or more embedded derivatives, and *KIFRS 1039, Financial Instruments: Recognition and Measurement*, permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Available-for-sale financial assets

Non-derivative financial assets that are not classified as at held-to-maturity, held-for-trading, designated at FVTPL, or loans and receivables are classified as available-for-sale financial assets.

Available-for-sale financial assets are subsequently measured at fair value at the closing date. Gains and losses arising from changes in fair value are recognized in other comprehensive income, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in net income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to net income.

3. Significant accounting policies (cont'd)

Financial assets (cont'd)

Available-for-sale financial assets (cont'd)

Dividends on available-for-sale equity securities are recognized in net income when the Company's right to receive the dividends is established.

The fair value of available-for-sale monetary assets denominated in foreign currency is determined in that foreign currency and translated at the prevailed rate at the end of the reporting period. Available-for-sale non-monetary assets measured at amortized cost are translated with the exchange rate at the trade date, while assets measured at fair value are translated with the exchange rate when the fair value is determined.

Unquoted equity investments which fair values cannot be measured reliably and derivative instruments which are related to the unquoted equity investments that will be settled by delivering those investments are carried at cost after deducting the amount of impairment losses.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest rate method, less any impairment, with income recognized on an effective yield basis.

Loans and receivables

Non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. 'Loans and receivables' are measured at amortized cost using the effective interest rate method, less any impairment. Interest income is recognized based on applying the effective interest rate method, except for short-term receivables when the recognition of interest would be immaterial.

Loans, due from banks, and guarantee money for business premise are classified as 'loans and receivables'.

Deferred loan origination fees (LOFs) and loan origination costs (LOCs)

The Company defers LOF\LOCs associated with originating loans and LOCs that have future economic benefits. Loan balances are reported net of these LOF\LOCs. The deferred LOF\LOCs are amortized based on the effective interest rate method with the amortization recognized as adjustments to interest income.

Impairment of financial assets

Financial assets, other than financial assets at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of

3. Significant accounting policies (cont'd)

Financial assets (cont'd)

Impairment of financial assets (cont'd)

the financial asset, the estimated future cash flows of the investment have been affected. However, the impairment losses, expected as a result of future events, are not recognized.

For equity investments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered objective evidence of impairment.

Objective evidence that a financial asset is impaired includes the following loss events:

- Significant financial difficulty of the issuer or obligor,
- A breach of contract, such as a default or delinquency in interest or principal payments,
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider,
- It is probable that the borrower will enter bankruptcy or other financial reorganization,
- The disappearance of an active market for the financial asset due to the financial difficulties,
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, or
- Significant changes that bring negative effects caused by the changes in technology, market, economic, and legal environment where the issuer carries on business.

If there is an objective evidence of impairment, impairment loss should be recognized by each category of financial assets as described below:

Available-for-sale financial assets

When an available-for-sale financial asset is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to net income in the period.

In respect of available-for-sale equity securities, impairment losses previously recognized in net income are not reversed through net income. Any increase in fair value subsequent to the impairment loss is recognized in other comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease for available-for-sale debt instruments can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income to the extent that it does not increase the carrying amount to what it would have been had the impairment loss never been recognized.

Held-to-maturity investments

For held-to-maturity investments measured at amortized cost, impairment loss is measured base on the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate and directly deducted from the carrying amount.

3. Significant accounting policies (cont'd)

Financial assets (cont'd)

Held-to-maturity investments (cont'd)

In case the impairment loss decreases in a subsequent period and such decrease is objectively related to the events that occurred after recognition of impairment, the impairment loss previously recognized is reversed through net income to the extent that it does not increase the carrying amount to what it would have been had the impairment loss never been recognized.

Loans and receivables

For loans and receivables measured at amortized cost, impairment loss is measured by the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial asset's original effective interest rate. The Company first assesses whether objective evidence of impairment exists individually for the financial assets that are individually significant (Individual assessment of impairment).

For financial assets that are not individually significant, the Company assesses whether the objective evidence of impairment exists individually or collectively. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (Collective assessment of impairment).

Impairment loss is deducted from allowance for possible losses on credits when it is considered unrecoverable. If it is subsequently recovered, allowance for possible losses on credits increases and the changes are recognized in net income.

Allowance for possible losses on credits by individual assessment

Allowance for possible losses on credits is recognized based on the difference between the asset's carrying amount and the present value of future cash flows expected to be collected by considering the borrower's management performance, financial position, overdue period, and mortgage amount.

Allowance for possible losses on credits by collective assessment

Allowance for possible losses on credits is recognized by adjusting Probability of Default (PD) and Loss Given Default (LGD) according to Basel II for the purpose of accounting and applying to the carrying amount. Such approach considers various elements, including borrower type, credit rating, and size of portfolio, loss emergence period, and collection period and applies consistent assumptions so as to model the measurement of inbuilt loss and determine variables based on historical loss experience and current conditions.

3. Significant accounting policies (cont'd)

Financial assets (cont'd)

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received shall be recognized in net income of the current period.

If the transfer of a partial financial asset is qualified for derecognition, the entire carrying amount of the transferred financial asset shall, between the portion which is derecognized and the portion which is still recognized, be apportioned according to their respective relative fair value. The difference between the amounts of (1) the book value of the portions that is derecognized and (2) the sum of consideration of the portion that is still recognized and the portion of the accumulated gain or loss recognized in other comprehensive income previously related to the portion that is derecognized.

Offset of financial assets and liabilities

Financial assets and liabilities shall be offset only when the Company has the legal right to set off assets and liabilities and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

3. Significant accounting policies (cont'd)

Financial liabilities and equity instruments (cont'd)

Financial liabilities at FVTPL

Financial liabilities are classified as financial liabilities at FVTPL when the financial liability is either held-for-trading or designated at FVTPL.

A financial liability is classified as held-for-trading if:

- It has been acquired principally for the purpose of repurchase it in the near term
- On initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking
- It is a derivative that is not designated and effective as a hedging instrument

A financial liability other than a financial liability held-for-trading may be designated at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise
- In accordance with the Company's documented risk management or investment strategy, the financial liability forms a part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, and information about the grouping is provided internally on that basis
- It forms a part of a contract containing one or more embedded derivatives, and *KIFRS 1039*, *Financial Instruments: Recognition and Measurement*, permits the entire combined contract (asset or liability) to be designated as at FVTPL

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. In addition, the transaction costs incurred related to issuance upon initial recognition is recognized in net income.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost based on the effective interest rate method, with interest expense recognized on an effective yield basis.

The effective interest rate method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, canceled or expires. The difference between the paid price and the book value of a derecognized financial liability is recognized in net income for the period.

3. Significant accounting policies (cont'd)

Financial liabilities and equity instruments (cont'd)

Hybrid equity securities

Hybrid equity securities are classified as equity when all requirements for equity classification are satisfied in conformity with the contract terms.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are initially measured at fair value and, if not designated at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with *KIFRS 1037, Provisions, Contingent Liabilities and Contingent Assets*
- The amount initially recognized, less cumulative amortization recognized in accordance with the *KIFRS 1018, Revenue*

Fair values

Fair values of financial assets or liabilities are determined as follows:

- Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where there are available under standard requirements for transactions.
- For other financial assets and liabilities, except for derivatives, fair values are determined using valuation techniques, where inputs in the model are taken from observable market data.
- The quoted market prices are used for derivatives if it is traded in an active market. All other derivatives which quoted market price is not available are valued using internal valuation techniques. Fair values of options are determined by reference to discounted cash flow analysis with option-pricing models. A yield curve applicable to weighted-average maturity is used for derivatives other than options. Fair values of future contracts are measured by using the yield curve derived from corresponding interest rate to published future exchange rate and maturity.

The Company classifies fair value measurements of financial assets or liabilities by reference to the source of inputs used to derive the fair values. The classification is as follows:

Classification	Details
(Level 1)	Quoted prices (unadjusted) in active markets for identical assets or liabilities
(Level 2)	Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
(Level 3)	Inputs for the asset or liability that are not based on the observable market data (unobservable inputs)

3. Significant accounting policies (cont'd)

Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in net income immediately, unless the derivative is designated and effective as a hedging instrument, in such case the timing of the recognition in net income depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations (net investment hedges).

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and when the host contracts are not measured at FVTPL.

Hedge accounting

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in net income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, exercised or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to net income from that date.

3. Significant accounting policies (cont'd)

Derivative financial instruments (cont'd)

Deferred Day 1 profit

The Company assesses fair values of over-the-counter derivatives by using its own assessment methodology. The assessment methodology generally (i) includes elements that market participants consider in determination of prices and (ii) coincides with a theoretical methodology commonly used for determining the price of financial instruments.

However, the Company defers Day 1 profit, the difference between the fair value autonomously determined at the acquisition date and transaction price, in case the assessment methodology does not satisfy the above requirements.

Deferred Day 1 profit is recognized in net income for the period when a derivative instrument is liquidated or matured, or a deferring factor of Day 1 profit is removed.

Investments in associates

Associates are the entities that the Company has significant effect on, but neither their subsidiaries nor investments are joint ventures. Significant effect is the ability to participate in the determination of investees' financial and operating policies, but neither controlling nor joint control.

The financial results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held-for-sale, in which case it is accounted for in accordance with *KIFRS 1105, Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate is initially recognized in the consolidated statements of financial position at cost and adjusted thereafter to recognize the consolidated Group's share of net income and other comprehensive income of the associate. When the consolidated Group's share of losses of an associate exceeds the consolidated Group's interest in that associate (which includes any long-term interests that, in substance, form a part of the consolidated Group's net investment in the associate), the consolidated Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the consolidated Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The requirements of *KIFRS 1039* are applied to determine whether it is necessary to recognize any impairment loss with respect to the consolidated Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with *KIFRS 1036*, Impairment of Assets, as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with *KIFRS 1036* to the extent that the recoverable amount of the investment subsequently increases.

When the consolidated entity transacts with its associate, net income resulting from the transactions with the associate is recognized in the Company's consolidated financial statements only to the extent of interests in the associate that are not related to the Company.

3. Significant accounting policies (cont'd)

Foreign currencies

Functional currency and presentation currency

The individual financial statements of each branch are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the financial results and position of each branch are expressed in Korean won, which is the presentation currency of the Company and the presentation currency for the consolidated financial statements.

Transactions with foreign currencies

In preparing the financial statements of each entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized based on the exchange rate prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated using the closing rate. Non-monetary items that are measured at fair value in a foreign currency are retranslated using the exchange rates at the date when the fair value was measured. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Exchange differences are recognized in net income for the period in which they arise, except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 3 (6) above for hedging accounting policies)
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to net income on disposal or partial disposal of the net investment

Overseas branch

The Company identifies the most appropriate functional currency for each foreign operation based on the foreign operation's activities. If Korean won is not the foreign operation's functional currency, its assets and liabilities, including goodwill and fair value adjustments arising on acquisition are translated into Korean won at foreign exchange rates at the end of each reporting date while the income and expenses are translated into Korean won at average exchange rates for the period unless it does not approximate to the foreign exchange rates at the dates of the transactions. Foreign exchange differences arising from the translation of a foreign operation are recognized directly in other comprehensive income and included in net income for the period on its liquidation.

3. **Significant accounting policies (cont'd)**

Retirement benefit costs

The Company records amounts, which will be paid upon the retirement of employees as defined benefit obligation and retirement benefit expenses in accordance to the defined benefit pension plans or defined contribution pension plans under its retirement benefit payment policy. The present value of defined benefit obligation is computed by discounting expected future cash outflows with market rate of return measured against the yield of high-graded corporate bond whose date of payment and maturity is similar to that of a defined benefit obligation. Actuarial gains and losses, incurred from the change in actuarial assumptions and the difference between the assumptions and the actual results, are recognized in net income for the period. Past service cost is recognized immediately to the extent that the benefits are already vested and otherwise is amortized on a straight-line basis over the period until the benefits become vested.

The Company has entered into retirement trust fund and retirement pension plan agreements to pay retirement benefits to its employees. The retirement benefit obligation recognized in the consolidated statements of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Share-based payment

For equity-settled share-based payment transactions, the value of the goods and services received and the corresponding increase in equity are measured at the fair value of the equity instruments at the grant date. For cash-settled share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in net income for the year.

For a share-based payment transaction in which the terms of the arrangement provide the Company with the choice of whether to settle in cash or by issuing equity instruments, the Company shall determine whether it has a present obligation to settle in cash. If no obligation exits, it shall be accounted for in accordance with the requirements applying to equity-settled share-based transactions. However, if the Company has a present obligation to settle in cash, it shall be accounted for in accordance with the requirements applying to cash-settled share-based transactions.

3. Significant accounting policies (cont'd)

Property and equipment

Property and equipment are stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment is directly attributable to their purchase or construction, which includes any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in the carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

Depreciation expense is computed using the depreciation method over the estimated useful lives of the assets as follows except for land which is not depreciated:

Classification	Estimated useful life	Depreciation method
Buildings	40 years	Straight-line
Leasehold improvements	3~10 years	Straight-line
Equipment and vehicles	3~20 years	Declining-balance

Property and equipment are derecognized on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of a tangible asset, measured based on the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income for the period when the asset is derecognized.

Investment property

Investment property is property held to earn rental income and\or for capital appreciation (including property under construction for such purposes). Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at depreciated cost. Gains and losses arising from changes in the fair value of investment property are included in net income for the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated based on the difference between the net disposal proceeds and the carrying amount of the asset) is included in net income for the period in which the property is derecognized. Meanwhile, the routine cost of repair and maintenance is recognized as net income for the period of the occurrence.

While land is not depreciated, all other investment properties are depreciated based on the respective assets' estimated useful lives of 40 years using the straight-line method.

3. Significant accounting policies (cont'd)

Investment property (cont'd)

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period and accounted for on a prospective basis in case of the effect of any changes in estimation.

An investment property is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of a tangible asset, measured based on the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income for the period when the asset is derecognized.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over 5 years.

The estimated useful life and amortization method are reviewed at the end of each reporting period and accounted for on a prospective basis in case of the effect of any changes in estimation. Intangible assets with indefinite useful lives that are acquired separately are carried at cost, less accumulated impairment losses.

Expenditure on research activities is recognized as an expense for the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- The intention to complete the intangible asset and use or sell it
- The ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development expenditure is recognized in net income for the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are measured at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3. Significant accounting policies (cont'd)

Intangible assets (cont'd)

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured based on the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income for the period when the asset is derecognized.

Non-current assets held-for-sale

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value, less costs to sell.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell and value in use. If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the carrying amount of the asset or the CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in net income for the period.

Where an impairment loss subsequently reverses the carrying amount of the asset or the CGU is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or the CGU previously. Reversal of an impairment loss is recognized immediately in net income for the period.

3. Significant accounting policies (cont'd)

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The Company does not recognize provisions for future operating losses.

The Company recognizes provisions related to unused credit card points amount, guarantee and litigations. In addition, provisions for decommissioning or restoration are recognized in relation to restoration of rented assets, which are recognized as property and equipment. Decommissioning or restoration costs are provided at the present value of expected costs of restoration using future cash outflows.

Accounting for trust accounts

The Company separately maintains the books of accounts and financial statements in connection with the trust operations (the trust accounts) from those of the Company's accounts in accordance with the Financial Investment Services and Capital Markets Act (FSCMA). When surplus funds are generated through the management of trust assets, such funds are deposited with the Company and are recorded as due to trust accounts of the Company's accounts. Also, the borrowings from the Company's accounts are recorded as due from trust accounts of the Company's accounts. The Company receives fees for operation and management of the trust business and accounts for them as fee and commission income from trust accounts.

With respect to certain trust account products, the Company guarantees the repayment of principal of these trust accounts, in certain cases, with a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in these trust accounts, offsetting trust fee payable to the Company's accounts and receiving compensation contributions from the Company's accounts. If the Company pays compensating contributions to the guaranteed return trusts to cover such deficiencies, these contributions are reflected as fee and commission expense from trust accounts in the Company's consolidated statements of comprehensive income.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Amounts due from lessees under finance leases are recognized as receivables at the amount of Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

3. Significant accounting policies (cont'd)

Merchant banking accounts

As permitted by the Restructuring of Financial Institutions Act, the Company may continue its merchant banking operations, including leasing business, until the existing contracts acquired from the Korea International Merchant Bank upon merger are terminated.

Significant accounting policies applied to the Company's merchant banking operations are summarized as follows:

Revenue recognition on discounted notes

Interest income on discounted notes is accrued over the term of the notes. Income from the sale of discounted notes is recognized at the date of transaction based on the difference between the purchase prices and sales prices of the notes, adjusted for interest earned during the holding period.

Cash Management Accounts (CMA)

The Company recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

Income tax expenses

Income tax consists of current tax and deferred tax.

Current tax liabilities are calculated based on the taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because taxable profit excludes items taxable or deductible for different tax years or not taxable or deductible permanently. The Company's current tax liabilities are calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

The Bank has adopted a Consolidated Tax Return which is calculated based on the consolidated taxable income since the Bank became a wholly-owned subsidiary of Hana Financial Group. Under the Consolidated Tax Return, the Bank recognizes the amount to be collected from or to be paid to Hana Financial Group as the current tax assets or liabilities, respectively, for its share of the consolidated taxation.

Deferred tax is recognized based on the temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. Significant accounting policies (cont'd)

Income tax expenses (cont'd)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred taxes are recognized in net income, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred taxes are also recognized in other comprehensive income or directly in equity. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Spinoff under common control

The Company measures the assets and liabilities transferred through spinoff under common control at carrying amount and do not recognize gain or loss on disposal in its consolidated financial statements.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

K-IFRS 1019 'Employee benefits' (Amendments) – Defined benefit pension plan: employee's contribution

These amendments instruct the Company to consider employees' or a third party's contribution to a defined benefit pension plan in accounting treatments. If the contribution is related to services rendered, the contribution should reduce a service cost. These amendments specify that if the contribution is irrelevant to a service period, the Company may subtract the contribution from the

3. Significant accounting policies (cont'd)

Standards issued but not yet effective (cont'd)

***K-IFRS 1019 'Employee benefits' (Amendments) – Defined benefit pension plan: employee's contribution* (cont'd)**

service cost during the period when the services are rendered, instead of allocating the contribution to the service period. These amendments are effective for annual periods beginning on or after July 1, 2014. Because the Company does not operate the defined benefit pension plan to which employees or a third party makes a contribution, the Company does not expect that the amendments will have an impact on its financial statements.

KIFRS 1111 'Joint Arrangements' (Amendments) - Accounting for Acquisitions of Shares

The amendments to *KIFRS* 1111 require that a joint operator accounting for the acquisition of a share in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant *KIFRS* 1103 principles for business combinations accounting. The amendments also clarify that a previously held shares in a joint operation are not remeasured on the acquisition of additional shares in the same joint operation while joint control is retained. In addition, an exclusion of a scope has been added to *KIFRS* 1111 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial shares in a joint operation and the acquisition of any additional shares in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

K-IFRS 1016 'Tangible assets' and 1038 'Intangible assets' (Amendments) – Allowable depreciation methods and the clarification of the depreciation methods

These amendments specify that as an income reflects the economic benefit that is generated by operating the business in which an asset is included rather than reflecting the economic benefit that is consumed by using the asset, a depreciation method based on the income cannot be used to depreciate a tangible asset but can be used to amortize an intangible asset in a very limited circumstance. These amendments are progressively effective for annual periods beginning on or after January 1, 2016 or earlier. As the Company does not apply the income-based depreciation method, it does not expect that the amendments will have an impact on its financial statements.

KIFRS 1027 (Amendments) - Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments will apply retrospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Company's financial statements.

The Company has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

4. Estimation and accounting judgment

In the application of the Company's accounting policies described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily observable from objective sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and in the future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

Determination of fair values

In order to determine fair values of financial assets and liabilities without predictable market values, valuation methods are necessary. Financial instruments for which transactions do not occur frequently and prices are less objective, extensive judgment is required with regard to liquidity, concentration, uncertainty of market factors and, assumptions related to price determination, and other risks. Management believes that methodologies and assumptions used in the determination of fair values for financial instruments are reasonable.

Allowance for possible losses on credits

For loans and receivables, it is necessary to reserve liabilities for guarantees and unused credit limit by performing impairment test. The accuracy of reserves is determined by assumptions and variables, used to estimate expected cash flows by individual borrowers and allowance for bad debts and guarantees/unused credit limit liabilities by collective method.

Measurement of defined benefit obligation

Defined benefit obligation is calculated by performing actuarial valuation at the end of each reporting period. In order to apply actuarial valuation method, it is necessary to estimate discount rate, future wage growth rate, etc. A retirement benefit plan includes significant uncertainty on such estimation since it is operated long term.

5. Fair value measurement of financial assets and liabilities

The standards the Company applies when measuring fair values of financial assets and liabilities are described below:

A. Quoted market prices as of the settlement date in an active market are the best evidence of fair value and should be used when available.
B. If a market for a financial instrument is not active, the Company establishes fair value by using a valuation technique that makes maximum use of market inputs and includes (i) recent arm's length market transactions, (ii) reference to the current fair value of another instrument that is substantially the same, (iii) discounted cash flow analysis, and (iv) option pricing models. An acceptable valuation technique incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.
C. Valuation techniques use significant inputs which are readily observable from objective sources. If significant inputs are not observable, reasonable assumptions and estimates are used to determine fair value.
D. For an investment in equity instruments which quoted market price is not available in an active market or derivative linked to such instruments which fair values are not measured reliably, fair values are measured at cost.

Fair value hierarchy of financial instruments as at December 31, 2014 and 2013 is as follows (Korean won in millions):

	December 31, 2014			
Classification	Quoted market price (Level 1)	Observable input (Level 2)	Unobservable input (Level 3)	Total
Financial assets:				
Financial assets at FVTPL				
Debt securities	₩ 126,045	₩ 474,016	₩ -	₩ 600,061
Equity securities	32,569	-	-	32,569
Derivative assets held-for-trading	-	1,671,810	854	1,672,664
	158,614	2,145,826	854	2,305,294
Derivative assets used for hedging purposes	-	36,745	-	36,745
Available-for-sale financial assets:				
Debt securities	5,155,350	6,761,433	22,679	11,939,462
Equity securities	432,305	-	232,724	665,029
Others	-	-	8,023	8,023
	5,587,655	6,761,433	263,426	12,612,514
	₩ 5,746,269	₩ 8,944,004	₩ 264,280	₩ 14,954,553
Financial liabilities:				
Financial liabilities at FVTPL	₩ -	₩ 1,620,153	₩ 1,316	₩ 1,621,469
Derivative liabilities used for hedging purposes	-	6,468	-	6,468
	₩ -	₩ 1,626,621	₩ 1,316	₩ 1,627,937

5. Fair value measurement of financial assets and liabilities (cont'd)

	December 31, 2013							
Classification		Quoted market price (Level 1)		Observable input (Level 2)		Unobservable input (Level 3)		Total
Financial assets:								
Financial assets at FVTPL								
Debt securities	₩	379,896	₩	369,673	₩	-	₩	749,569
Equity securities		27,768		-		-		27,768
Derivative assets held-for-trading		-		1,354,903		1,706		1,356,609
		407,664		1,724,576		1,706		2,133,946
Derivative assets used for hedging purposes		-		23,070		-		23,070
Available-for-sale financial assets:								
Debt securities		2,661,212		5,545,883		21,197		8,228,292
Equity securities		674,443		-		293,257		967,700
Others		-		-		7,602		7,602
		3,335,655		5,545,883		322,056		9,203,594
	₩	3,743,319	₩	7,293,529	₩	323,762	₩	11,360,610
Financial liabilities:								
Financial liabilities at FVTPL	₩	20	₩	1,286,725	₩	-	₩	1,286,745
Derivative liabilities used for hedging purposes		-		12,562		-		12,562
	₩	20	₩	1,299,287	₩	-	₩	1,299,307

Details of fair value, valuation technique, and inputs used to develop those measurements classified into level 2 assets and liabilities that are measured at fair value as at December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014			
Classification		Fair value	Valuation technique	Inputs
Financial assets:				
Financial assets at FVTPL				
Debt securities	₩	474,016	DCF model	Discount rate
Derivative assets held-for-trading		1,671,810	DCF model, Option model	Discount rate, Volatility, Exchange rate, Stock price, etc.
		2,145,826		
Derivative assets used for hedging purposes		36,745	DCF model	Discount rate
Available-for-sale financial assets				
Debt securities		6,761,433	DCF model	Discount rate
	₩	8,944,004		
Financial liabilities:				
Financial liabilities at FVTPL	₩	1,620,153	DCF model, Option model	Discount rate, Volatility, Exchange rate, Stock price, etc.
Derivative liabilities used for hedging purposes		6,468	DCF model	Discount rate
	₩	1,626,621		

5. Fair value measurement of financial assets and liabilities (cont'd)

Classification	December 31, 2013			
	Fair value		Valuation technique	Inputs
Financial assets:				
Financial assets at FVTPL				
Debt securities	₩	369,673	DCF model	Discount rate
Derivative assets held-for-trading		1,354,903	DCF model, Option model	Discount rate, Volatility, Exchange rate, Stock price, etc.
		1,724,576		
Derivative assets used for hedging purposes		23,070	DCF model	Discount rate
Available-for-sale financial assets				
Debt securities		5,545,883	DCF model	Discount rate
	₩	7,293,529		
Financial liabilities:				
Financial liabilities at FVTPL	₩	1,286,725	DCF model, Option model	Discount rate, Volatility, Exchange rate, Stock price, etc.
Derivative liabilities used for hedging purposes		12,562	DCF model	Discount rate
	₩	1,299,287		

Details of fair value, valuation technique, input to valuation, and significant unobservable inputs used to develop those measurements classified into level 3 assets and liabilities that are measured at fair value as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014						
	Fair value		Valuation technique	Inputs	Significant unobservable inputs	Range (%)	Sensitivity of the input to fair value
Financial assets:							
Financial assets at FVTPL							
Derivative assets held-for-trading	₩	854	Binomial model	Risk free rate, Volatility of stock price	Volatility of stock price	6.30~ 27.30	Fair value increased due to the increase in its volatility
Available-for-sale financial assets							
Debt securities		22,679	NAV Method	(*1)	-	-	Fair value increased due to the increase in value of portfolio
Equity securities		232,724	DCF Method, Comparative on similar business,	Discount rate	Discount rate	6.00~ 23.30	Fair value increased due to the decrease in its discount rate
			Risk adjusted discount rate method	Growth rate	Growth rate	0	Fair value increased due to the increase in its growth rate

5. Fair value measurement of financial assets and liabilities (cont'd)

Classification	Fair value	Valuation technique	Inputs	Significant unobservable inputs	Range (%)	Sensitivity of the input to fair value
	December 31, 2014					
Others	8,023	DCF Method, Comparative on similar business, Risk adjusted discount rate method	Discount rate	Discount rate	5.30	Fair value increased due to the decrease in its discount rate
			Bid rate	Bid rate	64.52	Fair value increased due to the increase in its bid rate
	263,426					
	₩ 264,280					
Financial liabilities:						
Financial liabilities at FVTPL						
Derivative liabilities held-for-trading	₩ 1,316	Binomial model	Risk free rate, Volatility of stock price	Volatility of stock price	3.36	Fair value increased due to the increase in its volatility

(*1) The Company used soundness of individual assets composing portfolio as inputs.

Classification	Fair value	Valuation technique	Inputs	Significant unobservable inputs	Range (%)	Sensitivity of the input to fair value
	December 31, 2013					
Financial assets:						
Financial assets at FVTPL						
Derivative assets held-for-trading	₩ 1,706	Binomial model	Risk free rate, Volatility of stock price	Volatility of stock price	33.25	Fair value increased due to the increase in its volatility
Available-for-sale financial assets						
Debt securities	21,197	NAV Method	(*1)	-	-	Fair value increased due to the increase in value of portfolio
Equity securities	293,257	DCF Method, Comparative on similar business, Risk adjusted discount rate method, NAV method	Discount rate	Discount rate	7.46 ~ 20.77	Fair value increased due to the decrease in its discount rate
			Growth rate	Growth rate	0	Fair value increased due to the increase in its growth rate

5. Fair value measurement of financial assets and liabilities (cont'd)

	December 31, 2013					
Classification	Fair value	Valuation technique	Inputs	Significant unobservable inputs	Range (%)	Sensitivity of the input to fair value
Others	7,602	DCF Method, Comparative on similar business, Risk adjusted discount rate method	Discount rate	Discount rate	6.46	Fair value increased due to the decrease in its discount rate
			Bid rate	Bid rate	55.12	Fair value increased due to the increase in its bid rate
	322,056					
	₩ 323,762					

(*1) The Company used soundness of individual assets composing portfolio as inputs.

5. Fair value measurement of financial assets and liabilities (cont'd)

Changes in the fair value level 3 financial instruments measured at fair value for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014								
		Transfer out/ into				Valuation			
Classification	Beginning balance	Transfer out of level 3	Transfer into level 3	Acquisition/ issuance	Disposal/ payment	Income (expense)	Other comprehen -sive income	Others	Ending balance
Financial assets:									
Financial assets at FVTPL									
Derivative assets held-for-trading	₩ 1,706	₩ -	₩ -	₩ 604	₩ (626)	₩ (830)	₩ -	₩ -	₩ 854
Available-for-sale financial assets									
Debt securities	21,197	-	-	-	-	882	600	-	22,679
Equity securities	293,257	-	31,445	34,598	(18,374)	(111,413)	3,207	4	232,724
Others	7,602	-	-	521	(548)	27	421	-	8,023
	322,056	-	31,445	35,119	(18,922)	(110,504)	4,228	4	263,426
	₩ 323,762	₩ -	₩ 31,445	₩ 35,723	₩ (19,548)	₩ (111,334)	₩ 4,228	₩ 4	₩ 264,280
Financial liabilities:									
Financial liabilities at FVTPL	₩ -	₩ -	₩ -	₩ 1,200	₩ -	₩ 116	₩ -	₩ -	₩ 1,316

5. Fair value measurement of financial assets and liabilities (cont'd)

	2013								
		Transfer out/ into				Valuation			
Classification	Beginning balance	Transfer out of level 3	Transfer into level 3	Acquisition/ issuance	Disposal/ payment	Income (expense)	Other comprehen -sive income	Others	Ending balance
Financial assets:									
Financial assets at FVTPL									
Derivative assets held-for-trading	₩ 15,380	₩ -	₩ -	₩ 775	₩ (11,961)	₩ (2,488)	₩ -	₩ -	₩ 1,706
Available-for-sale financial assets									
Debt securities	21,490	-	-	-	-	(317)	24	-	21,197
Equity securities	568,675	(293,889)	-	73,352	(21,155)	(22,093)	(10,028)	(1,605)	293,257
Others	-	-	-	7,288	-	-	314	-	7,602
	590,165	(293,889)	-	80,640	(21,155)	(22,410)	(9,690)	(1,605)	322,056
	₩ 605,545	₩ (293,889)	₩ -	₩ 81,415	₩ (33,116)	₩ (24,898)	₩ (9,690)	₩ (1,605)	₩ 323,762
Financial liabilities:									
Financial liabilities at FVTPL	₩ 171	₩ -	₩ -	₩ (294)	₩ -	₩ 123	₩ -	₩ -	₩ -

5. Fair value measurement of financial assets and liabilities (cont'd)

Total gains or losses recognized in profit or loss from changes in level 3 financial instruments measured at fair value for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014		2013	
Classification	Total gains or losses recognized in profit or loss	The line item in profit or loss in which those gains or losses are recognized	Total gains or losses recognized in profit or loss	The line item in profit or loss in which those gains or losses are recognized
Loss on financial assets at FVTPL	₩ (946)	₩ (1,143)	₩ (2,611)	₩ (296)
Other gain (loss) on financial instruments	5,137	882	6,573	(317)
Impairment loss on financial instruments	(115,641)	(115,641)	(28,983)	(28,983)
	₩ (111,450)	₩ (115,902)	₩ (25,021)	₩ (29,596)

Details of the amounts of any transfers into or out of level 3 of the fair value hierarchy for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014	2013
Transfers out of level 3 into level 1	₩ -	₩ 293,889
Transfers out of level 1 into level 3	31,445	-

Sensitivity of the fair value measurement for the each level 3 financial instruments upon the changes in significant unobservable input, whose results are favorable and unfavorable changes in profit or loss or other comprehensive income as at December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014	
Classification	Favorable changes	Unfavorable changes
Financial assets:		
Financial assets at FVTPL:		
Derivative assets held-for-trading	₩ 171	₩ (24)
Available-for-sale financial assets:		
Debt securities	92	(59)
Equity securities	21,734	(10,032)
Others	139	(136)
	21,965	(10,227)
	₩ 22,136	₩ (10,251)
Financial liabilities:		
Financial liabilities at FVTPL		
Derivative liabilities held-for-trading	₩ 51	₩ (16)

5. Fair value measurement of financial assets and liabilities (cont'd)

Classification	December 31, 2013 Favorable changes		Unfavorable changes	
Financial assets:				
Financial assets at FVTPL:				
Derivative assets held-for-trading	₩	119	₩	(120)
Available-for-sale financial assets:				
Debt securities		87		(89)
Equity securities		15,792		(7,114)
Others		173		(100)
		16,052		(7,303)
	₩	16,171	₩	(7,423)

Fair value hierarchy of financial instruments disclosed but not measured at fair value as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014 Quoted market price (Level 1)		Observable input (Level 2)		Unobservable input (Level 3)		Total
Financial assets:							
Cash and due from banks(*1)	₩ 1,564,849	₩	7,780,950	₩	-	₩	9,345,799
Held-to-maturity investments	1,318,066		648,105		-		1,966,171
Loans receivable	-		-		75,292,005		75,292,005
Other financial assets	-		-		6,679,680		6,679,680
Merchant banking account assets	-		-		2,357,650		2,357,650
	₩ 2,882,915	₩	8,429,055	₩	84,329,335	₩	95,641,305
Financial liabilities:							
Deposits	₩ -	₩	-	₩	73,630,236	₩	73,630,236
Borrowings	-		-		9,916,943		9,916,943
Debentures	-		5,229,551		-		5,229,551
Other financial liabilities	-		-		10,747,209		10,747,209
Merchant banking account liabilities	-		-		2,435,300		2,435,300
	₩ -	₩	5,229,551	₩	96,729,688	₩	101,959,239

(*1) Book value of level 2 is presented as fair value since the book value is presumed to be reasonable, approximate value of fair value.

5. Fair value measurement of financial assets and liabilities (cont'd)

Classification	December 31, 2013 Quoted market price (Level 1)	Observable input (Level 2)	Unobservable input (Level 3)	Total
Financial assets:				
Cash and due from banks (*1)	₩ 1,691,037	₩ 6,556,400	₩ -	₩ 8,247,437
Held-to-maturity investments	1,163,811	1,176,582	-	2,340,393
Loans receivable	-	-	73,604,072	73,604,072
Other financial assets	-	-	6,614,524	6,614,524
Merchant banking account assets	-	-	2,717,717	2,717,717
	₩ 2,854,848	₩ 7,732,982	₩ 82,936,313	₩ 93,524,143
Financial liabilities:				
Deposits	₩ -	₩ -	₩ 70,351,972	₩ 70,351,972
Borrowings	-	-	6,840,247	6,840,247
Debentures	-	6,936,426	-	6,936,426
Other financial liabilities	-	-	9,957,335	9,957,335
Merchant banking account liabilities	-	-	1,679,336	1,679,336
	₩ -	₩ 6,936,426	₩ 88,828,890	₩ 95,765,316

(*1) Book value of level 2 is presented as fair value since the book value is presumed to be reasonable, approximate value of fair value.

Details of fair value, valuation technique, and inputs used to develop those measurements classified into level 2 assets and liabilities that are not measured at fair value at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014 Fair value	Valuation technique	Inputs
Financial assets:			
Cash and due from banks	₩ 7,780,950	DCF model	Discount rate
Held-to-maturity investments	648,105	DCF model	Discount rate
	₩ 8,429,055		
Financial liabilities:			
Debentures	₩ 5,229,551	DCF model	Discount rate

Classification	December 31, 2013 Fair value	Valuation technique	Inputs
Financial assets:			
Cash and due from banks	₩ 6,556,400	DCF model	Discount rate
Held-to-maturity investments	1,176,582	DCF model	Discount rate
	₩ 7,732,982		
Financial liabilities:			
Debentures	₩ 6,936,426	DCF model	Discount rate

5. Fair value measurement of financial assets and liabilities (cont'd)

Details of fair value, valuation technique, and inputs used to develop those measurements classified into level 3 assets and liabilities disclosed but not measured at fair value as at December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014		
Classification	Fair value	Valuation technique	Inputs
Financial assets:			
Loans receivable	₩ 75,292,005	DCF model	Discount rate
Other financial assets	6,679,680	DCF model	Discount rate
Merchant banking account assets	2,357,650	DCF model	Discount rate
	₩ 84,329,335		
Financial liabilities:			
Deposits	₩ 73,630,236	DCF model	Discount rate
Borrowings	9,916,943	DCF model	Discount rate
Other financial liabilities	10,747,209	DCF model	Discount rate
Merchant banking accountliabilities	2,435,300	DCF model	Discount rate
	₩ 96,729,688		

	December 31, 2013		
Classification	Fair value	Valuation technique	Inputs
Financial assets:			
Loans receivable	₩ 73,604,072	DCF model	Discount rate
Other financial assets	6,614,524	DCF model	Discount rate
Merchant banking account assets	2,717,717	DCF model	Discount rate
	₩ 82,936,313		
Financial liabilities:			
Deposits	₩ 70,351,972	DCF model	Discount rate
Borrowings	6,840,247	DCF model	Discount rate
Other financial liabilities	9,957,335	DCF model	Discount rate
Merchant banking account liabilities	1,679,336	DCF model	Discount rate
	₩ 88,828,890		

6. Fair value of financial instruments

Fair values of financial instruments as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014 Book value	December 31, 2014 Fair value	December 31, 2013 Book value	December 31, 2013 Fair value
Financial assets:				
Cash and due from banks	₩ 9,345,799	₩ 9,345,799	₩ 8,247,437	₩ 8,247,437
Financial assets at FVTPL				
Debt securities	600,061	600,061	749,569	749,569
Equity securities	32,569	32,569	27,768	27,768
Derivative assets held-for-trading	1,672,664	1,672,664	1,356,609	1,356,609
	2,305,294	2,305,294	2,133,946	2,133,946
Derivative assets used for hedging purposes	36,745	36,745	23,070	23,070
Available-for-sale financial assets				
Debt securities	11,939,462	11,939,462	8,228,292	8,228,292
Equity securities	665,029	665,029	967,700	967,700
Other	8,023	8,023	7,602	7,602
	12,612,514	12,612,514	9,203,594	9,203,594
Held-to-maturity investments	1,948,987	1,966,171	2,330,877	2,340,393
Loans receivable (*1)	75,056,113	75,292,005	73,684,397	73,604,072
Other financial assets (*2)	6,676,450	6,679,680	6,612,668	6,614,524
Merchant banking account assets (*3)	2,358,355	2,357,650	2,715,835	2,717,717
	₩ 110,340,257	₩ 110,595,858	₩ 104,951,824	₩ 104,884,753
Financial liabilities:				
Deposits	₩ 73,075,391	₩ 73,630,236	₩ 69,777,325	₩ 70,351,972
Financial liabilities at FVTPL	1,621,469	1,621,469	1,286,745	1,286,745
Derivative liabilities used for hedging purposes	6,468	6,468	12,562	12,562
Borrowings	9,913,695	9,916,943	6,832,731	6,840,247
Debentures	4,976,616	5,229,551	6,769,818	6,936,426
Other financial liabilities (*4)	10,748,236	10,747,209	9,957,861	9,957,335
Merchant banking account liabilities (*5)	2,435,300	2,435,300	1,679,336	1,679,336
	₩ 102,777,175	₩ 103,587,176	₩ 96,316,378	₩ 97,064,623

(*1) Net carrying amount after deduction of allowance for possible loan losses and LOF/LOC.
(*2) Including unsettled spot exchange receivables, domestic exchange settlement debit, guarantee deposits paid, etc.
(*3) Net carrying amount after deducting related allowances, including merchant banking loans, merchant banking account trading securities, and CMA assets.
(*4) Including unsettled spot exchange payables, domestic exchange settlement credit, and trust accounts payable etc.
(*5) Including merchant banking account deposits and accrual expenses.

7. Classification of financial assets and liabilities by category

Financial assets and liabilities by category as at December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014					
Classification	Financial instruments held-for-trading	Available-for-sale financial assets	Held-to-maturity investments	Financial instruments measured at amortized cost	Derivative instruments used for hedging purposes	Total
Financial assets:						
Cash and due from banks	₩ -	₩ -	₩ -	₩ 9,345,799	₩ -	₩ 9,345,799
Financial assets at FVTPL	2,305,294	-	-	-	-	2,305,294
Derivative assets used for hedging purposes	-	-	-	-	36,745	36,745
Available-for-sale financial assets	-	12,612,514	-	-	-	12,612,514
Held-to-maturity investments	-	-	1,948,987	-	-	1,948,987
Loans receivable	-	-	-	75,056,113	-	75,056,113
Other financial assets	-	-	-	6,676,450	-	6,676,450
Merchant banking account assets	-	-	-	2,358,355	-	2,358,355
	₩ 2,305,294	₩ 12,612,514	₩ 1,948,987	₩ 93,436,717	₩ 36,745	₩ 110,340,257
Financial liabilities:						
Deposits	₩ -	₩ -	₩ -	₩ 73,075,391	₩ -	₩ 73,075,391
Financial liabilities at FVTPL	1,621,469	-	-	-	-	1,621,469
Derivative liabilities used for hedging purposes	-	-	-	-	6,468	6,468
Borrowings	-	-	-	9,913,695	-	9,913,695
Debentures	-	-	-	4,976,616	-	4,976,616
Other financial liabilities	-	-	-	10,748,236	-	10,748,236
Merchant banking liabilities	-	-	-	2,435,300	-	2,435,300
	₩ 1,621,469	₩ -	₩ -	₩ 101,149,238	₩ 6,468	₩ 102,777,175

7. Classification of financial assets and liabilities by category (cont'd)

	December 31, 2013					
Classification	Financial instruments held-for-trading	Available-for-sale financial assets	Held-to-maturity investments	Financial instruments measured at amortized cost	Derivative instruments used for hedging purposes	Total
Financial assets:						
Cash and due from banks	₩ -	₩ -	₩ -	₩ 8,247,437	₩ -	₩ 8,247,437
Financial assets at FVTPL	2,133,946	-	-	-	-	2,133,946
Derivative assets used for hedging purposes	-	-	-	-	23,070	23,070
Available-for-sale financial assets	-	9,203,594	-	-	-	9,203,594
Held-to-maturity investments	-	-	2,330,877	-	-	2,330,877
Loans receivable	-	-	-	73,684,397	-	73,684,397
Other financial assets	-	-	-	6,612,668	-	6,612,668
Merchant banking account assets	2,166,515	-	-	549,320	-	2,715,835
	₩ 4,300,461	₩ 9,203,594	₩ 2,330,877	₩ 89,093,822	₩ 23,070	₩ 104,951,824
Financial liabilities:						
Deposits	₩ -	₩ -	₩ -	₩ 69,777,325	₩ -	₩ 69,777,325
Financial liabilities at FVTPL	1,286,745	-	-	-	-	1,286,745
Derivative liabilities used for hedging purposes	-	-	-	-	12,562	12,562
Borrowings	-	-	-	6,832,731	-	6,832,731
Debentures	-	-	-	6,769,818	-	6,769,818
Other financial liabilities	-	-	-	9,957,861	-	9,957,861
Merchant banking account liabilities	-	-	-	1,679,336	-	1,679,336
	₩ 1,286,745	₩ -	₩ -	₩ 95,017,071	₩ 12,562	₩ 96,316,378

8. Risk management

The Company's risk management group is composed of board of directors, risk management committee, risk management operating committee, risk management working committee and risk management group which is composed of risk management group (integrated risk management division, credit risk management division, loan review division and treasury settlement division).

Risk management committee reports directly to the board of directors and is composed of outside directors and executive directors. The committee deliberates and determines major issues, such as risk management policies and strategies and risk tolerance limit. Risk management operating committee is responsible for the management and execution of all sorts of risks to a reasonable level.

The Company distributes internal capital limits by risk and business sector for the purpose of assessment for reasonableness of internal capital. In addition, the Company retains and manages reasonable equity capital so as to manage its operating activities in preparation for unavoidable risks (uncertainties and possible losses). It also retains the management system and related procedures in order to assess the reasonableness of internal capital.

The Company classifies risks as significant risks and residual risks.

- Significant risks: credit risk, market risk, operation risk, interest rate risk, liquidity risk, credit preference risk, strategy risk and reputation risk
- Residual risks: credit mitigation residual risk and asset-backed residual risk

Of the significant risks, credit risk, market risk, operation risk, interest rate risk, credit preference risk and strategy risk are able to be quantified with a confidence level of 99.9 percent and one-year retaining period and reflected in combined internal capital. The Company consistently compares and monitors such risks with internal capital limit, computes results, and regularly reports this information to the management.

The Company defines available capital as Tier 1 capital and restricts the use of capital by setting up a certain level of economic capital. It regularly assesses and manages the reasonableness of economic capital by comparing available capital and combined internal capital. Economic capital as a capital buffer is determined by the risk management committee so as to prepare for additional possibility of losses, emergency situations, and incompleteness of information systems and fluctuation of available capital and strictly managed by a risk propensity index.

In addition, the Company assesses the reasonableness of internal capital by analyzing the combined crisis, considering risk variances such as credit rating transition rate regulated by the Financial Supervisory Service on a semi-annual basis.

The Company efficiently manages through preparing principles for assessment and management in order to maximize shareholders' profits and constructs a combined risk management system considering risks, profits and growth.

8. Risk management (cont'd)

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. Credit risk arises from deposits, securities, loans, off-balance accounts and trust accounts. The purpose of credit risk management is to avoid excessive risks that cause damage to the Company's soundness by improving assets soundness through setup of credit ratings, credit screening, and quantifying and managing credit risks on a regular basis.

The Company implements a system that divides and operates marketing and screening for management purpose. It also employs a total exposure limit system for solving weighted credits and hedging risks and an early alert system for monitoring an insolvent company and establishing countermeasures.

The Company measures expected losses and unexpected losses separately. Expected losses are expected credit risks based on past experience and computed by multiplying exposure at default by PD and LGD. Unexpected losses mean maximum credit losses from the confidence section as a possibility of difference between actual incurred losses and expected losses which is computed through advanced internal ratings-based approach ("AIRB") under the Bank for International Settlements ("BIS") Basel III.

The Company's level of exposure to credit risk as at December31, 2014 and 2013 are summarized as follows (Korean won in millions):

Classification	December 31, 2014		December 31, 2013	
On balance:				
Due from banks	₩	7,780,950	₩	6,556,400
Financial assets at FVTPL		2,272,725		2,106,178
Derivative assets used for hedging purposes		36,745		23,070
Available-for-sale financial assets		11,939,462		8,228,292
Held-to-maturity investments		1,948,987		2,330,877
Loans receivable				
Household loans		22,017,968		22,562,756
Corporate loans				
Large business		22,706,876		22,937,718
Small and medium business		22,045,981		19,293,512
Public sector and others		8,285,288		6,327,395
Credit card loans		-		2,563,016
		75,056,113		73,684,397
Other financial assets		6,676,450		6,612,668
Merchant banking account assets		2,358,355		2,715,835
	₩	108,069,787	₩	102,257,717
Off balance:				
Loans and credit commitments	₩	45,086,035	₩	59,727,693
Guarantees and endorsed notes		17,223,201		17,623,509
	₩	62,309,236	₩	77,351,202

8. Risk management (cont'd)

Credit risk (cont'd)

Details of financial assets subject to offsetting, enforceable master netting arrangements and similar agreements as at December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014					
				Related amounts not set off in the statement of financial position		
Classification	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivatives	₩ 1,464,190	₩ -	₩ 1,464,190	₩ 933,889	₩ 17,140	₩ 513,161
Bonds purchased under resale agreement	400,000	-	400,000	-	400,000	-
Domestic exchange settlement debits	11,447,953	10,605,375	842,578	-	-	842,578
Securities lent	273,210	-	273,210	-	273,210	-
	₩ 13,585,353	₩ 10,605,375	₩ 2,979,978	₩ 933,889	₩ 690,350	₩ 1,355,739

	December 31, 2013					
				Related amounts not set off in the statement of financial position		
Classification	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivatives	₩ 1,137,950	₩ -	₩ 1,137,950	₩ 645,996	₩ 57,818	₩ 434,136
Bonds purchased under resale agreement	700,000	-	700,000	-	700,000	-
Domestic exchange settlement debits	10,101,204	8,904,778	1,196,426	-	-	1,196,426
Securities lent	229,920	-	229,920	-	229,920	-
	₩ 12,169,074	₩ 8,904,778	₩ 3,264,296	₩ 645,996	₩ 987,738	₩ 1,630,562

8. Risk management (cont'd)

Credit risk (cont'd)

Details of financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as at December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014					
				Related amounts not set off in the statement of financial position		
Classification	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments	Cash collateral pledged	Net amount
Derivatives	₩ 1,455,648	₩ -	₩ 1,455,648	₩ 933,889	₩ 116,322	₩ 405,437
Bonds sold under repurchase agreement	190	-	190	190	-	-
Domestic exchange settlement credits	11,921,407	10,605,375	1,316,032	-	1,316,032	-
	₩ 13,377,245	₩ 10,605,375	₩ 2,771,870	₩ 934,079	₩ 1,432,354	₩ 405,437

	December 31, 2013					
				Related amounts not set off in the statement of financial position		
Classification	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments	Cash collateral pledged	Net amount
Derivatives	₩ 852,350	₩ -	₩ 852,350	₩ 645,996	₩ 4,620	₩ 201,734
Bonds sold under repurchase agreement	190	-	190	190	-	-
Domestic exchange settlement credits	9,879,019	8,904,777	974,242	-	974,242	-
	₩ 10,731,559	₩ 8,904,777	₩ 1,826,782	₩ 646,186	₩ 978,862	₩ 201,734

8. Risk management (cont'd)

Credit risk (cont'd)

Details of collateral management and credit risk mitigation as at December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014									
	Impaired				Unimpaired					
Classification	Individual assessment		Collective assessment		Past due		Non past due		Total	
Guarantees	₩	88,872	₩	31,996	₩	5,883	₩	6,660,769	₩	6,787,520
Deposit		342		445		4,181		1,083,631		1,088,599
Movable assets		13,572		-		-		3,452		17,024
Real estate		194,093		71,774		34,140		23,078,104		23,378,111
Securities		263,817		893		1,571		1,929,303		2,195,584
Others		-		-		-		3,323		3,323
	₩	560,696	₩	105,108	₩	45,775	₩	32,758,582	₩	33,470,161

	December 31, 2013									
	Impaired				Unimpaired					
Classification	Individual assessment		Collective assessment		Past due		Non past due		Total	
Guarantees	₩	139,617	₩	50,282	₩	7,793	₩	5,932,533	₩	6,130,225
Deposit		6,751		691		284		1,173,567		1,181,293
Movable assets		21,602		-		-		5,628		27,230
Real estate		175,744		90,528		33,083		21,315,975		21,615,330
Securities		22,857		2,059		93		2,131,516		2,156,525
Others		-		-		-		3,825		3,825
	₩	366,571	₩	143,560	₩	41,253	₩	30,563,044	₩	31,114,428

Details of delinquency rates on loans and receivable as at December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014									
			Corporate loans							
Classification	Household loans		Large business		Small and medium business		Public institution and others		Total	
Neither past due nor impaired	₩	21,919,754	₩	22,243,656	₩	21,714,297	₩	8,277,191	₩	74,154,898
Past due but unimpaired		17,835		-		46,563		1,093		65,491
Impaired		100,422		772,900		565,401		36,645		1,475,368
		22,038,011		23,016,556		22,326,261		8,314,929		75,695,757
Deferred loan fees		42,854		(6,668)		1,239		(173)		37,252
Allowance for possible loan losses		(62,897)		(303,012)		(281,519)		(29,468)		(676,896)
	₩	22,017,968	₩	22,706,876	₩	22,045,981	₩	8,285,288	₩	75,056,113

8. Risk management (cont'd)

Credit risk (cont'd)

Classification	December 31, 2013					
		Corporate loans				
	Household loans	Large business	Small and medium business	Public institution and others	Credit card loans	Total
Neither past due nor impaired	₩ 22,415,065	₩ 22,491,671	₩ 19,155,250	₩ 6,309,933	₩ 2,521,564	₩ 72,893,483
Past due but unimpaired	20,803	1,054	30,494	11,342	65,941	129,634
Impaired	135,275	725,339	390,484	37,631	62,028	1,350,757
	22,571,143	23,218,064	19,576,228	6,358,906	2,649,533	74,373,874
Deferred loan fees	44,729	(11,002)	1,609	689	(81)	35,944
Allowance for possible loan losses	(53,116)	(269,344)	(284,325)	(32,200)	(86,436)	(725,421)
	₩ 22,562,756	₩ 22,937,718	₩ 19,293,512	₩ 6,327,395	₩ 2,563,016	₩ 73,684,397

Delinquency occurs when counterparty is unable to make principle and interest payments at the due date. A financial item is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the item (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults, delinquency in interest for more than 90 days, credit deterioration resulting in misleading information, and damages incurred due to poor exposure.

Details on loans with no impairment or overdue payments as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014				
		Corporate loans			
	Household loans	Large business	Small and medium business	Public institution and others	Total
Grade 1	₩ 16,203,366	₩ 16,479,624	₩ 4,526,800	₩ 2,748,543	₩ 39,958,333
Grade 2	5,574,742	4,861,364	13,133,677	4,061,946	27,631,729
Grade 3	104,905	875,294	2,518,553	1,133,895	4,632,647
Others	36,741	27,374	1,535,267	332,807	1,932,189
	₩ 21,919,754	₩ 22,243,656	₩ 21,714,297	₩ 8,277,191	₩ 74,154,898

Classification	December 31, 2013					
		Corporate loans				
	Household loans	Large business	Small and medium business	Public institution and others	Credit card loans	Total
Grade 1	₩ 17,098,594	₩ 14,894,290	₩ 4,752,595	₩ 2,165,196	₩ 705,912	₩ 39,616,587
Grade 2	5,230,364	6,184,138	11,371,938	3,037,014	1,733,278	27,556,732
Grade 3	86,107	1,008,443	2,910,631	935,514	82,368	5,023,063
Others	-	404,800	120,086	172,209	6	697,101
	₩ 22,415,065	₩ 22,491,671	₩ 19,155,250	₩ 6,309,933	₩ 2,521,564	₩ 72,893,483

8. Risk management (cont'd)

Credit risk (cont'd)

The Company classifies the grade of loan in accordance with the credit rating chart below, based on the character of borrowers

Classification	Household loans / Credit card loans	Corporate loans
Grade 1	Less or equal to 0.36% of PD	1+ ~ 4
Grade 2	From 0.36% to 8.79% of PD	5+ ~ 6
Grade 3	From 8.79% to 100% of PD	6- ~ 7

The Company regards loans and receivable with delinquent payments of less than 90 days as unimpaired in case there is no credit information indicating its loss event. Classes of unimpaired loans and receivable with delinquent payments as at December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014				
		Corporate loans			
Classification	Household loans	Large business	Small and medium business	Public institution and others	Total
Less than 30 days	₩ 8,267	₩ -	₩ 30,417	₩ 962	₩ 39,646
31 to 60 days	7,234	-	6,342	119	13,695
61 to 90 days	2,334	-	9,804	12	12,150
	₩ 17,835	₩ -	₩ 46,563	₩ 1,093	₩ 65,491

	December 31, 2013					
		Corporate loans				
Classification	Household loans	Large business	Small and medium business	Public institution and others	Credit card loans	Total
Less than 30 days	₩ 11,904	₩ 1,054	₩ 17,632	₩ 387	₩ 52,233	₩ 83,210
31 to 60 days	6,419	-	8,522	160	7,493	22,594
61 to 90 days	2,480	-	4,340	10,795	6,215	23,830
	₩ 20,803	₩ 1,054	₩ 30,494	₩ 11,342	₩ 65,941	₩ 129,634

8. Risk management (cont'd)

Credit risk (cont'd)

Classes of impaired loans and receivables as at December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014				
		Corporate loans			
Classification	Household loans	Large business	Small and medium business	Public institution and others	Total
Individual impairment:					
Book value	₩ 494	₩ 769,263	₩ 474,227	₩ 30,372	₩ 1,274,356
Allowance for possible loan losses	(21)	(242,335)	(118,853)	(1,648)	(362,857)
	473	526,928	355,374	28,724	911,499
Collective impairment:					
Book value	99,928	3,637	91,174	6,273	201,012
Allowance for possible loan losses	(32,249)	(1,242)	(35,447)	(1,465)	(70,403)
	67,679	2,395	55,727	4,808	130,609
	₩ 68,152	₩ 529,323	₩ 411,101	₩ 33,532	₩ 1,042,108

	December 31, 2013					
		Corporate loans				
Classification	Household loans	Large business	Small and medium business	Public institution and others	Credit card loans	Total
Individual impairment:						
Book value	₩ 377	₩ 721,956	₩ 324,441	₩ 30,547	₩ -	₩ 1,077,321
Allowance for possible loan losses	(16)	(195,623)	(125,069)	(4,903)	-	(325,611)
	361	526,333	199,372	25,644	-	751,710
Collective impairment:						
Book value	134,898	3,383	66,043	7,084	62,028	273,436
Allowance for possible loan losses	(27,474)	(643)	(22,828)	(1,685)	(48,742)	(101,372)
	107,424	2,740	43,215	5,399	13,286	172,064
	₩ 107,785	₩ 529,073	₩ 242,587	₩ 31,043	₩ 13,286	₩ 923,774

8. Risk management (cont'd)

Credit risk (cont'd)

Overdue payments on debt securities as at December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014			
Classification	Financial assets held-for-trading	Available-for-sale financial assets	Held-to-maturity investments	Total
Neither past due nor impaired	₩ 600,061	₩ 11,939,462	₩ 1,948,987	₩ 14,488,510

	December 31, 2013			
Classification	Financial assets held-for-trading	Available-for-sale financial assets	Held-to-maturity investments	Total
Neither past due nor impaired	₩ 749,569	₩ 8,228,292	₩ 2,330,877	₩ 11,308,738

Internal credit ratings of debt securities as at December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014			
Classification	Financial assets held-for-trading	Available-for-sale financial assets	Held-to-maturity investments	Total
Grade 1	₩ 600,061	₩ 11,927,915	₩ 1,830,014	₩ 14,357,990
Grade 2	-	11,547	118,973	130,520
	₩ 600,061	₩ 11,939,462	₩ 1,948,987	₩ 14,488,510

	December 31, 2013			
Classification	Financial assets held-for-trading	Available-for-sale financial assets	Held-to-maturity investments	Total
Grade 1	₩ 746,388	₩ 8,222,474	₩ 2,218,010	₩ 11,186,872
Grade 2	3,181	5,818	56,840	65,839
Grade 3	-	-	56,027	56,027
	₩ 749,569	₩ 8,228,292	₩ 2,330,877	₩ 11,308,738

8. Risk management (cont'd)

Credit risk (cont'd)

The credit rating classification of debt securities which are rated by external rating agencies is as follows:

		Overseas Rating Agencies		
Classification	Domestic Rating Agencies	Moody's	S&P	Fitch
Grade 1	AAA ~ A-	Aaa ~ Baa2	AAA ~ BBB	AAA ~ BBB
Grade 2	BBB+ ~ BB	Baa3 ~ B3	BBB- ~ B-	BBB- ~ B-
Grade 3	BB ~ B-	Caa1 ~ Caa3	CCC+ ~ CCC-	CCC+ ~ CCC-

Credit risk concentration in each major industry as at December 31, 2014 and 2013 are as follows (Korean won in millions):

		December 31, 2014			
				Total	
Classification	Industry	Korean won	Foreign currency	Amount	Ratio (%)
On balance accounts:					
Due from banks	Financial services	₩ 3,146,936	₩ 4,346,118	₩ 7,493,054	96.30
	Others	-	287,896	287,896	3.70
		3,146,936	4,634,014	7,780,950	100.00
Financial assets held-for-trading	Financial services	492,107	15,220	507,327	84.55
	Wholesale & retail	75,720	6,794	82,514	13.75
	Public administration	10,220	-	10,220	1.70
		578,047	22,014	600,061	100.00
Available-for-sale financial assets	Financial services	5,534,008	912,448	6,446,456	53.99
	Manufacturing	121,962	11,888	133,850	1.12
	Public administration	4,639,597	526,000	5,165,597	43.26
	Others	193,559	-	193,559	1.63
		10,489,126	1,450,336	11,939,462	100.00
Held-to-maturity investments	Financial services	1,452,871	88,623	1,541,494	79.09
	Public administration	268,865	107,390	376,255	19.31
	Others	30,010	1,228	31,238	1.60
		1,751,746	197,241	1,948,987	100.00

8. Risk management (cont'd)

Credit risk (cont'd)

		December 31, 2014			
				Total	
Classification	Industry	Korean won	Foreign currency	Amount	Ratio (%)
Loans receivable:					
Household loans		21,340,209	697,802	22,038,011	29.36
Credit card loans					
Business loans	Manufacturing	12,342,679	9,123,561	21,466,240	28.60
	Construction	1,399,860	318,602	1,718,462	2.29
	Wholesale & retail	3,589,271	3,463,352	7,052,623	9.40
	Financial services	5,850,009	581,736	6,431,745	8.57
	Real estate rental	2,755,051	2,615,169	5,370,220	7.15
	Others	6,611,481	5,006,975	11,618,456	15.48
		53,888,560	21,807,197	75,695,757	100.85
Deferred loan fees and expenses		44,096	(6,844)	37,252	0.05
Allowance for possible loan losses		(517,774)	(159,122)	(676,896)	(0.90)
		53,414,882	21,641,231	75,056,113	100.00
		₩ 69,380,737	₩ 27,944,836	₩ 97,325,573	
Off-balance accounts:					
Financial guarantees	Manufacturing	₩ 32,057	₩ 722,957	₩ 755,014	44.92
	Construction	17,522	80,078	97,600	5.81
	Wholesale & retail	5,131	223,352	228,483	13.59
	Real estate rental	60,000	8,904	68,904	4.10
	Others	8,082	522,868	530,950	31.58
		122,792	1,558,159	1,680,951	100.00
Guarantee contracts	Manufacturing	557,922	5,555,952	6,113,874	39.34
	Construction	203,190	4,159,673	4,362,863	28.07
	Wholesale & retail	286,977	1,752,759	2,039,736	13.12
	Financial services	972	1,026,505	1,027,477	6.61
	Real estate rental	12,833	25,372	38,205	0.25
	Others	493,211	1,466,884	1,960,095	12.61
		1,555,105	13,987,145	15,542,250	100.00

8. Risk management (cont'd)

Credit risk (cont'd)

		December 31, 2014			
				Total	
Classification	Industry	Korean won	Foreign currency	Amount	Ratio (%)
Commitment	Manufacturing	16,926,079	3,970,576	20,896,655	46.35
	Construction	1,298,312	580,813	1,879,125	4.17
	Wholesale & retail	5,286,147	1,757,452	7,043,599	15.62
	Financial services	3,369,836	25,726	3,395,562	7.53
	Real estate rental	1,595,899	10,090	1,605,989	3.56
	Others	9,062,666	1,202,439	10,265,105	22.77
		37,538,939	7,547,096	45,086,035	100.00
		₩ 39,216,836	₩ 23,092,400	₩ 62,309,236	

		December 31, 2013			
				Total	
Classification	Industry	Korean won	Foreign currency	Amount	Ratio (%)
On balance accounts:					
Due from banks	Financial services	₩ 2,157,178	₩ 4,143,394	₩ 6,300,572	96.13
	Others	-	255,828	255,828	3.87
		2,157,178	4,399,222	6,556,400	100.00
Financial assets held-for-trading	Financial services	540,559	30,257	570,816	76.15
	Wholesale & retail	159,742	5,961	165,703	22.11
	Public administration	9,868	3,182	13,050	1.74
		710,169	39,400	749,569	100.00
Available-for-sale financial assets	Financial services	2,806,544	510,905	3,317,449	40.32
	Manufacturing	109,845	5,818	115,663	1.41
	Public administration	4,075,387	51,956	4,127,343	50.16
	Others	662,684	5,153	667,837	8.11
		7,654,460	573,832	8,228,292	100.00
Held-to-maturity investments	Financial services	1,053,020	90,996	1,144,016	49.08
	Manufacturing	-	10,553	10,553	0.45
	Public administration	1,103,440	22,641	1,126,081	48.31
	Others	50,227	-	50,227	2.16
		2,206,687	124,190	2,330,877	100.00

8. Risk management (cont'd)

Credit risk (cont'd)

		December 31, 2013			
				Total	
Classification	Industry	Korean won	Foreign currency	Amount	Ratio (%)
Loans receivable:					
Household loans		21,943,495	627,648	22,571,143	30.63
Credit card loans		2,645,741	3,792	2,649,533	3.60
Business loans	Manufacturing	11,494,198	8,868,872	20,363,070	27.63
	Construction	1,659,309	421,448	2,080,757	2.82
	Wholesale & retail	3,201,835	3,494,604	6,696,439	9.09
	Financial services	2,223,793	1,954,789	4,178,582	5.67
	Real estate rental	4,769,065	667,506	5,436,571	7.38
	Others	6,005,485	4,392,294	10,397,779	14.11
		53,942,921	20,430,953	74,373,874	100.93
Deferred loan fees and expenses		38,163	(2,219)	35,944	0.05
Allowance for possible loan losses		(597,282)	(128,139)	(725,421)	(0.98)
		53,383,802	20,300,595	73,684,397	100.00
		₩ 66,112,296	₩ 25,437,239	₩ 91,549,535	
Off-balance accounts:					
Financial guarantees	Manufacturing	₩ 33,539	₩ 627,347	₩ 660,886	56.64
	Construction	43,989	43,079	87,068	7.46
	Wholesale & retail	4,061	89,224	93,285	8.00
	Real estate rental	22,000	11,186	33,186	2.84
	Others	11,706	280,589	292,295	25.06
		115,295	1,051,425	1,166,720	100.00
Guarantee contracts	Manufacturing	574,713	6,154,047	6,728,760	40.89
	Construction	244,555	3,954,263	4,198,818	25.51
	Wholesale & retail	288,772	2,333,589	2,622,361	15.93
	Real estate rental	940	1,038,980	1,039,920	6.32
	Others	510,492	1,356,438	1,866,930	11.35
		1,619,472	14,837,317	16,456,789	100.00

8. Risk management (cont'd)

Credit risk (cont'd)

		December 31, 2013			
				Total	
Classification	Industry	Korean won	Foreign currency	Amount	Ratio (%)
Commitment	Manufacturing	17,714,188	4,287,457	22,001,645	36.84
	Construction	1,790,207	523,223	2,313,430	3.87
	Wholesale & retail	4,456,176	1,570,236	6,026,412	10.09
	Financial services	4,584,643	34,544	4,619,187	7.73
	Real estate rental	2,369,679	17,408	2,387,087	4.00
	Others	21,334,755	1,045,177	22,379,932	37.47
		52,249,648	7,478,045	59,727,693	100.00
		₩ 53,984,415	₩ 23,366,787	₩ 77,351,202	

Credit risk concentration in each country as at December 31, 2014 and 2013 is as follows (Korean won in millions):

		December 31, 2014			
				Total	
Classification	Country	Korean won	Foreign currency	Amount	Ratio (%)
On balance accounts:					
Due from banks	Korea	₩ 3,146,936	₩ 170,696	₩ 3,317,632	42.64
	U.S	-	2,246,024	2,246,024	28.87
	China	-	55,189	55,189	0.71
	Japan	-	94,523	94,523	1.21
	Singapore	-	224,098	224,098	2.88
	Hong Kong	-	13,486	13,486	0.17
	Brazil	-	30,818	30,818	0.40
	Others	-	1,799,180	1,799,180	23.12
		3,146,936	4,634,014	7,780,950	100.00
Financial assets held-for-trading	Korea	578,047	22,014	600,061	100.00
Available-for-sale financial assets	Korea	10,489,126	1,156,704	11,645,830	97.54
	Hong Kong	-	176,965	176,965	1.48
	Singapore	-	14,669	14,669	0.12
	Others	-	101,998	101,998	0.86
		10,489,126	1,450,336	11,939,462	100.00
Held-to-maturity investments	Korea	1,751,746	28,313	1,780,059	91.33
	Brazil	-	23,613	23,613	1.21
	Hong Kong	-	20,858	20,858	1.07
	Others	-	124,457	124,457	6.39
		1,751,746	197,241	1,948,987	100.00

8. Risk management (cont'd)

Credit risk (cont'd)

		December 31, 2014			
				Total	
Classification	Country	Korean won	Foreign currency	Amount	Ratio (%)
Loans receivable	Korea	53,674,289	11,682,037	65,356,326	87.08
	Hong Kong	2,926	1,196,326	1,199,252	1.60
	Japan	12,916	373,827	386,743	0.52
	Singapore	3,525	435,659	439,184	0.59
	Panama	-	455,667	455,667	0.61
	Others	194,904	7,663,681	7,858,585	10.45
		53,888,560	21,807,197	75,695,757	100.85
Deferred loan fees and expenses		44,096	(6,844)	37,252	0.05
Allowance for possible loan losses		(517,774)	(159,122)	(676,896)	(0.90)
		53,414,882	21,641,231	75,056,113	100.00
		₩ 69,380,737	₩ 27,944,836	₩ 97,325,573	
Off-balance accounts:					
Financial guarantees	Korea	₩ 122,792	₩ 1,558,159	₩ 1,680,951	100.00
Guarantee contracts	Korea	1,342,955	12,231,844	13,574,799	87.34
	U.S	-	94,778	94,778	0.61
	Singapore	-	118,455	118,455	0.76
	Japan	-	58,776	58,776	0.38
	Germany	346	74,075	74,421	0.48
	Others	211,804	1,409,217	1,621,021	10.43
		1,555,105	13,987,145	15,542,250	100.00
Commitment	Korea	37,538,939	5,682,353	43,221,292	95.87
	Singapore	-	328,302	328,302	0.73
	Hong Kong	-	186,775	186,775	0.41
	Japan	-	90,690	90,690	0.20
	Others	-	1,258,976	1,258,976	2.79
		37,538,939	7,547,096	45,086,035	100.00
		₩ 39,216,836	₩ 23,092,400	₩ 62,309,236	

8. Risk management (cont'd)

Credit risk (cont'd)

	December 31, 2013				
				Total	
Classification	Country	Korean won	Foreign currency	Amount	Ratio (%)
On balance accounts:					
Due from banks	Korea	₩ 2,157,178	₩ 451,821	₩ 2,608,999	39.79
	U.S	-	1,720,851	1,720,851	26.25
	China	-	1,065,823	1,065,823	16.26
	Japan	-	163,324	163,324	2.49
	Singapore	-	150,902	150,902	2.30
	Hong Kong	-	28,082	28,082	0.43
	Brazil	-	2,054	2,054	0.03
	Hungary	-	1,888	1,888	0.03
	Others	-	814,477	814,477	12.42
		2,157,178	4,399,222	6,556,400	100.00
Financial assets held-for-trading	Korea	710,169	39,400	749,569	100.00
Available-for-sale financial assets	Korea	7,654,460	547,483	8,201,943	99.68
	Hong Kong	-	5,153	5,153	0.06
	Others	-	21,196	21,196	0.26
		7,654,460	573,832	8,228,292	100.00
Held-to-maturity investments	Korea	2,206,687	27,324	2,234,011	95.84
	U.S	-	10,553	10,553	0.45
	Brazil	-	27,146	27,146	1.16
	Others	-	59,167	59,167	2.55
		2,206,687	124,190	2,330,877	100.00
Loans receivable	Korea	53,549,685	12,634,983	66,184,668	89.82
	U.S	104,345	830,061	934,406	1.27
	China	7,494	1,218,867	1,226,361	1.66
	Hong Kong	2,792	673,972	676,764	0.92
	Singapore	2,155	610,893	613,048	0.83
	Others	276,450	4,462,177	4,738,627	6.43
		53,942,921	20,430,953	74,373,874	100.93
Deferred loan fees and expenses		38,163	(2,219)	35,944	0.05
Allowance for possible loan losses		(597,282)	(128,139)	(725,421)	(0.98)
		53,383,802	20,300,595	73,684,397	100.00
		₩ 66,112,296	₩ 25,437,239	₩ 91,549,535	

8. Risk management (cont'd)

Credit risk (cont'd)

		December 31, 2013			
				Total	
Classification	Country	Korean won	Foreign currency	Amount	Ratio (%)
Off-balance accounts:					
Financial guarantees	Korea	₩ 115,295	₩ 1,051,425	₩ 1,166,720	100.00
Guarantee contracts	Korea	1,618,922	13,147,604	14,766,526	89.73
	U.S	-	567,848	567,848	3.45
	China	-	473,180	473,180	2.88
	Hong Kong	-	131,843	131,843	0.80
	Singapore	-	143,999	143,999	0.88
	Others	550	372,843	373,393	2.26
		1,619,472	14,837,317	16,456,789	100.00
Commitment	Korea	52,246,688	5,868,434	58,115,122	97.30
	U.S	-	303,696	303,696	0.51
	Singapore	-	258,480	258,480	0.43
	Hong Kong	-	140,017	140,017	0.23
	Others	2,960	907,418	910,378	1.53
		52,249,648	7,478,045	59,727,693	100.00
		₩ 53,984,415	₩ 23,366,787	₩ 77,351,202	

Market risk

Market risk is the uncertainty and possibility of losses arising from overall management activities which is divided into general market risk and specific risk. General market risk is the risk to the loss on the Company's earnings arising from the changes in interest rates, stock price, currency exchange rates or commodity prices. Specific risk is the risk of the loss on trading position arising from the changes in credit risks.

Market risk value at risk (VaR)

The principle of market risk management is to identify sources of market risks, measure the risk size and assess and control the reasonableness of the risk size.

The targets of the market risk management are interest rate, stock price, foreign currencies, and derivatives as follows:

- Assets classified as financial assets held-for-trading in accordance with KIFRS
- Derivative instruments held-for-trading and derivative instruments used for hedging purposes for which hedge accounting is not applied
- Trust account securities with agreements to guarantee principal or interest
- Foreign currency exchange position regulated by Korean Banking Laws

8. Risk management (cont'd)

Market risk (cont'd)

The Company uses an internal model for measurement of market risk. The purpose of the internal model is to compute required capital by VaR using a historical simulation with a confidence level of 99.0 percent and 10-day (1day) retaining period. VaR using historical simulation sets up 10 business days' (1 business day) profit ratio of risk elements for the past one year into profit ratio of current portfolio, computes portfolio values for past days and arranges in order of values and computes the difference between the value of low second ranked portfolio and current portfolio. In addition, the Company reflects the worst scenario regardless of the measuring point of risks, by applying stressed VaR required by the Basel Committee on Banking Supervision since 2012 for the purpose of reinforcement of regulations.
The Company performs back testing on a daily basis so as to procure the suitability of the internal model and stress testing to prepare for emergency situations not reflected in the recent market situation.
Required capital of market risk is the sum of computed value by internal model and value of specific risk by standard model. Ten-day basis VaR by group or department is reported to the management on a daily basis and to the risk management operating committee on a monthly basis.

Market risk VaR for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014				2013			
Type	High	Low	Average	Ending	High	Low	Average	Ending
Interest rate risk	₩ 41,355	₩ 9,080	₩ 19,331	₩ 15,611	₩ 13,057	₩ 5,361	₩ 9,119	₩ 10,606
Stock price risk	55,299	741	14,294	9,412	40,079	4,180	16,047	12,140
Foreign currency risk	79,682	21,184	52,788	44,611	81,264	20,790	41,700	50,364
Option risk	7,388	727	3,438	772	7,858	535	2,845	1,964
Total risks (*)	₩ 102,647	₩ 35,253	₩ 70,950	₩ 60,070	₩ 103,651	₩ 24,080	₩ 54,301	₩ 62,671

(*) The total portfolio risk is not equal to the sum of the individual component risks because the calculation takes the the correlations of the risks into consideration.

Interest rate risk VaR (excluding trading portfolio)

Interest rate VaR (excluding trading portfolio) is a statistical estimate of the maximum potential decline in the value of net assets due to the unfavorable changes in the exposures of interest-rate-sensitive assets or liabilities and derivative instruments, using the VaR methodology, a key measuring method of market risk.

8. Risk management (cont'd)

Market risk (cont'd)

The management of interest rate risk is supported by a comprehensive analysis of interest rate gap (between assets generating interest income and liabilities generating interest expense) and measurement of interest rate VaR and earnings at risk (EaR). Interest rate VaR is an object of internal capital limit management and EaR is used as supplementary limit management index.
The result of interest rate measurement is reported to the risk management operating committee on a monthly basis.

Details of interest rate VaR except for trading portfolio for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014				2013			
Type	High	Low	Average	Ending	High	Low	Average	Ending
Interest rate risk	₩ 197,437	₩ 159,073	₩ 181,670	₩ 188,501	₩ 335,842	₩ 153,916	₩ 230,006	₩ 161,273

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations arising from financial liabilities as they fall due.

The Company proactively responds to liquidity emergencies by selecting an early alert indicator and improves its ability to preserve by selecting risk propensity index, credit limit management index, and monitoring index. Moreover, the Company regularly performs liquidity stress test, comprehend deficit, and reflect in the emergency funding plan on a regular basis.

Credit limit management index includes liquidity coverage ratio and net stable funding ratio which will be introduced as the Basel III liquidity risk regulation ratio.

Liquidity risk management targets on and off balance assets, liabilities and derivatives, and is managed based on liquidity gap, representing the difference between maturities of assets and liabilities.

8. Risk management (cont'd)

Liquidity risk (cont'd)

Maturity structures of liabilities as at December 31, 2014 and 2013 are as follow (Korean won in millions):

	December 31, 2014						
Classification	On demand	Less than 1 month	1–3 months	3 months – 1 year	1 year – 5 years	More than 5 years	Total
Deposits	₩ 32,862,983	₩ 7,122,873	₩ 10,788,252	₩ 20,257,641	₩ 2,258,825	₩ 779,096	₩ 74,069,670
Financial liabilities at FVTPL	1,621,469	-	-	-	-	-	1,621,469
Derivative liabilities used for hedging purposes	-	(740)	(1,279)	(4,510)	13,643	-	7,114
Borrowings	1,568,200	3,570,954	1,429,417	2,161,994	1,115,909	148,389	9,994,863
Debentures	1,558	15,523	62,416	774,364	3,121,765	1,731,621	5,707,247
Other liabilities	5,245	10,673,958	2,668	61,588	4,777	-	10,748,236
Merchant banking account assets	1,236,876	1,097,204	101,220	-	-	-	2,435,300
	37,296,331	22,479,772	12,382,694	23,251,077	6,514,919	2,659,106	104,583,899
Loan commitment	45,086,035	-	-	-	-	-	45,086,035
Finance guarantee	1,680,951	-	-	-	-	-	1,680,951
	46,766,986	-	-	-	-	-	46,766,986
	₩ 84,063,317	₩ 22,479,772	₩ 12,382,694	₩ 23,251,077	₩ 6,514,919	₩ 2,659,106	₩ 151,350,885

	December 31, 2013						
Classification	On demand	Less than 1 month	1–3 months	3 months – 1 year	1 year – 5 years	More than 5 years	Total
Deposits	₩ 29,262,525	₩ 7,264,185	₩ 9,281,791	₩ 22,239,566	₩ 2,244,050	₩ 668,460	₩ 70,960,577
Financial liabilities at FVTPL	1,286,745	-	-	-	-	-	1,286,745
Derivative liabilities used for hedging purposes	-	(2,009)	(1,272)	(9,293)	11,603	19,583	18,612
Borrowings	1,204,977	1,720,420	1,165,701	2,043,157	655,261	139,956	6,929,472
Debentures	122	218,993	242,945	1,499,424	4,283,194	1,343,476	7,588,154
Other liabilities	928	9,931,644	2,717	20,216	2,356	-	9,957,861
Merchant banking account assets	1,526,676	52,660	100,000	-	-	-	1,679,336
	33,281,973	19,185,893	10,791,882	25,793,070	7,196,464	2,171,475	98,420,757
Loan commitment	59,727,693	-	-	-	-	-	59,727,693
Finance guarantee	1,166,720	-	-	-	-	-	1,166,720
	60,894,413	-	-	-	-	-	60,894,413
	₩ 94,176,386	₩ 19,185,893	₩ 10,791,882	₩ 25,793,070	₩ 7,196,464	₩ 2,171,475	₩ 159,315,170

8. Risk management (cont'd)

Currency risk

Currency risk is the risk that the value of a financial instrument or future cash flows will fluctuate due to changes in foreign exchange rates. Currency risk arises in financial instruments expressed in currencies other than the functional currency. Currency risk does not arise in financial instruments expressed in the functional currency or in non-monetary items measured using historical foreign exchange rates. In order to establish stop loss and limits, the Company manages the foreign exchange net exposure amount of the trading and non-trading portfolios by each currency.

Significant assets and liabilities denominated in foreign currencies as at December 31, 2014 and 2013 are as follows (Korean won in millions or U.S. dollar in thousands):

	December 31, 2014			
Classification	Currency	Amount in foreign currency in units	U.S. dollars (*)	Korean won equivalent
Assets:				
Cash and due from banks	USD	2,832,313,058	2,832,313	₩ 3,113,279
	JPY	15,290,551,052	127,997	140,694
	EUR	599,267,610	728,651	800,933
	CNY	427,376,111	68,745	75,564
	HKD	346,079,016	44,614	49,039
	Others		898,040	987,126
			4,700,360	5,166,635
Financial assets held-for-trading	USD	79,188,404	79,188	87,044
Available-for-sale financial assets	USD	1,238,290,651	1,238,291	1,361,129
	IDR	129,033,850,000	10,365	11,394
	Others		78,919	86,748
			1,327,575	1,459,271
Held-to-maturity investments	USD	44,733,668	44,734	49,171
	EUR	515,990	627	690
	IDR	732,319,122,412	58,828	64,664
	BRL	57,089,730	21,482	23,613
	Others		53,770	59,103
			179,441	197,241
Loans receivable	USD	14,838,824,301	14,838,824	16,310,836
	JPY	89,135,078,430	746,149	820,168
	EUR	1,034,269,972	1,257,571	1,382,323
	CNY	916,617,023	147,441	162,067
	CAD	1,277,230,799	1,099,834	1,208,937
	AUD	250,976,341	205,286	225,650
	Others		1,544,047	1,697,216
			19,839,152	21,807,197

8. Risk management (cont'd)

Currency risk (cont'd)

	December 31, 2014			
Classification	Currency	Amount in foreign currency in units	U.S. dollars (*)	Korean won equivalent
Derivative assets used for hedging purposes	USD	33,428,795	33,429	36,745
Other assets	USD	1,979,723,975	1,979,724	2,176,113
	JPY	29,859,643,747	249,955	274,751
	EUR	155,215,546	188,727	207,449
	CNY	1,806,500,600	290,582	319,407
	HKD	556,920,484	71,794	78,916
	Others		194,072	213,323
			2,974,854	3,269,959
			29,133,999	₩ 32,024,093
Liabilities:				
Financial liabilities held-for-trading	USD	101,973,113	101,973	₩ 112,089
Deposits	USD	10,675,314,227	10,675,314	11,734,305
	JPY	143,287,936,269	1,199,463	1,318,450
	EUR	1,424,674,894	1,732,266	1,904,106
	HKD	1,399,413,913	180,401	198,297
	AUD	295,499,908	241,704	265,681
	Others		2,627,838	2,888,517
			16,656,986	18,309,356
Borrowings	USD	5,485,439,585	5,485,440	6,029,595
	JPY	15,326,307,369	128,296	141,023
	EUR	288,398,847	350,665	385,451
	CNY	29,620,299	4,765	5,237
	CAD	186,870	161	177
	Others		204,838	225,159
			6,174,165	6,786,642
Debentures	USD	2,871,747,780	2,871,748	3,156,625
	HKD	310,000,000	39,963	43,927
			2,911,711	3,200,552
Derivative liabilities used for hedging purposes	USD	5,884,465	5,884	6,468
Other liabilities	USD	2,187,652,799	2,187,653	2,404,668
	JPY	10,979,100,402	91,906	101,023
	EUR	275,085,060	334,477	367,657
	CAD	136,496,318	117,538	129,198
	AUD	36,344,261	29,728	32,677

8. Risk management (cont'd)

Currency risk (cont'd)

Classification	Currency	Amount in foreign currency in units	U.S. dollars (*)	Korean won equivalent
		December 31, 2014		
	Others		532,618	610,642
			3,293,920	3,645,865
			29,144,639	₩ 32,060,972

(*) All foreign currencies other than USD are expressed in USD amounts at the reporting date.

Classification	Currency	Amount in foreign currency in units	U.S. dollars (*)	Korean won equivalent
		December 31, 2013		
Assets:				
Cash and due from banks	USD	2,923,521,828	2,923,522	₩ 3,088,545
	JPY	19,909,100,221	189,536	200,018
	EUR	326,564,307	450,621	475,539
	CNY	2,215,004,396	365,405	385,612
	IDR	44,034,941,599	3,609	3,805
	BRL	7,016,333	2,970	3,135
	HKD	342,483,379	44,171	46,612
	Others		624,442	658,972
			4,604,276	4,862,238
Financial assets held-for-trading	USD	106,732,313	106,732	112,757
Available-for-sale financial assets	USD	547,577,079	547,577	578,486
	Others		3,932	4,149
			551,509	582,635
Held-to-maturity investments	USD	35,853,205	35,853	37,877
	EUR	528,569	729	770
	IDR	648,463,545,509	53,091	56,027
	BRL	60,764,128	25,724	27,146
	Others		2,246	2,370
			117,643	124,190
Loans receivable	USD	13,863,188,688	13,863,189	14,645,720
	JPY	104,465,301,501	994,524	1,049,521
	EUR	737,694,527	1,017,981	1,074,275
	CNY	7,019,171,939	1,157,934	1,221,968
	CAD	1,190,359,356	1,117,661	1,179,468
	AUD	257,757,927	229,586	242,282
	Others		964,387	1,017,719

8. Risk management (cont'd)

Currency risk (cont'd)

	December 31, 2013			
Classification	Currency	Amount in foreign currency in units	U.S. dollars (*)	Korean won equivalent
			19,345,262	20,430,953
Derivative assets used for hedging purposes	USD	21,837,353	21,837	23,070
Other assets	USD	2,035,494,068	2,035,494	2,150,391
	JPY	34,693,566,219	330,287	348,552
	EUR	67,178,142	92,702	97,829
	CNY	170,327,187	28,098	29,652
	HKD	538,131,897	69,397	73,234
	Others		321,994	339,800
			2,877,972	3,039,458
			27,625,231	₩ 29,175,301
Liabilities:				
Financial liabilities held-for-trading	USD	114,533,937	114,534	₩ 120,999
Deposits	USD	10,635,521,844	10,635,522	11,235,862
	JPY	150,469,767,157	1,432,493	1,511,710
	EUR	875,818,645	1,208,585	1,275,420
	CNY	6,957,745,876	1,147,801	1,211,274
	CAD	1,105,886,653	1,038,347	1,095,768
	Others		1,134,091	1,196,807
			16,596,839	17,526,841
Borrowings	USD	4,005,065,265	4,005,065	4,231,138
	JPY	18,893,429,338	179,672	189,814
	EUR	309,097,765	426,539	450,127
	BRL	103,355,256	43,754	46,174
	AUD	86,764,300	77,281	81,555
	Others		60,555	63,902
			4,792,866	5,062,710
Debentures	USD	2,142,309,679	2,142,310	2,263,236
	HKD	309,977,877	39,934	42,188
	AUD	50,002	44	47
			2,182,288	2,305,471

8. Risk management (cont'd)

Currency risk(cont'd)

	December 31, 2013			
Classification	Currency	Amount in foreign currency in units	U.S. dollars (*)	Korean won equivalent
Derivative liabilities used for hedging purposes	USD	11,890,803	11,891	12,562
Other liabilities	USD	2,509,786,806	2,509,787	2,651,456
	JPY	15,845,842,566	150,855	159,197
	EUR	175,898,713	242,731	256,154
	CAD	141,809,181	133,149	140,512
	AUD	27,466,004	24,464	25,817
	Others		328,000	346,139
			3,388,986	3,579,275
			27,087,404	₩ 28,607,858

(*) All foreign currencies other than USD are expressed in USD amounts at the reporting date.

9. Segment information

The business sectors of the Company are divided by its operations as follows. The result of operating segments is measured based on operating income before tax.

Classification		Business
Individual finance	Retail banking	Household credit and saving
	Trust pension	Retirement pension and others
Corporate finance	Corporate banking	Corporate credit and saving, Securities investment, Derivatives transaction and others
Fund market	Fund market management	Security investments and management
Others	International banking	Corporate supporting for business development abroad and others
	Others	Administration and others

9. Segment information (cont'd)

Net income by business segment for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014						
Classification	Retail banking	Corporate banking	Capital market	Others	Subtotal	Adjustment	Total
Segment operating income:							
Net interest income (expenses)	₩ 1,406,283	₩ 486,780	₩ 127,000	₩ (73,093)	₩ 1,946,970	₩ 242,684	₩ 2,189,654
Net commission income (expenses)	379,544	194,456	(16,003)	55,043	613,040	(395,593)	217,447
Net other operating income (expenses)	(255,362)	238,987	46,972	41,581	72,178	(49,762)	22,416
	1,530,465	920,223	157,969	23,531	2,632,188	(202,671)	2,429,517
Segment operating expense:							
General and administrative expense	714,482	212,420	18,709	533,883	1,479,494	290	1,479,784
Segment operating profit (loss)	815,983	707,803	139,260	(510,352)	1,152,694	(202,961)	949,733
Provision for (reversal of) possible losses on credits (*1)	489,163	87,619	-	(110,531)	466,251	24,911	491,162
Income tax expense	79,090	162,572	33,701	(96,757)	178,606	(96,428)	82,178
Net income (loss)	₩ 247,730	₩ 457,612	₩ 105,559	₩ (303,064)	₩ 507,837	₩ (131,444)	₩ 376,393

(*1) Provision for (reversal of) possible loss on credits include provision for (reversal of) possible loan losses, provision for (reversal of) acceptances and guarantees, and provision for (reversal of) unused credit limit.
(*2) Income (loss) from discontinued operation was included in the above net income by business segment.

9. Segment information (cont'd)

Classification	2013						
	Retail banking	Corporate banking	Capital market	Others	Subtotal	Adjustment	Total
Segment operating income:							
Net interest income (expenses)	₩ 859,391	₩ 965,044	₩ 87,378	₩ (252,008)	₩ 1,659,805	₩ 567,567	₩ 2,227,372
Net commission income (expenses)	349,998	266,394	(1,091)	100,614	715,915	(544,076)	171,839
Net other operating income (expenses)	398,637	(336,526)	79,022	62,005	203,138	14,693	217,831
	1,608,026	894,912	165,309	(89,389)	2,578,858	38,184	2,617,042
Segment operating expense:							
General and administrative expense	574,902	383,041	24,704	528,764	1,511,411	28,815	1,540,226
Segment operating profit (loss)	1,033,124	511,871	140,605	(618,153)	1,067,447	9,369	1,076,816
Provision for (reversal of) possible losses on credits (*1)	335,279	130,737	-	(310,606)	155,410	354,360	509,770
Income tax expense	168,878	100,108	34,026	(74,426)	228,586	(105,663)	122,923
Net income (loss)	₩ 528,967	₩ 281,026	₩ 106,579	₩ (233,121)	₩ 683,451	₩ (239,328)	₩ 444,123

(*1) Provision for (reversal of) possible loss on credits include provision for (reversal of) possible loan losses, provision for (reversal of) acceptances and guarantees, and provision for (reversal of) unused credit limit.
(*2) Income (loss) from discontinued operation was included in the above net income by business segment.

Income from customers and transaction between segments by business segment for the years ended December 31, 2014 and 2013 are as follow (Korean won in millions):

Classification	2014						
	Retail banking	Corporate banking	Capital market	Others	Subtotal	Adjustment	Total
Income (expenses) from external customers	₩ 1,532,320	₩ 683,026	₩ 162,683	₩ 254,159	₩ 2,632,188	₩ (202,671)	₩ 2,429,517
Income (expenses) from internal transactions	(1,855)	237,197	(4,714)	(230,628)	-	-	-
	₩ 1,530,465	₩ 920,223	₩ 157,969	₩ 23,531	₩ 2,632,188	₩ (202,671)	₩ 2,429,517

(*1) Income (loss) from discontinued operation was included in the above net income by business segment.

9. Segment information (cont'd)

	2013						
Classification	Retail banking	Corporate banking	Capital market	Others	Subtotal	Adjustment	Total
Income from external customers	₩ 1,537,169	₩ 775,000	₩ 180,038	₩ 86,651	₩ 2,578,858	₩ 38,184	₩ 2,617,042
Income (expenses) from internal transactions	70,857	119,912	(14,729)	(176,040)	-	-	-
	₩ 1,608,026	₩ 894,912	₩ 165,309	₩ (89,389)	₩ 2,578,858	₩ 38,184	₩ 2,617,042

(*1) Income (loss) from discontinued operation was included in the above net income by business segment.

Significant non cash item included in operating income by business segment for the December 31, 2014 and 2013 is as follow (Korean won in millions):

	2014						
Classification	Retail banking	Corporate banking	Capital market	Others	Subtotal	Adjustment	Total
Impairment income on investment in associates	₩ -	₩ -	₩ -	₩ 10,592	₩ 10,592	₩ -	₩ 10,592
Depreciation and amortization	(18,951)	(11,402)	-	(76,286)	(106,639)	-	(106,639)
	₩ (18,951)	₩ (11,402)	₩ -	₩ (65,694)	₩ (96,047)	₩ -	₩ (96,047)

(*1) Income (loss) from discontinued operation was included in the above net income by business segment.

	2013						
Classification	Retail banking	Corporate banking	Capital market	Others	Subtotal	Adjustment	Total
Impairment loss on investment in associates	₩ -	₩ -	₩ -	₩ (821)	₩ (821)	₩ -	₩ (821)
Depreciation and amortization	(13,135)	(13,104)	-	(82,600)	(108,839)	7	(108,832)
	₩ (13,135)	₩ (13,104)	₩ -	₩ (83,421)	₩ (109,660)	₩ 7	₩ (109,653)

(*1) Loss from discontinued operation was included in the above net income by business segment.

9. Segment information (cont'd)

Financial information by region as at December 31, 2014 and 2013 and for the years then ended is as follows (Korean won in millions):

Classification	Income from customers(*1)				Noncurrent assets(*2)			
	2014		2013		December 31, 2014		December 31, 2013	
Domestic	₩	2,156,895	₩	2,228,156	₩	1,433,514	₩	1,439,627
Overseas:								
Hong Kong		51,657		52,470		4,645		4,358
Singapore		14,976		14,328		257		326
U.S		21,226		22,304		1,053		449
Japan		12,983		18,464		4,113		4,904
China		81,308		56,866		224		18,110
Indonesia		56,173		27,580		5,807		409
U.K.		14,315		13,784		572		179
Canada		31,636		32,421		5,793		3,883
Others		69,470		65,615		3,963		4,103
		353,744		303,832		26,427		36,721
Adjustments		(81,122)		85,054		-		-
	₩	2,429,517	₩	2,617,042	₩	1,459,941	₩	1,476,348

(*1) Income from customers is divided into domestic and overseas categories.
(*2) Noncurrent assets consist of property and equipment, investment property, and intangible asset and are divided into domestic and overseas categories based on the location of assets.
(*3) Income (loss) from discontinued operation was included in the above net income by business segment.

10. Cash and due from banks

Details of cash and due from banks as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Account	Financial institution	December 31, 2014		December 31, 2013	
Cash		₩	1,564,849	₩	1,691,037
Due from banks in Korean won:					
Reserve deposit	Bank of Korea (BOK)		2,662,074		1,703,601
Monetary stabilization deposits	BOK		300,000		200,000
Other due from banks	Other financial institutions		184,862		253,577
			3,146,936		2,157,178
Due from banks denominated in foreign currencies:					
Reserve deposit	BOK and others		2,654,252		2,220,553
Due from banks on time deposits	Other banks		1,008,218		1,386,389
Other due from banks	Other financial institutions		971,544		792,280
			4,634,014		4,399,222
		₩	9,345,799	₩	8,247,437

10. Cash and due from banks (cont'd)

Restricted due from banks in Korean won and foreign currencies as at December 31, 2014 and December 31, 2013 consist of the following (Korean won in millions):

Classification	December 31, 2014	December 31, 2013	Restriction
Due from banks in Korean won:			
Reserve deposit	₩ 2,662,074	₩ 1,703,601	Required under the BOK Act
Monetary stabilization deposits	300,000	200,000	Deposits for the purpose of liquidity management by the BOK
Reserve for future trading	1	3,513	Subscription related to derivatives
Investors' deposit	51,019	71,666	Required under the Financial Investment Services and Capital Markets Act
	3,013,094	1,978,780	
Due from banks in foreign currencies:			
Reserve deposit	688,146	638,678	Required under the BOK Act and others
Other due from banks	344,383	454,528	Subscription related to derivatives
	1,032,529	1,093,206	
	₩ 4,045,623	₩ 3,071,986	

11. Financial assets at FVTPL

Financial assets at FVTPL as at December 31, 2014 and 2013 consist of the following (Korean won in millions):

Classification		Interest rate (%)	Fair value (Book value)	
			December 31, 2014	December 31, 2013
Stocks	Samsung Electronics Co., Ltd. and others	-	₩ 31,913	₩ 27,768
Government and public bonds	Treasury bonds	2.75~5.25	45,615	129,675
	Housing bonds	2.00	9,819	-
			55,434	129,675
Financial bonds	Deposit bank bonds	2.63~3.93	210,225	250,221
	Industrial finance bonds	2.67~3.79	151,616	140,579
	Small and medium-sized business banking bonds	2.74~2.98	49,837	110,042
	Monetary stabilization securities	2.78~2.90	80,429	39,717
			492,107	540,559
Corporate bonds and others	General bonds	3.09	10,220	9,868
	Industrial bonds invested by government	2.84~3.18	20,286	30,067
			30,506	39,935
Securities denominated in foreign currencies	Bonds denominated in foreign currencies	2.38~4.00	22,014	39,400
	Beneficiary certificates in foreign currencies	-	656	-
			22,670	39,400

11. Financial assets at FVTPL (cont'd)

Classification	Interest rate (%)	Fair value (Book value) December 31, 2014	Fair value (Book value) December 31, 2013
Derivative assets held-for-trading (Note 18)	-	1,672,664	1,356,609
		₩ 2,305,294	₩ 2,133,946

Details of valuation of trading securities and bonds, by industry, as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014 Par value	Acquisition cost	Amortized cost	Fair value (Book value)
Government and public bonds	₩ 55,000	₩ 54,795	₩ 54,914	₩ 55,434
Financial bonds	490,500	491,235	491,816	492,107
Corporate bonds and others	30,000	30,005	30,064	30,506
Bond denominated in foreign currencies	20,885	21,175	21,154	22,014
	₩ 596,385	₩ 597,210	₩ 597,948	₩ 600,061

Classification	December 31, 2013 Par value	Acquisition cost	Amortized cost	Fair value (Book value)
Government and public bonds	₩ 130,000	₩ 128,729	₩ 128,766	₩ 129,675
Financial bonds	540,000	540,853	540,490	540,559
Corporate bonds and others	40,000	40,165	40,076	39,935
Bond denominated in foreign currencies	39,046	39,609	39,370	39,400
	₩ 749,046	₩ 749,356	₩ 748,702	₩ 749,569

12. Available-for-sale financial assets

Details of available-for-sale financial assets as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	Details	Interest rate (%)	Fair value (Book value) December 31, 2014	Fair value (Book value) December 31, 2013
Equity securities	SK Hynix Inc. and Others	-	₩ 546,598	₩ 867,372
Investments in partnership	Vogo (Private Equity Fund)	-	66,275	82,687
Government and public bonds	Treasury bonds	2.75~5.00	957,767	971,573
	Housing bonds	2.50~3.00	1,225,084	644,238
	Other local bonds	2.81~5.55	428,319	351,808
			2,611,170	1,967,619
Finance bonds	Monetary stabilization securities	2.47~2.90	4,197,584	1,699,676
	Industrial finance bonds	2.67~3.53	442,786	380,639
	Deposit bank bonds	2.63~6.66	650,568	330,734

12. Available-for-sale financial assets (cont'd)

Classification	Details	Interest rate (%)	Fair value (Book value) December 31, 2014	Fair value (Book value) December 31, 2013
	Small and medium-sized business banking bonds	2.65~2.98	29,829	208,999
	Export-import credit bonds	2.75~4.87	120,646	60,612
			5,441,413	2,680,660
Corporate and other bonds	Industrial bonds invested by government	2.62~5.26	2,028,426	2,107,768
	General bonds	2.84~6.56	408,117	898,413
			2,436,543	3,006,181
Beneficiary certificates			17,679	8,838
Securities denominated in foreign currencies	Equity securities denominated in foreign currency	-	8,133	8,001
	Debt securities denominated in foreign currency	0.88~7.13	1,450,336	573,832
	Investments in partnership dominated in foreign currency	-	802	802
			1,459,271	582,635
Other securities	Beneficiary right certificate	-	8,023	7,602
	Other securities		25,542	-
			33,565	7,602
			₩ 12,612,514	₩ 9,203,594

Equity securities (including equity securities denominated in foreign currencies) as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	Book value before valuation	Gain (loss) on valuation	Fair value (Book value) December 31, 2014	Fair value (Book value) December 31, 2013
Marketable securities	₩ 396,271	₩ 38,056	₩ 434,327	₩ 674,467
Non marketable securities	202,824	(82,420)	120,404	200,906
	₩ 599,095	₩ (44,364)	₩ 554,731	₩ 875,373

Non-marketable equity securities in the amount of ₩18,499 million and ₩18,294 million as at December 31, 2014 and 2013, respectively, including the Korea Asset Management Corporation were valued at cost as their fair values could not be reasonably estimated.

The fair value of the available-for-sale non-marketable equity securities was measured by independent valuation agencies using actuarial assumptions. The fair value was determined based on more than one valuation model such as the Discounted Cash Flow (DCF) model, Net Asset Value (NAV) model, comparative on similar business model and Risk Adjusted Discounted Cash Flow (RADCF) model, depending on the characteristic of the equity securities as deemed appropriate.

12. Available-for-sale financial assets (cont'd)

The Company's equity securities under disposal restriction as at December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

	December 31, 2014		
Classification	Number of shares	Book value	Restriction
Kumho Tire Co., Inc.	2,427,429	₩ 23,473	(*1)
Taihan Electric Wire Co., Ltd. (preferred stock)	4,869,900	12,029	Until December 31, 2015
Hyundai Cement Co.,Ltd.	1,042,500	10,998	Until December 31, 2016
Kumho Industrial Co.,Ltd	480,526	10,908	(*1)
Oriental Precision & Engineering Co., Ltd.	9,958,000	6,552	Until December 31, 2016
STX Engine Co., Ltd.	2,714,000	5,816	Until December 31, 2017
Osung LST Co., Ltd.	4,403,333	5,350	Until December 31, 2017
Daiyang Metal Co., Ltd.	7,563,000	4,273	Until September 04, 2015
Taihan Electric Wire Co., Ltd.	3,019,100	1,491	Until December 31, 2015
STX Heavy Industries Co., Ltd.	2,250,000	1,391	Until December 31, 2017
SAMT Co.,Ltd.	677,264	1,117	Until February 28, 2015
Chinhung International Inc.	600,400	1,000	(*1)
KPM Tech Co., Ltd.	462,815	889	Until December 31, 2015
AJin P&P Co., Ltd.	47,170	523	Until December 31, 2015
Kores Co., Ltd.	492,000	431	Until December 31, 2016
JaeyoungSolutec Co., Ltd.	61,333	87	Until December 31, 2016
Young Gwang Stainless Co., Ltd.	10,000	14	Until December 31, 2016
STX Offshore & Shipbuilding Co., Ltd.	11,589,600	12	Until December 31, 2017
Hae Won Steeltech. Co., Ltd.	16,792	-	Until July 31, 2015
		₩ 86,354	

(*1) The item has no specific term of restriction and is planned to be disposed during the creditors' meeting.

	December 31, 2013		
Classification	Number of shares	Book value	Restriction
Taihan Electric Wire Co., Ltd. (preferred stock)	4,869,900	₩ 58,074	Until December 31, 2015
Kumho Tire Co., Inc.	3,153,755	36,268	Until December 31, 2014
Oriental Precision & Engineering Co., Ltd.	9,958,000	15,415	Until December 31, 2016
STX Engine Co., Inc.	2,714,000	12,484	Until December 31, 2017
Daiyang Metal Co., Ltd.	7,563,000	8,281	Until June 4, 2014
STX Heavy Industry Co., Ltd.	2,250,000	7,245	Until December 31, 2017

12. Available-for-sale financial assets (cont'd)

Classification	Number of shares	Book value	Restriction
	December 31, 2013		
Taihan Co., Inc.	3,019,100	7,201	Until December 31, 2015
STX Marine Shipbuilding Industry Co., Ltd.	673,889	4,515	Until December 31, 2017
Elcomtec Co., Ltd.	375,901	1,673	Until November22, 2014
SAMT CO.,Ltd.	677,264	1,463	Until December 31, 2014
Kumho Industrial Co.,Ltd	123,527	1,451	Until December 31, 2014
Chinhung International Inc	600,400	967	Until December 31, 2014
AJin P&P Co., Ltd	53,850	782	Until December 31, 2015
Kores Co., Ltd.	492,000	417	Until December 31, 2015
JaeyoungSolutec Co., Ltd	61,333	83	Until December 31, 2014
Young Gwang Stainless Co., Ltd	10,000	14	Until December 31, 2014
ForceTEC Co., Ltd.	2,524,280	3	Until December 31, 2017
Ssangyong Engineering & Construction	5,913	-	(*1)
		₩ 156,336	

(*1) The item has no specific term of restriction and is planned to be disposed during the creditors' meeting.

Investments in partnership (including investments in partnership denominated in foreign currencies) as at December 31, 2014 and 2013 consist of the following (Korean won in millions):

Classification	December 31, 2014			December 31, 2013
	Book value before valuation	Loss on valuation	Fair value (Book value)	Fair value (Book value)
Investment in capital	₩ 76,101	₩ (9,024)	₩ 67,077	₩ 83,489

For available-for-sale financial assets over ₩1,000 million, the Company uses a price measured by an external valuation agency on a semi-annual basis. Moreover, investment in capital are valued at the acquisition cost which amounts to₩4,532 million and ₩1,761 million as at December 31, 2014 and 2013, respectively because a reliable fair value could not be reasonably estimated.

Debt securities as at December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

Classification	Par value	Acquisition cost	Amortized cost	Fair value (Book value)
	December 31, 2014			
Government and public bonds	₩ 2,576,000	₩ 2,586,804	₩ 2,586,133	₩ 2,611,170
Financial bonds	5,415,139	5,420,490	5,420,136	5,441,413
Corporate bonds and others	2,408,000	2,434,075	2,425,008	2,436,543
Bond denominated in foreign currencies	1,408,138	1,466,596	1,450,178	1,450,336
	₩ 11,807,277	₩ 11,907,965	₩ 11,881,455	₩ 11,939,462

12. Available-for-sale financial assets (cont'd)

Classification	December 31, 2013 Par value	Acquisition cost	Amortized cost	Fair value (Book value)
Government and public bonds	₩ 1,965,132	₩ 1,971,101	₩ 1,969,933	₩ 1,967,619
Financial bonds	2,674,139	2,687,283	2,682,891	2,680,660
Corporate bonds and others	2,994,800	3,021,342	3,013,338	3,006,181
Bond denominated in foreign currencies	553,327	586,622	567,795	573,832
	₩ 8,187,398	₩ 8,266,348	₩ 8,233,957	₩ 8,228,292

Changes in the unrealized gain (loss) of the Company's available-for-sale financial assets for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014 Beginning balance	Unrealized gain	Realized gain (loss)	Tax effect	Ending Balance
Equity securities	₩ 300,318	₩ 97,793	₩ (145,424)	₩ 11,967	₩ 264,654
Other equity securities	4,760	120	(693)	(338)	3,849
Government and public bonds	(1,754)	26,663	688	(6,619)	18,978
Finance bonds	(1,692)	24,208	(700)	(5,689)	16,127
Corporate bonds and others	(5,425)	16,340	2,353	(4,524)	8,744
Debt securities denominated in foreign currencies	1,064	219	(1,274)	265	274
	₩ 297,271	₩ 165,343	₩ (145,050)	₩ (4,938)	₩ 312,626

Classification	2013 Beginning balance	Unrealized gain (loss)	Realized loss	Tax effect	Ending Balance
Equity securities	₩ 191,687	₩ 149,280	₩ (5,940)	₩ (34,709)	₩ 300,318
Other equity securities	24,206	174	(25,803)	6,183	4,760
Government and public bonds	3,191	(4,362)	(2,162)	1,579	(1,754)
Finance bonds	1,815	(925)	(3,701)	1,119	(1,692)
Corporate bonds and others	3,437	(6,697)	(4,994)	2,829	(5,425)
Debt securities denominated in foreign currencies	692	1,002	(511)	(119)	1,064
	₩ 225,028	₩ 138,472	₩ (43,111)	₩ (23,118)	₩ 297,271

12. Available-for-sale financial assets (cont'd)

Realized gain and loss on the disposal of available-for-sale financial assets for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014		2013	
Classification	Realized gain	Realized loss	Realized gain	Realized loss
Equity securities	₩ 128,590	₩ 929	₩ 41,451	₩ 5,665
Other equity Securities	658	285	727	125
Government and public bonds	10,386	1	5,071	-
Finance bonds	9,952	9	3,268	-
Corporate bonds and others	9,297	-	8,383	-
Others	8,220	-	26,352	-
Debt securities denominated in foreign currencies	3,751	-	465	14
	₩ 170,854	₩ 1,224	₩ 85,717	₩ 5,804

Dividend income on available-for-sale financial assets for the years ended December 31, 2014 and 2013 is as follows (Korean won in millions):

Classification	2014	2013
Equity securities	₩ 11,754	₩ 3,853
Other equity securities	644	1,248
	₩ 12,398	₩ 5,101

Transferred financial assets that are not fully derecognized as at December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014		December 31, 2013	
Classification	Book value	Fair value	Book value	Fair value
Assets:				
Available-for-sale financial assets	₩ 273,210	₩ 273,210	₩ 229,920	₩ 229,920
Liabilities:				
Bonds sold under repurchase agreements	₩ 190	₩ 190	₩ 190	₩ 190

13. Held-to-maturity investments

Details of held-to-maturity investments as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	Type	Interest rate (%)	Book value December 31, 2014	Book value December 31, 2013
Government and public bonds	Treasury bonds	-	₩ -	₩ 311,697
	Housing bonds	2.25~3.00	118,587	234,194
	Local development bonds	-	-	24,624
			118,587	570,515
Finance bonds	Monetary stabilization securities	2.08~2.80	1,310,558	850,313
	Deposit bank bonds	3.40~5.10	111,944	162,293
	Small & medium industry finance bonds	3.34	30,368	30,410
	Industrial finance bonds	-	-	10,004
			1,452,870	1,053,020
Corporate bonds and others	General bonds	4.05~5.52	30,010	50,227
	Industrial bonds invested by government	3.80~5.00	150,279	532,925
			180,289	583,152
Securities denominated in foreign currency	Debt securities denominated in foreign currency	1.07~7.63	197,241	124,190
			₩ 1,948,987	₩ 2,330,877

Details of held-to-maturity securities as at December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

Classification	December 31, 2014 Par value	Acquisition cost	Amortized cost	Fair value (Book value)
Government and public bonds	₩ 119,800	₩ 118,305	₩ 118,587	₩ 118,587
Financial bonds	1,450,000	1,453,363	1,452,870	1,452,870
Corporate bonds and others	180,000	184,206	180,289	180,289
Bond denominated in foreign currencies	193,692	192,728	197,241	197,241
	₩ 1,943,492	₩ 1,948,602	₩ 1,948,987	₩ 1,948,987

Classification	December 31, 2013 Par value	Acquisition cost	Amortized cost	Fair value (Book value)
Government and public bonds	₩ 571,292	₩ 574,845	₩ 570,515	₩ 570,515
Financial bonds	1,050,000	1,054,266	1,053,020	1,053,020
Corporate bonds and others	580,000	593,634	583,152	583,152
Bond denominated in foreign currencies	126,742	123,612	124,190	124,190
	₩ 2,328,034	₩ 2,346,357	₩ 2,330,877	₩ 2,330,877

14. Maturities of debt securities

Maturities of debt securities included in available-for-sale financial assets and held-to-maturity investments as at December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014				
Classification	Government and public bonds	Finance bonds	Corporate bonds and others	Bonds denominated in foreign currencies	Total
Available-for-sale financial assets:					
Within 1 month	₩ -	₩ 299,130	₩ 60,187	₩ 40,855	₩ 400,172
After 1 month but no later than 3 months	20,101	873,514	241,023	24,818	1,159,456
After 3 months but no later than 6 months	50,057	1,090,317	382,435	131,386	1,654,195
After 6 months but no later than 1 year	1,730,965	3,126,387	1,548,770	689,674	7,095,796
After 1 year but no later than 3 years	804,737	10,247	152,867	396,078	1,363,929
After 3 years but no later than 5 years	-	41,818	51,261	167,525	260,604
After 5 years but no later than 10 years	5,310	-	-	-	5,310
After 10 years	₩ 2,611,170	₩ 5,441,413	₩ 2,436,543	₩ 1,450,336	₩ 11,939,462
Held-to-maturity investments:					
Within 1 month	₩ -	₩ 119,822	₩ 50,001	₩ 24,196	₩ 194,019
After 1 month but no later than 3 months	50,014	-	90,191	68,304	208,509
After 3 months but no later than 6 months	39,814	269,982	10,010	56,469	376,275
After 6 months but no later than 1 year	-	-	10,087	25,635	35,722
After 1 year but no later than 3 years	-	931,221	-	1,517	932,738
After 3 years but no later than 5 years	28,759	10,000	-	6,962	45,721
After 5 years but no later than 10 years	-	121,845	20,000	14,158	156,003
	₩ 118,587	₩ 1,452,870	₩ 180,289	₩ 197,241	₩ 1,948,987

14. Maturities of debt securities (cont'd)

Classification	December 31, 2013 Government and public bonds	Finance bonds	Corporate bonds and others	Bonds denominated in foreign currencies	Total
Available-for-sale financial assets:					
Within 1 month	₩ -	₩ 79,981	₩ -	₩ 10,602	₩ 90,583
After 1 month but no later than 3 months	-	169,470	-	2,652	172,122
After 3 months but no later than 6 months	41,157	50,013	20,116	42,142	153,428
After 6 months but no later than 1 year	202,601	950,105	211,812	57,043	1,421,561
After 1 year but no later than 3 years	1,245,100	1,311,436	2,374,203	436,749	5,367,488
After 3 years but no later than 5 years	478,761	71,124	370,869	24,644	945,398
After 5 years but no later than 10 years	-	48,531	29,181	-	77,712
	₩ 1,967,619	₩ 2,680,660	₩ 3,006,181	₩ 573,832	₩ 8,228,292
Held-to-maturity investments:					
Within 1 month	₩ 1,998	₩ -	₩ 130,046	₩ 8,638	₩ 140,682
After 1 month but no later than 3 months	190,299	389,974	20,054	34,752	635,079
After 3 months but no later than 6 months	72,139	400,346	160,690	29,330	662,505
After 6 months but no later than 1 year	155,847	119,998	90,446	2,524	368,815
After 1 year but no later than 3 years	109,111	-	161,916	48,267	319,294
After 3 years but no later than 5 years	33,211	10,640	-	679	44,530
After 5 years but no later than 10 years	7,910	132,062	20,000	-	159,972
	₩ 570,515	₩ 1,053,020	₩ 583,152	₩ 124,190	₩ 2,330,877

15. Pledged assets

Assets pledged as collateral for the purpose of resale agreement bonds from other banks, futures options and security deposits for membership maintenance at the stock exchange for available-for-sale financial assets and held-to-maturity investments as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	Details	Book value December 31, 2014	Book value December 31, 2013
Available-for-sale financial assets	Settlement of BOK	₩ 916,405	₩ 546,119
	Borrowings denominated in foreign currency (CSA)	47,255	10,011
	Borrowings from BOK	504,333	381,180
	Margin for future trading	164,074	120,415
	Daylight credit	551,219	390,999
	Borrowings denominated in foreign currency	-	30,294
	Others	88,510	60,228
		2,271,796	1,539,246
Held-to-maturity investments	Borrowings denominated in foreign currency	-	640,111
	Margin for future trading	111,004	189,249
	BOK payment	400,533	802,710
	Daylight credit	610,359	160,434
	Client RP	250	909
	Borrowings from BOK	438,713	148,646
	Others	6,098	50,533
		1,566,957	1,992,592
		₩ 3,838,753	₩ 3,531,838

16. Loans receivable

Details of loans receivable as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
Loans receivable:		
Loans in Korean won	₩ 51,799,667	₩ 49,542,108
Loans denominated in foreign currencies	12,097,896	10,167,762
Domestic import usance	2,863,035	2,801,189
Call loans	1,781,227	1,318,102
Bills purchased in Korean won	70,187	90,508
Bills purchased denominated in foreign currencies	5,246,244	5,300,187
Advance payments on acceptances and guarantees	8,094	6,801

16. Loans receivable (cont'd)

Classification	December 31, 2014	December 31, 2013
Credit card loans	-	2,649,533
Bonds purchased under resale agreement	400,000	700,000
Installment receivables purchased	634,654	1,268,848
Privately-placed corporate bonds	780,897	520,619
Others	13,856	8,217
	75,695,757	74,373,874
Plus (less):		
Deferred loan fees and expenses	37,252	35,944
Allowance for possible loan losses	(676,896)	(725,421)
	₩ 75,056,113	₩ 73,684,397

Changes in deferred loan fees, net of expenses, for the years ended December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

	2014				
Classification	January 1, 2014	Increase	Decrease	Spinoff of a credit card division	December 31, 2014
Deferred loan fees, net of expenses	₩ 35,944	₩ 39,088	₩ (37,831)	₩ 51	₩ 37,252

	2013			
Classification	January 1, 2013	Increase	Decrease	December 31, 2013
Deferred loan fees, net of expenses	₩ 32,271	₩ 39,257	₩ (35,584)	₩ 35,944

16. Loans receivable (cont'd)

Changes in allowance for possible loan losses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014							
Classification	Loans in Korean won	Loans denominated in foreign currencies	Advance payments on acceptances and guarantees	Bills purchased denominated in foreign currencies	Credit card loans	Privately-placed corporate bonds	Others	Total
As at January 1, 2014	₩ 499,676	₩ 99,940	₩ 2,177	₩ 5,019	₩ 86,436	₩ 6,147	₩ 26,026	₩ 725,421
Disposal of non-performing loans	(12,433)	-	-	-	-	-	-	(12,433)
Write-offs	(349,755)	(6,068)	(457)	-	(55,683)	-	(25,775)	(437,738)
Collection of loans written-off in prior period	73,701	2,537	-	-	20,747	-	-	96,985
Debt-to-equity swap	(35,641)	-	-	-	-	-	-	(35,641)
Foreign currency translation and others	528	2,020	(7,131)	95	(10)	-	-	(4,498)
Provision for possible loan losses	368,398	35,790	8,905	8,820	54,921	521	17,951	495,306
Interest income from impaired loans	(39,862)	(2,997)	(362)	(356)	(1,537)	(390)	(123)	(45,627)
Spinoff of a credit card division	(5)	-	-	-	(104,874)	-	-	(104,879)
As at December 31, 2014	₩ 504,607	₩ 131,222	₩ 3,132	₩ 13,578	₩ -	₩ 6,278	₩ 18,079	₩ 676,896

16. Loans receivable (cont'd)

	2013							
Classification	Loans in Korean won	Loans denominated in foreign currencies	Advance payments on acceptances and guarantees	Bills purchased denominated in foreign currencies	Credit card loans	Privately-placed corporate bonds	Others	Total
As at January 1, 2013	₩ 531,816	₩ 118,492	₩ 4,148	₩ 4,219	₩ 84,542	₩ 3,478	₩ 24,963	₩ 771,658
Disposal of non-performing loans	(34,999)	-	-	-	-	-	-	(34,999)
Write-offs	(444,042)	(2,640)	(228)	-	(108,085)	-	-	(554,995)
Collection of loans written-off in prior period	88,405	2	-	-	33,749	-	-	122,156
Debt-to-equity swap	(4,966)	-	-	-	-	-	-	(4,966)
Foreign currency translation and others	-	(1,797)	1	8	(5)	56	50	(1,687)
Provision for(reversal of) possible loan losses	426,181	(11,582)	(1,635)	832	78,754	2,655	1,013	496,218
Interest income from impaired loans	(62,719)	(2,535)	(109)	(40)	(2,519)	(42)	-	(67,964)
As at December 31, 2013	₩ 499,676	₩ 99,940	₩ 2,177	₩ 5,019	₩ 86,436	₩ 6,147	₩ 26,026	₩ 725,421

16. Loans receivable (cont'd)

Total lease investment and net lease investment of the financial lease loans included in loans as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014		
	Shor-term	Long-term	Total
Present value of minimum lease payments	₩ 14,018	₩ 21,477	₩ 35,494
Direct costs to initiate lease	-	79	79
Net lease investment	14,018	21,556	35,574
Unrealized interest income	963	877	1,840
Total lease investment	₩ 14,980	₩ 22,433	₩ 37,414

Classification	December 31, 2013		
	Shor-term	Long-term	Total
Present value of minimum lease payments	₩ 27,317	₩ 45,176	₩ 72,493
Direct costs to initiate lease	-	4	4
Net lease investment	27,317	45,180	72,497
Unrealized interest income	2,464	2,430	4,894
Total lease investment	₩ 29,781	₩ 47,610	₩ 77,391

Total lease investment and net lease investment of the financial lease loans by period as at December 31, 2014 and 2013, are as follows (Korean won in millions):

Classification	December 31, 2014	
	Total lease investment	Net lease investment
Within 1 year	₩ 14,980	₩ 14,018
After 1 year but no later than 5 years	22,433	21,556
	₩ 37,414	₩ 35,574

Classification	December 31, 2013	
	Total lease investment	Net lease investment
Within 1 year	₩ 29,686	₩ 27,323
After 1 year but no later than 5 years	47,551	45,029
After 5 years	154	146
	₩ 77,391	₩ 72,497

17. Structured securities

Details of structured securities as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
Structured securities related to credit risk:		
Collateralized Debt Obligation (CDO)	₩ 22,679	₩ 21,197

18. Derivative instruments

Unsettled derivative contracts held-for-trading as at December 31, 2014 and 2013 are as follows (Korean won in millions):

		2014		December 31, 2014	
Classification	Notional amounts	Net valuation gain	Net valuation loss	Assets	Liabilities
Currency:					
Forward	₩ 67,769,650	₩ 1,031,517	₩ 899,334	₩ 958,385	₩ 957,711
Swap	21,193,187	254,802	388,772	376,292	274,772
Options purchased	1,455,832	16,531	10,935	37,987	-
Options sold	1,719,934	9,549	11,299	-	33,504
Futures	682,823	-	-	-	-
	92,821,426	1,312,399	1,310,340	1,372,664	1,265,987
Interest:					
Swap	49,844,024	253,082	262,680	292,084	342,230
Options purchased	750,000	4,392	2,116	7,062	-
Options sold	1,240,000	3,267	1,068	-	1,845
Futures	1,458,350	-	-	-	-
	53,292,374	260,741	265,864	299,146	344,075
Stock:					
Options purchased	22,287	516	1,027	854	-
Options sold	41,873	194	-	-	442
Futures	854	-	-	-	-
	65,014	710	1,027	854	442
Others:					
Other derivatives	20,000	-	116	-	1,316
Credit risk adjustment	-	7,958	6	-	4,480
Bid-ask spread adjustment	-	-	2,314	-	5,169
	20,000	7,958	2,436	-	10,965
	₩ 146,198,814	₩ 1,581,808	₩ 1,579,667	₩ 1,672,664	₩ 1,621,469

18. Derivative instruments (cont'd)

Classification	Notional amounts	2013 Net valuation gain	2013 Net valuation loss	December 31, 2013 Assets	December 31, 2013 Liabilities
Currency:					
Forward	₩ 40,735,408	₩ 540,512	₩ 612,031	₩ 562,455	₩ 674,178
Swap	18,826,017	303,300	214,825	590,071	330,252
Options purchased	1,593,406	9,498	10,784	32,670	-
Options sold	2,117,718	18,190	14,333	-	41,020
Futures	144,893	-	-	-	-
	63,417,442	871,500	851,973	1,185,196	1,045,450
Interest:					
Swap	47,538,219	137,781	122,870	165,816	212,490
Options purchased	690,000	381	1,180	3,891	-
Options sold	1,325,000	1,348	257	-	4,168
Futures	493,841	-	-	-	-
	50,047,060	139,510	124,307	169,707	216,658
Stock:					
Options purchased	13,451	375	671	1,706	-
Options sold	477,452	597	95	-	9,350
Futures	25,237	-	-	-	-
	516,140	972	766	1,706	9,350
Others:					
Credit risk adjustment	-	2,197	85	-	12,432
Bid-ask spread adjustment	-	-	145	-	2,855
	-	2,197	230	-	15,287
	₩ 113,980,642	₩ 1,014,179	₩ 977,276	₩ 1,356,609	₩ 1,286,745

18. Derivative instruments (cont'd)

Unsettled derivative contracts used for hedging purposes edging as at December 31, 2014 and 2013 are as follows (Korean won in millions):

		2014		December 31, 2014	
Classification	Notional amounts	Net valuation gain	Net valuation loss	Assets	Liabilities
Interest rate:					
Interest swap	₩ 3,132,720	₩ 25,462	₩ 8,243	₩ 36,745	₩ 6,468

		2013		December 31, 2013	
Classification	Notional amounts	Net valuation gain	Net valuation loss	Assets	Liabilities
Interest rate:					
Interest swap	₩ 2,163,365	₩ 191	₩ 29,956	₩ 23,070	₩ 12,562

For derivative transactions involving both Korean won and foreign currency, the fair value of the unsettled amount for such transactions is presented using the basic foreign exchange rate of the contract amount in foreign currency. For a derivative transaction involving only foreign currency, the fair value of the unsettled amount is presented using the basic foreign exchange rate of the foreign currency purchased at the reporting date.

Gain or loss on valuation of hedged items for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014		2013	
Classification	Realized gain	Realized loss	Realized gain	Realized loss
Finance debentures	₩ 9,601	₩ 23,698	₩ 33,566	₩ 185

Hedged items applying to fair value hedge accounting as at December 31, 2014 include debt securities of available-for-sale financial assets. The Company recognized changes in fair values of hedged items due to fluctuation of interest rates in net income for the period. Interest rate swap is used as a hedge method in order to offset changes in fair values of hedged items due to fluctuation of interest rate.

19. Investments in associates

Details of investments in associates as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Company	Country	Shares	Ownership (%) December 31, 2014	Ownership (%) December 31, 2013	Book value December 31, 2014	Book value December 31, 2013	Financial statements date	Business type
Hana Bank (China) Co., Ltd. (*1)	China	-	40.30	-	₩ 361,620	₩ -	December 31, 2014	Financial services
Flossom Co.,Ltd. (*2)	Korea	165,000	1.92	1.92	-	-	June 30, 2014	Construction
MIDAN City Development Co.,Ltd. (*2,3)	Korea	387,800	2.17	2.17	460	671	December 31, 2013	Construction
Masan Marine New Town Co.,Ltd. (*2,3)	Korea	20,000	10.00	10.00	23	100	December 31, 2013	Construction
KEB Mirae Asset First Securitization Specialty Co., Ltd.	Korea	400	40.00	-	783	-	December 30, 2014	Asset liquidation
KEB Mirae Asset Second Securitization Specialty Co., Ltd.	Korea	450	45.00	-	-	-	December 30, 2014	Asset liquidation
					₩ 362,886	₩ 771		

(*1) KEB Bank (China) Co., Ltd. merged into Hana Bank (China) in 2014. As KEB lost the control of KEB Bank (China) Co., Ltd., KEB Bank (China) Co., Ltd. was reclassified from investment in a subsidiary to investment in associates.
(*2) These companies are included in investment in associates because the Company has significant influence over them by participating in the Board of Directors' meeting, the decision-making organization.
(*3) The Company used the financial statements of prior period as at December 31, 2014 because a reliable financial statement is not available as at the reporting date of the Company.

Changes in investments in associates for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Company	2014 Acquisition cost	January 1, 2014	Acquisition, disposal and others	Equity method valuation	December 31, 2014
Hana Bank (China) Co., Ltd.	₩ 350,915	₩ -	₩ 350,915	₩ 10,705	₩ 361,620
Flossom Co., Ltd.	825	-	-	-	-
MIDAN City Development Co.,Ltd.	1,492	671	-	(211)	460
Masan Marine New Town Co.,Ltd.	100	100	-	(77)	23

19. Investments in associates (cont'd)

Company	2014 Acquisition cost	January 1, 2014	Acquisition, disposal and others	Equity method valuation	December 31, 2014
KEB Mirae Asset First Securitization Specialty Co., Ltd.	604	-	604	179	783
KEB Mirae Asset Second Securitization Specialty Co., Ltd.	4	-	4	(4)	-
	₩ 353,940	₩ 771	₩ 351,523	₩ 10,592	₩ 362,886

Company	2013 Acquisition cost	January 1, 2013	Acquisition, disposal and others	Equity method valuation	December 31, 2013
Flossom Co., Ltd.	₩ 825	₩ -	₩ -	₩ -	₩ -
MIDAN City Development Co.,Ltd.	1,492	-	1,492	(821)	671
Masan Marine New Town Co.,Ltd.	100	-	100	-	100
	₩ 2,417	₩ -	₩ 1,592	₩ (821)	₩ 771

Adjustments in book value of the associates' interests of net assets as at December 31, 2014 and 2013 are as follows (Korean won in millions, ownership in %)

Company	December 31, 2014 Net assets	Percentage of ownership	Interests of net assets	Goodwill	Internal transaction	Others	Book value
Hana Bank (China) Co., Ltd.	₩ 897,321	40.30	₩ 361,620	₩ -	₩ -	₩ -	₩ 361,620
Flossom Co., Ltd.	(34,546)	1.92	(663)	-	-	663	-
MIDAN City Development Co.,Ltd.	21,170	2.17	460	-	-	-	460
Masan Marine New Town Co.,Ltd.	228	10.00	23	-	-	-	23
KEB Mirae Asset First Securitization Specialty Co., Ltd.	1,958	40.00	783	-	-	-	783
KEB Mirae Asset Second Securitization Specialty Co., Ltd.	(254)	45.00	(114)	-	-	114	-
	₩ 885,877		₩ 362,109	₩ -	₩ -	₩ 777	₩ 362,886

19. Investments in associates (cont'd)

	December 31, 2013						
Company	Net assets	Percentage of ownership	Interests of net assets	Goodwill	Internal transaction	Others	Book value
Flossom Co., Ltd.	₩ (16,191)	1.92	₩ (311)	₩ -	₩ -	₩ 311	₩ -
MIDAN City Development Co.,Ltd.	30,888	2.17	670	-	-	1	671
Masan Marine New Town Co.,Ltd.	310	10.00	31	-	-	69	100
	₩ 15,007		₩ 390	₩ -	₩ -	₩ 381	₩ 771

Summary of financial information of associates as at December 31, 2014 and December 31, 2013 is as follows (Korean won in millions):

	December 31, 2014						
Company	Assets	Liabilities	Sharehol-ders' equity	Gross income	Net income (loss	Comprehen-sive expense	Dividend income from associates
Hana Bank (China) Co., Ltd.	₩ 7,748,870	₩ 6,851,549	₩ 897,321	₩ 191,995	₩ (759)	₩ 8,459	₩ -
Flossom Co., Ltd	99,465	134,011	(34,546)	1,766	(4,404)	(4,404)	-
MIDAN City Development Co.,Ltd.	909,859	888,689	21,170	-	(27,748)	(27,748)	-
Masan Marine New Town Co.,Ltd.	148,741	148,513	228	672	(90)	(90)	-
KEB Mirae Asset First Securitization Specialty Co., Ltd.	30,788	28,830	1,958	1,753	448	448	-
KEB Mirae Asset Second Securitization Specialty Co., Ltd.	72,802	73,056	(254)	1,208	(264)	(264)	-
	₩ 9,010,525	₩ 8,124,648	₩ 885,877	₩ 197,394	₩ (32,817)	₩ (23,599)	₩ -

	December 31, 2013						
Company	Assets	Liabilities	Sharehol-ders' equity	Gross income	Net loss	Comprehen-sive expense	Dividend income from associates
Flossom Co., Ltd	₩ 111,705	₩ 127,896	₩ (16,191)	₩ 6,518	₩ (6,647)	₩ (6,649)	₩ -
MIDAN City Development Co.,Ltd.	892,537	861,649	30,888	-	(18,030)	(18,030)	-
Masan Marine New Town Co.,Ltd.	148,823	148,513	310	671	(7)	(7)	-
	₩ 1,153,065	₩ 1,138,058	₩ 15,007	₩ 7,189	₩ (24,684)	₩ (24,686)	₩ -

The Company has no investments in associates whose shares are traded actively in an open market as at December 31, 2014 and 2013.

19. Investments in associates (cont'd)

The Company discontinued recognizing its losses in shares since the balance of investments in associates was "0" and the losses which are accumulated for the current year and before the current year are as follows (Korean won in millions):

Company	Amount for the current year	Accumulated amount before the current year	Total
Flossom Co., Ltd.	₩ (353)	₩ (308)	₩ (661)
KEB Mirae Asset Second Securitization Specialty Co., Ltd.	(114)	-	(114)
	₩ (467)	₩ (308)	₩ (775)

20. Property and equipment

Property and equipment as at December 31, 2014 and 2013 consist of the following (Korean won in millions):

	December 31, 2014			
Classification	Acquisition cost	Accumulated depreciation	Government grants	Book value
Land	₩ 778,480	₩ -	₩ -	₩ 778,480
Buildings	454,565	(190,758)	-	263,807
Leasehold improvements	187,522	(142,938)	(279)	44,305
Equipment and vehicles	556,646	(476,768)	-	79,878
	₩ 1,977,213	₩ (810,464)	₩ (279)	₩ 1,166,470

	December 31, 2013			
Classification	Acquisition cost	Accumulated depreciation	Government grants	Book value
Land	₩ 811,634	₩ -	₩ -	₩ 811,634
Buildings	470,180	(193,665)	-	276,515
Leasehold improvements	182,156	(138,107)	(353)	43,696
Equipment and vehicles	687,565	(599,824)	-	87,741
	₩ 2,151,535	₩ (931,596)	₩ (353)	₩ 1,219,586

20. Property and equipment (cont'd)

Changes in property and equipment for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014								
Classification	January 1, 2014	Common control transaction	Additions	Disposal	Depreciation(*1)	Transfer out	Others	Spinoff of a credit card division	December 31, 2014
Land	₩ 811,634	₩ 37	₩ 123	₩ (27)	₩ -	₩ (33,167)	₩ (120)	₩ -	₩ 778,480
Buildings	276,515	(5,671)	22,510	-	(11,625)	(16,747)	(1,273)	98	263,807
Leasehold improvements	43,696	(2,256)	17,206	(849)	(13,081)	-	(313)	(98)	44,305
Equipment and vehicles	87,741	799	50,723	(915)	(54,365)	-	(4,840)	735	79,878
	₩ 1,219,586	₩ (7,091)	₩ 90,562	₩ (1,791)	₩ (79,071)	₩ (49,914)	₩ (6,546)	₩ 735	₩ 1,166,470

(*1) Income (loss) from discontinued operation in the amount of ₩2,353 million was included.

	2013						
Classification	January 1, 2013	Additions	Disposal	Depreciation(*1)	Transfer out	Others	December 31, 2013
Land	₩ 816,715	₩ 809	₩ (102)	₩ -	₩ (5,465)	₩ (323)	₩ 811,634
Buildings	276,529	13,402	(35)	(11,263)	(2,034)	(84)	276,515
Leasehold improvements	35,616	21,404	(283)	(12,198)	-	(843)	43,696
Equipments and vehicles	94,098	52,188	(390)	(57,888)	-	(267)	87,741
Construction in progress	3	-	-	-	(3)	-	-
	₩ 1,222,961	₩ 87,803	₩ (810)	₩ (81,349)	₩ (7,502)	₩ (1,517)	₩ 1,219,586

(*1) Income (loss) from discontinued operation was included.

21. Investment property

Details of investment property as at December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014			
Classification	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 155,255	₩ -	₩ (2,356)	₩ 152,899
Buildings	145,918	(66,049)	(2,388)	77,481
	₩ 301,173	₩ (66,049)	₩ (4,744)	₩ 230,380

	December 31, 2013			
Classification	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 122,088	₩ -	₩ (2,356)	₩ 119,732
Buildings	117,228	(51,310)	(2,388)	63,530
	₩ 239,316	₩ (51,310)	₩ (4,744)	₩ 183,262

Changes in investment property for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014				
Classification	January 1, 2014	Disposal	Depreciation	Transfer (*1)	December 31,2014
Land	₩ 119,732	₩ -	₩ -	₩ 33,167	₩ 152,899
Buildings	63,530	-	(2,796)	16,747	77,481
	₩ 183,262	₩ -	₩ (2,796)	₩ 49,914	₩ 230,380

(*1) Due to the changes in the ratio of the leased investment properties.

	2013				
Classification	January 1, 2013	Disposal	Depreciation	Transfer (*1)	December 31,2013
Land	₩ 114,267	₩ -	₩ -	₩ 5,465	₩ 119,732
Buildings	64,045	-	(2,549)	2,034	63,530
	₩ 178,312	₩ -	₩ (2,549)	₩ 7,499	₩ 183,262

(*1) Due to the changes in the ratio of the leased investment properties.

Details of inputs used in fair value, valuation technique, and measurement of fair value as at December 31, 2014 are as follows (Korean won in millions):

	December 31, 2014		
Classification	Fair value	Valuation technique	Inputs
Land and buildings	₩ 156,244	Sales cases comparison approach	Market value of the region nearby

21. Investment property (cont'd)

Fair values of investment property are in the amount of ₩156,244 million and ₩145,498 million as at December 31, 2014 and 2013, respectively, which were measured by external independent agencies.

Rental income and operating expenses arising from the Company's investment properties for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014	2013
Rental income	₩ 2,917	₩ 3,043

Investment properties not in use as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
Land	₩ 1,640	₩ 1,640
Buildings	184	274
	₩ 1,824	₩ 1,914

22. Intangible assets

Details of intangible assets as at December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014			
Classification	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book value
System development	₩ 297,733	₩ (252,991)	₩ -	₩ 44,742
Membership	21,112	-	(7,477)	13,635
Others	11,465	(6,721)	(30)	4,714
	₩ 330,310	₩ (259,712)	₩ (7,507)	₩ 63,091

	December 31, 2013			
Classification	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book value
System development	₩ 313,775	₩ (260,324)	₩ (347)	₩ 53,104
Membership	20,113	-	(7,617)	12,496
Others	16,545	(8,614)	(31)	7,900
	₩ 350,433	₩ (268,938)	₩ (7,995)	₩ 73,500

22. Intangible assets (cont'd)

Changes in intangible assets for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014							
Classification	January 1, 2014	Common control transaction	Additions	Disposal	Amortization (*1)	Impairment Loss	Others	Spinoff of a credit card division	December 31, 2014
System development	₩ 53,104	₩ 1,143	₩ 18,222	₩ -	₩ (22,855)	₩ -	₩ (4,600)	₩ (272)	₩ 44,742
Membership	12,496	(806)	4,504	(1,615)	-	(265)	(689)	10	13,635
Others	7,900	(5,432)	3,269	(3)	(1,917)	-	-	897	4,714
	₩ 73,500	₩ (5,095)	₩ 25,995	₩ (1,618)	₩ (24,772)	₩ (265)	₩ (5,289)	₩ 635	₩ 63,091

(*1) Income (loss) from discontinued operation in the amount of ₩1,406 million was included.

	2013						
Classification	January 1, 2013	Additions	Disposal	Amortization (*1)	Impairment loss	Others	December 31, 2013
System development	₩ 56,675	₩ 19,441	₩ -	₩ (23,012)	₩ -	₩ -	₩ 53,104
Membership	17,287	222	(2,128)	-	(2,980)	95	12,496
Others	9,074	829	-	(1,922)	-	(81)	7,900
	₩ 83,036	₩ 20,492	₩ (2,128)	₩ (24,934)	₩ (2,980)	₩ 14	₩ 73,500

(*1) Income (loss) from discontinued operation was included.

23. Other assets and merchant banking account assets

Details of other assets as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
Guarantee deposits paid	₩ 626,936	₩ 656,225
Accounts receivable	4,853,742	4,463,686
Accrued income	252,869	281,313
Prepaid expenses	97,239	119,785
Suspense payments	26,620	30,459
Expenditures	1,324	6,089
Deposit money to court	8,120	27,626
Domestic exchange settlement debits	842,576	1,196,426
Others	97,909	4,477
Allowance for possible other asset losses	(7,739)	(9,301)
	₩ 6,799,596	₩ 6,776,785

Changes in the allowance for possible losses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014	2013
Beginning balance	₩ 9,301	₩ 4,032
Write-offs	(2,699)	(2,720)
Provision for allowance for possible losses	1,408	8,182
Interest income on impaired assets	(271)	(193)
Ending balance	₩ 7,739	₩ 9,301

Details of merchant banking account assets as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
Merchant banking account loans	₩ -	₩ 154,400
Merchant banking account trading bonds	1,850,793	2,166,515
CMA assets:		
Loans receivable	78,400	146,000
Trading bonds	429,237	249,589
	507,637	395,589
Allowance for possible loan losses	(75)	(669)
	₩ 2,358,355	₩ 2,715,835

24. Non-current assets held for sale

Non-current assets held-for-sale consist of two of real estates acquired through execution of security rights, which the management of the Company committed to sell, but are not sold as at December 31, 2014. As of the reporting date, the asset held–for-sale is under negotiation for sale and is being actively marketed.

Details of non-current assets held-for-saleas at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
Acquisition cost	₩ 749	₩ 871
Accumulated depreciation	(220)	(211)
	₩ 529	₩ 660

25. Financial liabilities at FVTPL

Details of financial liabilities at FVTPL as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
Derivative liabilities held-for-trading (Note 18)	₩ 1,621,469	₩ 1,286,745

26. Deposits

Details of deposits as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
Demand deposits:		
Demand deposits in Korean won:		
Checking deposits	₩ 384,262	₩ 411,307
Household checking deposits	15,062	20,545
Temporary deposits	743,772	685,268
Passbook deposits	19,013,273	16,850,700
Public fund deposits	36,009	33,773
Treasury deposits	469	256
Nonresident’s deposit in Korean won	268,728	216,241
Nonresident’s ‘free-won’ account	93,994	21,404
	20,555,569	18,239,494
Demand deposits denominated in foreign currency:		
Checking deposits	3,134,569	2,548,275
Passbook deposits	8,379,073	7,825,124
Temporary deposits	67,459	26,328
	11,581,101	10,399,727
	32,136,670	28,639,221

26. Deposits (cont'd)

Classification	December 31, 2014	December 31, 2013
Time and saving deposits:		
Time and saving deposits in Korean won:		
Time deposits	29,906,017	29,687,997
Apartment application deposits	128,027	138,239
Installment saving deposits	3,172,963	2,938,681
Non-resident deposits in Korean won	391,810	418,057
Non-resident free deposits in Korean won	126,164	268,314
Long-term housing saving deposits	155,648	215,784
Workers' preferential saving deposits	99	115
Mutual installment deposits	77	84
Mutual installment for housing	13,306	15,062
Others	151,626	75,425
	34,045,737	33,757,758
Time and saving deposits denominated in foreign currency:		
Time deposits denominated in foreign currency	6,671,060	6,907,294
Others	57,195	219,820
	6,728,255	7,127,114
	40,773,992	40,884,872
Certificate of deposits	164,729	253,232
	₩ 73,075,391	₩ 69,777,325

Allocations of deposits by customer as at December 31, 2014 and 2013 are listed as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
Individuals	₩ 22,636,544	₩ 20,853,403
Corporations	24,059,198	24,788,471
Other banks	969,021	1,013,582
Public institutions	1,134,095	927,563
Other financial institutions	6,419,958	6,541,054
Government	182,485	202,502
Non-profit organizations	4,073,703	4,000,307
Foreign corporations	7,862,944	7,166,172
Others	5,737,443	4,284,271
	₩ 73,075,391	₩ 69,777,325

27. Borrowings

Details of borrowings as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	Lender	Interest rate (%)	December 31, 2014	December 31, 2013
Borrowings in Korean won:				
Borrowings from BOK	BOK	0.50~1.00	₩ 889,633	₩ 200,271
Borrowings from government	KEMCO and others	0.00~3.10	1,220,659	1,291,667
Other borrowings	Small business corporation and others	0.75~4.75	310,515	193,697
			2,420,807	1,685,635
Borrowings denominated in foreign currencies:				
Bank overdrafts	Deutsche Bank Trust Company and others	0.70~18.38	133,662	205,563
Other borrowings	EXIM Bank of Korea and others	0.32~2.08	5,907,422	4,025,461
			6,041,084	4,231,024
Call money:				
Call money in Korean won	United Overseas Bank and others	1.83~1.98	641,000	-
Call money denominated in foreign currencies	Other foreign financial institutions	0.10~2.70	745,558	831,686
			1,386,558	831,686
Bonds sold under repurchase agreements:				
Bonds sold under repurchase agreements in Korean won	Customers	3.70~3.95	190	190
Bills sold	Customers	1.85~2.81	65,056	84,196
			₩ 9,913,695	₩ 6,832,731

28. Debentures

Details of debentures as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	Lender	Interest rate (%)	December 31, 2014	December 31, 2013
Debentures in Korean won:				
Debentures	Institutions	2.12~2.50	₩ 830,000	₩ 2,720,000
Subordinated bonds	Institutions and customers	3.07~3.98	951,558	1,750,122
(less present value discount)			(5,494)	(5,775)
			1,776,064	4,464,347
Debentures denominated in foreign currencies:				
Debentures	Morgan Stanley, HSBC and others	1.75~4.88	2,651,365	2,055,752

28. Debentures (cont'd)

Classification	Lender	Interest rate (%)	December 31, 2014	December 31, 2013
Subordinated Financing debentures	BOA-Merrill Lynch, Barclay and others	4.25~4.63	549,600	204,641
Floating rate bonds	Morgan Stanley, HSBC and others	-	-	52,765
Net loss on fair value hedges (current period)			14,097	(33,381)
Net gain on fair value hedges (prior period)			2,921	39,565
(less present value discount)			(17,431)	(13,871)
			3,200,552	2,305,471
			₩ 4,976,616	₩ 6,769,818

29. Provision

Details of provisions as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
Provisions for possible losses on acceptances and guarantees:		
Financial acceptances and guarantees (*1)	₩ 1,514	₩ 1,022
Non-financial acceptances and guarantees	29,895	39,021
Bills endorsed	410	276
	31,819	40,319
Provisions for unused commitments	34,769	63,332
Other provisions:		
Provisions for retirement obligation	18,115	17,931
Provisions for reward points	11,719	27,141
Provisions for contingent (*2)	49,336	122,059
Others	1,628	3,256
	80,798	170,387
	₩ 147,386	₩ 274,038

(*1) The Company recognizes the amount exceeding the unamortized amount of the initial fair value at subsequent measurement of the financial guarantee contract as provisions for guarantees. The Company recognizes the unamortized amount as financial guarantee contract liabilities in the amount of ₩22,723 million and ₩28,581 million as at December 31, 2014 and 2013 respectively.

29. Provision (cont'd)

(*2) On August 8, 2008, Olympus Capital KEB Cards Ltd. (Olympus) filed ICC international arbitration request to claim compensation against the Company and Lone Star Management Co. IV, Ltd. (Lone Star), alleging illegal acts in the course of sales of shares of Korea Exchange Bank Credit Service Co., Ltd. in 2003. On December 21, 2011, the court ruled that the Company and Lone Star should jointly compensate Olympus for principal, interests, legal expenses, and arbitration expenses and pay US$ 64.8 million.

Following the court's verdict, Lone Star paid 'Olympus' the entire amount on February 27, 2012, and filed an international arbitration request for the recourse amounts against the Company on October 17, 2012. To reflect this amount, the Company appropriated approximately ₩42.7 billion for a provision for lawsuit on December 31, 2014. The Company received the verdict on the case on January 2, 2015, and paid Lone Star US$ 37.75 million on January 9, 2015.

Changes in provisions for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014					
Classification	January 1, 2014	Provision for (reversal of) allowance	Allowance used	Spinoff of a credit card division	Others	December 31, 2014
Provisions for possible losses on acceptances and guarantees	₩ 40,319	₩ (7,116)	₩ -	₩ -	₩ (1,384)	₩ 31,819
Provisions for unused commitments	63,332	1,572	-	(28,057)	(2,078)	34,769
Other provisions:						
Provisions for restoration cost	17,931	(51)	(907)	-	1,142	18,115
Provisions for reward points	27,141	16,297	(32,201)	(18,980)	19,462	11,719
Provisions for contingent	122,059	(66,018)	-	(6,705)	-	49,336
Others	3,256	(1,029)	-	-	(599)	1,628
	170,387	(50,801)	(33,108)	(25,685)	20,005	80,798
	₩ 274,038	₩ (56,345)	₩ (33,108)	₩ (53,742)	₩ 16,543	₩ 147,386

	2013				
Classification	January 1, 2013	Provision for (reversal of) allowance	Allowance used	Others	December 31, 2013
Provisions for possible losses on acceptances and guarantees	₩ 36,324	₩ 4,230	₩ -	₩ (235)	₩ 40,319
Provisions for unused commitments	62,498	1,140	-	(306)	63,332
Other provisions:					
Provisions for restoration cost	17,786	(220)	(584)	949	17,931
Provisions for reward points	22,832	16,652	(33,244)	20,901	27,141
Provisions for contingent	45,392	35,217	-	41,450	122,059
Others	46,578	(1,231)	-	(42,091)	3,256
	132,588	50,418	(33,828)	21,209	170,387
	₩ 231,410	₩ 55,788	₩ (33,828)	₩ 20,668	₩ 274,038

29. Provision (cont'd)

Details of payment guarantees and endorsed notes as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
Acceptances and guarantees:		
Financing acceptances and guarantees in Korean won:		
Payment guarantee for loans	₩ 93,763	₩ 99,814
Others	29,029	15,481
	122,792	115,295
Financing acceptances and guarantees denominated in foreign currencies:		
Local financing acceptances and guarantees	1,558,158	1,051,425
Confirmed acceptance and guarantee in Korean won:		
Other acceptance and guarantees in Korean won	1,438,316	1,483,313
Confirmed acceptance and guarantee dominated in foreign currencies:		
Acceptance on letter of credit	353,889	699,924
Acceptance on letters of guarantees	82,069	89,730
Others	9,989,992	10,076,245
	10,425,950	10,865,899
Contingent acceptances and guarantees:		
Letters of credit	3,609,601	4,020,963
Others	36,622	39,829
	3,646,223	4,060,792
	17,191,439	17,576,724
Bills endorsed	31,762	46,785
	₩ 17,223,201	₩ 17,623,509

Details of unused commitments as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	Outstanding balance	
	December 31, 2014	December 31, 2013
Commitments on loans in Korea won	₩ 35,870,548	₩ 50,890,706
Commitments onloan denominated in foreign currency	7,547,096	7,478,045
Commitments on purchase of asset-backed commercial papers	430,818	493,242
Commitments oncredit lines on asset-backed securities	1,237,573	865,700
	₩ 45,086,035	₩ 59,727,693

30. Other liabilities and merchant banking account liabilities

Details of other liabilities as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
Post-employment benefit obligation (see Note 31):		
Defined benefit obligation	₩ 434,094	₩ 361,462
Less: Plan assets	(368,069)	(319,190)
	66,025	42,272
Due to trust accounts	1,176,858	860,150
Foreign exchange settlement credits:		
Bills sold	3,093	3,393
Inward remittance payable	353,284	284,089
	356,377	287,482
Accounts payable:		
Other accounts payable	4,773,442	4,338,204
Accounts payable (card)	-	316,491
	4,773,442	4,654,695
Accrued expenses	746,783	863,038
Unearned income	45,795	79,410
Deferred income	3,240	66,515
Deposits for letter of guarantees and others :		
Acceptance and guarantee	106,459	91,509
Others	67,658	48,509
	174,117	140,018
Suspense receipt	53,988	55,452
Suspense receipt (card)	-	13,639
Withholding taxes	28,393	30,239
Agency business accounts	86,764	89,478
Due from treasury agencies	2,095,157	2,060,594
Financial acceptance and guarantees:		
Financial acceptance and guarantees in Korean won	17,359	22,601
Financial guarantee contract denominated in foreign currencies	5,364	5,980
	22,723	28,581
Other liabilities:		
Securities deposits received	19,592	17,863
Exchange settlement credits	1,319,058	982,572
Prepaid card	88	10
Debit card	-	9,981
Cash received from other banks	-	152
Other liabilities denominated in foreign currencies	6,251	4,473
	1,344,989	1,015,051
	₩ 10,974,651	₩ 10,286,614

30. Other liabilities and merchant banking account liabilities (cont'd)

Details of merchant banking account liabilities as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014		December 31, 2013	
Deposits	₩	2,434,562	₩	1,678,593
Others:				
Provision for unused commitments		964		919
Other liabilities (*1)		753		1,292
		1,717		2,211
	₩	2,436,279	₩	1,680,804

(*1) Including accrued expenses, unearned income, and others.

31. Severance benefits

The Company operates defined retirement benefit plan (DB plan) and defined retirement contribution plan (DC plan) in accordance with the Employee Retirement Benefits Laws under which severance pay is made on a lump-sum basis when an employee retires, based on an employee's service period and salary at retirement. The Company has entered into retirement pension contract in which it made deposit for severance benefits presented as a deduction from accrued defined retirement benefits liability under an account of plan assets.

If a retiree is up for quasi-age limit special retirement, the Company pays quasi-age limit severance payments separately from general severance payment.

Actuarial valuation method for plan assets and defined benefit obligation is performed by Hewitt, an actuary services company. Current and past service costs related to the present value of defined benefit obligation are measured using the projected unit credit method.

The Company provides long-term employee benefits to long-term employed directors and employees. These are granted only to directors and employees whose service period is more than 10 years. Estimated costs are recognized as expenses for the service period using the same accounting treatment as one used for the DB plan.

Actuarial valuation method for defined benefit obligation related to long-term employee benefits is performed by, an actuary service company. Current and past service costs related to present value of defined benefit obligation are measured using the projected unit credit method.

31. Severance benefits (cont'd)

Key assumptions for actuarial valuation as at December 31, 2014 and 2013 are as follows (ratio in %):

Classification	Ratio (%) December 31, 2014	Ratio (%) December 31, 2013	Notes
Demographic assumptions:			
Mortality	0.002~0.268	0.002~0.268	Mortality table for 2012
Rates of employee turnover	2.50~21.33	2.50~19.96	
Financial assumptions:			
Expected rate of salary increase	3.00~5.00	3.00~5.00	Average rate over the past five years
Discount rate	2.46~3.55	3.21~3.97	Rate of return on bank AAA bonds

Details of the post-employment benefit obligation as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
Present value of defined benefit obligation deposited to plan assets	₩ 417,524	₩ 344,898
Fair value of plan assets	(368,069)	(319,190)
	49,455	25,708
Present value of defined benefit obligation not deposited to plan assets	16,570	16,564
Defined benefit obligation	₩ 66,025	₩ 42,272

Changes in present value of defined benefit obligation for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014	2013
Beginning balance	₩ 361,462	₩ 282,459
Common control transaction	803	-
Current service cost	54,294	50,052
Past service cost	-	67
Interest cost	13,470	9,623
Remeasurement of the net defined benefit liability	42,494	39,004
Payment of severance benefits	(21,429)	(18,886)
Transferred from or into other affiliates	(180)	197
Spinoff of a credit card division	(16,524)	-
Others	(296)	(1,054)
Ending balance	₩ 434,094	₩ 361,462

31. Severance benefits (cont'd)

Details of losses incurred from defined benefit obligations for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014	2013
Current service cost	₩ 54,294	₩ 50,052
Interest cost	(97)	628
Past service cost	-	67
Actuarial loss	595	3,372
Plan asset management cost	822	516
	55,614	54,635
Severance benefits due to defined contribution plan	137	116
	₩ 55,751	₩ 54,751

(*1) Income (loss) from discontinued operation was included.

Plan assets for severance benefit as at December 31, 2014 and 2013 consist of the following (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
Plan assets which have a market price quoted in an active market:		
Time deposits	₩ 164,362	₩ 195,992
Debt securities	99,449	63,679
Others	104,258	59,519
	₩ 368,069	₩ 319,190

Changes in fair value of plan assets for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014	2013
Beginning balance	₩ 319,190	₩ 259,586
Interest income	13,567	8,995
Remeasurement of the net defined benefit liability	(4,621)	225
Employer contributions	71,981	64,970
Payment	(18,080)	(14,074)
Spinoff of a credit card division	(13,146)	-
Others	(822)	(512)
Ending balance	₩ 368,069	₩ 319,190

31. Severance benefits (cont'd)

Details of the remeasurement of the net defined benefit liability for the years ended December 31, 2014 and 2013 are as follows (Korea won in millions):

Classification	2014	2013
Actual loss		
Changes in demographic assumptions	₩ (2,550)	₩ (3,416)
Changes in financial assumptions	(38,005)	(12,348)
Others	(1,344)	(19,868)
	(41,899)	(35,632)
Income on planned assets		
Actual income on planned assets	8,946	9,220
Amounts included in net interest on the net defined benefit liability	(13,567)	(8,995)
	(4,621)	225
	₩ (46,520)	₩ (35,407)

Sensitivity analysis of defined benefit liability due to the changein the discount rate as at December 31, 2014 and 2013 is as follows (Korea won in millions):

	December 31, 2014		
Classification	December 31, 2014	1% point increase	1% point decrease
Present value of defined benefit liability(*1)	₩ 417,524	₩ 380,280	₩ 461,653

(*1) The present value of defined benefit liabilities is the present value of defined benefit obligation deposited to plan assets.

	December 31, 2013		
Classification	December 31, 2013	1% point increase	1% point decrease
Present value of defined benefit liability(*1)	₩ 344,898	₩ 328,929	₩ 362,129

(*1) The present value of defined benefit liabilities is the present value of defined benefit obligation deposited to plan assets.

Sensitivity of defined benefit liability due to the change in the rate of salary increase as at December 31, 2014 and 2013 are as follows (Korea won in millions):

	December 31, 2014		
Classification	December 31, 2014	1% point increase	1% point decrease
Present value of defined benefit liability(*1)	₩ 417,524	₩ 459,213	₩ 381,818

(*1) The present value of defined benefit liabilities is the present value of defined benefit obligation deposited to plan assets.

31. Severance benefits (cont'd)

Classification	December 31, 2013		
	December 31, 2013	1% point increase	1% point decrease
Present value of defined benefit liability(*1)	₩ 344,898	₩ 361,402	₩ 329,499

(*1) The present value of defined benefit liabilities is the present value of defined benefit obligation deposited to plan assets.

Expected contributions to the plan for the next annual reporting period as at December 31, 2014 amount to ₩39,759 million, and the weighted average duration of the defined benefit obligation as at December 31, 2014 is 10.22 years.

32. Issued Capital and other paid-in capital

Issued capital as at December 31, 2014 and 2013 is as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
Number of shares authorized	1,000,000,000	1,000,000,000
Par value per share (Korean won)	₩ 5,000	₩ 5,000
Number of shares issued	516,906,826	644,906,826
Common stock	₩ 2,584,534	₩ 3,224,534

Other paid-in capital as at December 31, 2014 and 2013 is as follows (Korea won in millions):

Classification	December 31, 2014	December 31, 2013
Capital surplus (*1)	₩ 946	₩ 940
Hybrid securities (*2)	179,737	429,509
Capital adjustments:		
Stock option	488	(237)
Loss on disposal of treasury stock	-	(17,869)
Others	(27,411)	(618)
	(26,923)	(18,724)
	₩ 153,760	₩ 411,725

(*1) Amounts in capital surplus as at December 31, 2014 and 2013 were transferred from the stock option balance (accounted for as capital adjustment) as the exercisable period lapsed.
(*2) Korea Exchange Bank Hybrid securities have been issued by the Company. Upon expiration, the bonds can be extended under the same terms.

33. Retained earnings

Details of retained earnings as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
Legal reserve:		
Earned surplus reserve (*1)	₩ 823,800	₩ 787,700
Voluntary reserve:		
Revaluation reserves on tangible assets (*2)	431,918	431,931
Other reserves (*3)	79,695	94,040
Regulatory reserve for bad debts (*4)	794,762	737,322
	1,306,375	1,263,293
Unappropriated retained earnings	3,921,755	3,745,610
	₩ 6,051,930	₩ 5,796,603

(*1) The Korean Banking Law requires the Company to appropriate at least 10% of net income after income tax to legal reserve, until such reserve equals 100% of its paid-in capital. This reserve is restricted to the payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital. In addition, KEBIS accumulates indemnity reserve for an electronic financial incident in the amount of ₩500 million as at December 31, 2014.
(*2) The Company records gains from revaluation of property and equipment to the voluntary reserve, as it applies the revaluation amount as deemed cost at the first-time adoption of KIFRS. The reserve is recognized in retained earnings when the relevant property and equipment are disposed.
(*3) Relevant Japanese regulations require the Company's overseas branches located in Japan to appropriate a minimum of 10% of net income for the period as a legal reserve, until such reserve equals ¥2,000 million. This reserve is restricted to the payment of cash dividends and allowed to be used upon liquidation of the Japanese branches. Singapore branches' and Hanoi branches' statutory reserves are included in other reserves.
(*4) The Company has provided allowances for possible loan losses in accordance with KIFRS. The difference in this amount and the provision of allowance accumulated in accordance to the minimum accumulation ratio required by FSS is reserved as regulatory reserve for bad debts.

Changes in appropriated retained earnings for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014	2013
Beginning balance	₩ 5,796,603	₩ 5,404,592
Appropriation to loss on disposal of treasury stock	(17,869)	-
Appropriation to other capital adjustments	(160)	-
Net income for the period	365,115	444,320
Dividends	(77,433)	(32,245)
Dividends on hybrid securities	(14,326)	(20,064)
Ending balance	₩ 6,051,930	₩ 5,796,603

34. Regulatory reserve for bad debts

Regulatory reserve for bad debts is computed and presented under article 29-1 and 29-2 of the regulation on Supervision of Banking Business of the Republic of Korea.

Details of regulatory reserve for bad debts as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
Beginning balance	₩ 794,762	₩ 737,322
Planned reserve for (reversal of) bad debts (*1)	(115,758)	57,440
Ending balance	₩ 679,004	₩ 794,762

(*1) The Company was given notice by the FSS to modify the credit conversion factor (CCF) used in the calculation of its regulatory reserve for bad debts. Accordingly, the reserve for the year ended December 31, 2014 increased by ₩52,342 million compared to that of the prior year period and was included in planned reserve for bad debts.

Provisions for bad debt reserve and income adjusted for deductions of provisions for bad debt for the years ended December 31, 2014 and 2013 are as follows (in Korean won):

Classification	2014	2013
Net income attributable to equity holders of the parent before deducting provisions for bad debt	₩ 365,115 million	₩ 444,320 million
Reversal of (provisions for) bad debt reserve	115,758 million	(57,440) million
Adjusted income after deducting provisions for bad debt	480,873 million	386,880 million
Basic earnings per share on adjustment after reflecting reserve for bad debt (*1)	774	571
Diluted earnings per share on adjustment after reflecting reserve for bad debt (*2)	774	571

(*1) Basic earnings per share on adjustment after reflecting reserve for bad debt are computed by deducting the dividend of hybrid equity securities in the amount of ₩14,326 million and ₩20,064 million for the years ended December 31, 2014 and 2013, respectively from the adjusted net income after reflecting the reserve for bad debt.
(*2) Because it does not have dilutive potential ordinary stock, basic earnings per share is the same as diluted earnings per share.

35. Accumulated other comprehensive income

Changes in accumulated other comprehensive income for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014				
	Items that may be reclassified subsequently to profit or loss			Items that will not be reclassified subsequently to profit or loss	
Classification	Gain (loss) on valuation of available-for-sale financial assets	Exchange differences on transaction of foreign operations	Gain (loss) on foreign currency translation of available-for-sale financial assets	Remeasurement of the net defined benefit liability	Total
Beginning balance	₩ 297,271	₩ (138,545)	₩ (111)	₩ (10,028)	₩ 148,587
Changes in the unrealized gain of available-for-sale financial asset	165,343	-	-	-	165,343
Realized loss of available-for-sale financial asset (including disposal)	(145,051)	-	-	-	(145,050)
Exchange differences on transaction of foreign operations	-	(17,163)	-	-	(17,163)
Changes in remeasurement of the net defined benefit liability	-	-	68	-	68
Spinoff of a credit card division	-	-	-	(46,520)	(46,521)
Exchange differences on translation of available-for-sale financial assets	-	-	-	497	497
Tax effect	(4,937)	-	(16)	11,252	6,299
Ending balance	₩ 312,626	₩ (155,708)	₩ (59)	₩ (44,799)	₩ 112,060

	2013				
	Items that may be reclassified subsequently to profit or loss			Items that will not be reclassified subsequently to profit or loss	
Classification	Gain (loss) on valuation of available-for-sale financial assets	Exchange differences on transaction of foreign operations	Gain (loss) on foreign currency translation of available-for-sale financial assets	Remeasurement of the net defined benefit liability	Total
Beginning balance	₩ 225,028	₩ (64,711)	₩ (87)	₩ 16,663	₩ 176,893
Changes in the unrealized gain of available-for-sale financial asset	138,472	-	-	-	138,472
Realized loss of available-for-sale financial asset (including disposal)	(43,111)	-	-	-	(43,111)

35. Accumulated other comprehensive income (cont'd)

	2013				
	Items that may be reclassified subsequently to profit or loss			Items that will not be reclassified subsequently to profit or loss	
Classification	Gain (loss) on valuation of available-for-sale financial assets	Exchange differences on transaction of foreign operations	Gain (loss) on foreign currency translation of available-for-sale financial assets	Remeasurement of the net defined benefit liability	Total
Exchange differences on transaction of foreign operations	-	(73,834)	-	-	(73,834)
Changes in remeasurement of the net defined benefit liability	-	-	-	(35,407)	(35,407)
Exchange differences on translation of available-for-sale financial assets	-	-	(31)	-	(31)
Tax effect	(23,118)	-	7	8,716	(14,395)
Ending balance	₩ 297,271	₩ (138,545)	₩ (111)	₩ (10,028)	₩ 148,587

36. Capital management

The Company brought in Basel III on December 1, 2013 established by KEB for International Settlements and computes the capital ratio required by BIS and manages the ratio to be maintained at a rate of at least 3.5%, 4.5% and 8% or above for common equity, basic capital and total equity, respectively. The Company meets the statutory externally assigned capital maintenance requirement (the BIS capital ratio) as at September 30, 2014.

The BIS capital ratio is computed by dividing shareholders' equity by risk-weighted assets. Shareholder's equity is the sum of common equity, other basic capital and supplementary capital. Risk-weighted assets are the sum of credit risk-weighted assets, operating risk-weighted assets, and market risk-weighted assets.

Common equity consists of issued capital, additional capital surplus paid-in capital, retained earnings and accumulated other comprehensive income. Other basic capital consists of equity securities and its related capital surplus that satisfy the basic capital requirements, and part of other basic capital issued by consolidated subsidiaries of the Bank and held by third parties. Supplementary capital consists of equity securities and its related stock surplus that satisfy the supplementary capital requirements, and part of other basic capital issued by consolidated subsidiaries of the Company and held by third parties. The portions to be subject to capital used for the calculation of BIS ratio are 90% and 80% as at January 1, 2013 and 2014, respectively, and will continuously decrease by 10% annually for hybrid securities and subordinate debt securities that do not meet the definition of criteria.

36. Capital management (cont'd)

Items deducted from issued capital include considerable amounts of intangible assets and deferred tax assets, plan assets, gains or losses on valuation of derivatives used for hedging purposes and others. Additionally, the Company classifies its assets by credit rating and computes risk-weighted assets by reflecting the level of risks. Risk-weighted value is computed based on transaction parties and credit ratings.

37. Interest income and interest expenses

Details of interest income and interest expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification			2014		2013
Interest income:					
Due from banks	Banks	₩	80,329	₩	40,840
	Other financial institutions		14,862		10,618
			95,191		51,458
Loans receivable	Banks		47,749		54,048
	Customers		2,917,724		2,932,357
			2,965,473		2,986,405
Financial assets at FVTPL			19,940		17,524
Available-for-sale financial assets			267,174		210,688
Held-to-maturity investments			64,814		134,291
			3,412,592		3,400,366
Interest expenses:					
Deposits	Financial institutions		5,765		1,617
	Customers		1,230,959		1,285,993
			1,236,724		1,287,610
Debentures			140,327		185,361
Borrowings			114,508		110,216
Others			30,082		37,073
			1,521,641		1,620,260
Net interest income		₩	1,890,951	₩	1,780,106

Details of interest income on impaired financial assets for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification		2014		2013
Loans receivable	₩	44,090	₩	65,445
Other assets		271		193
	₩	44,361	₩	65,638

38. Fee and commission income and fee and commission expenses

Details of fee and commission income and fee and commission expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014	2013
Fee and commission income:		
Savings	₩ 23,766	₩ 20,628
Credits	45,241	46,313
Foreign exchange	182,700	183,206
Credit card	9	2
Asset management	4,870	6,294
Agency business	27,804	36,538
Guarantee service	69,120	66,001
Others	78,963	62,869
	432,473	421,851
Fee and commission expense:		
Credits	5,122	6,635
Foreign exchange	41,883	38,693
Agency business	887	497
Credit card	463	658
Others	34,265	31,717
	82,620	78,200
Net fee and commission income	₩ 349,853	₩ 343,651

39. Gain (loss) on financial instruments

Details of gain (loss) on financial instruments for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014	2013
Financial instruments at FVTPL:		
Gain on valuation of trading securities	₩ 1,871	₩ 413
Gain on disposal of trading securities	9,421	6,848
Gain on valuation of trading bonds	2,034	590
Gain on disposal of trading bonds	5,917	3,127
Gain on valuation of derivatives held-for-trading	1,581,808	1,014,179
Gain on disposal of derivatives held-for-trading	2,299,384	2,282,689
	3,900,435	3,307,846
Loss on valuation of trading securities	961	286
Loss on disposal of trading securities	11,713	8,393
Loss on valuation of trading bonds	56	125
Loss on disposal of trading bonds	1,435	5,361
Loss on valuation of derivatives held-for-trading	1,579,667	977,277
Loss on disposal of derivatives held-for-trading	2,300,724	2,236,124
	3,894,556	3,227,566
Net income from financial instruments at FVTPL	₩ 5,879	₩ 80,280

39. Gain (loss) on financial instruments (cont'd)

Classification		2014		2013
Derivatives used for hedging purposes:				
Gain on valuation of derivatives used for hedging purposes	₩	35,063	₩	33,757
Gain on disposal of derivatives used for hedging purposes		35		270
		35,098		34,027
Loss on valuation of derivatives used for hedging purposes		31,941		30,141
Loss on disposal of derivatives used for hedging purposes		35		241
		31,976		30,382
Net income on derivatives used for hedging purposes	₩	3,122	₩	3,645
Available-for-sale financial assets:				
Gain on disposal of equity securities	₩	128,590	₩	41,451
Gain on disposal of debt securities		42,264		44,266
		170,854		85,717
Loss on disposal of equity securities		929		5,665
Loss on disposal of debt securities		295		139
		1,224		5,804
Net income on available-for-sale financial assets	₩	169,630	₩	79,913
Held-to-maturity investments:				
Gain on disposal of held-to-maturity investments	₩	492	₩	-

40. Impairment loss on financial instruments

Details of impairment loss on financial instruments for the years ended December31, 2014 and 2013 are as follows (Korean won in millions):

Classification		2014		2013
Provision for possible loan losses (*1)	₩	441,793	₩	425,649
Impairment loss on available-for-sale financial assets		134,996		30,394
	₩	576,789	₩	456,043

(*1) Provision for possible loan losses is set for loans receivable and other assets.

41. General and administrative expenses

Details of general and administrative expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification		2014		2013
Employee benefits:				
Salaries	₩	737,277	₩	786,568
Provision for severance and retirement benefits		54,013		52,638
Expenses for fringe benefits		42,781		40,442
Termination benefits		38,161		33,624
		872,232		913,272
Depreciation and amortization:				
Depreciation on property and equipment		76,717		75,557
Depreciation on investment property		2,796		2,549
Amortization		23,366		22,756
		102,879		100,862
Other general and administrative expenses:				
Rental expense		131,912		133,875
Entertainment expense		13,393		13,556
Taxes and dues		39,135		37,491
Advertising expenses		40,617		48,678
Others		223,168		204,270
		448,225		437,870
	₩	1,423,336	₩	1,452,004

42. Other operating income and expenses

Details of other operating income for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification		2014		2013
Dividend income:				
Financial assets at FVTPL	₩	360	₩	253
Available-for-sale financial assets		12,398		5,101
		12,758		5,354
Reversal of possible losses on acceptances and guarantees		7,116		-
Reversal of other allowances		50,801		-
Other income on financial instruments		1,246		866
Gain on foreign exchange transaction		1,144,598		1,207,635
Gain on foreign exchange difference		163,066		153,004
Gain on operating trust account		51,469		39,895
Point income		2,325		2,224
Gain on sales of loans		28,423		54,147
Gain on merchant banking accounts (*1)		78,584		73,649
Others		313		191
	₩	1,540,699	₩	1,536,965

42. Other operating income and expenses (cont'd)

(*1) Details of gain on merchant banking accounts for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014		2013	
Interest income	₩	56,865	₩	49,816
Fee and commission income		985		795
Gain on disposal of trading bonds		1,845		722
Gain on valuation of trading bonds		3		19
Gain on valuation of CMA securities		5		3
Gain on disposal of bills		18,287		22,235
Reversal of possible loan losses		594		-
Reversal of unused commitments		-		59
	₩	78,584	₩	73,649

Details of other operating expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014		2013	
Provision for acceptances and guarantees	₩	-	₩	4,230
Provision for unused commitments		1,572		1,140
Provision for others allowances		-		50,418
Other expense on financial instruments		279		239
Loss on foreign exchange transaction		877,623		993,715
Loss on foreign exchange difference		162,958		102,493
Point expense		2,234		2,050
Contribution to guarantee fund		140,891		101,593
Insurance fee on deposits		112,995		105,494
Loss on sales of loans		26,477		19,843
Loss on merchant banking accounts (*1)		57,454		48,105
	₩	1,382,483	₩	1,429,320

(*1) Details of loss on merchant banking accounts for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014		2013	
Interest expense	₩	57,278	₩	47,536
Provision for possible loan losses		-		320
Provision for unused commitments		45		-
Others		131		249
	₩	57,454	₩	48,105

43. Non-operating income and expenses

Details of non-operating income for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014	2013
Gain on disposal of property and equipment	₩ 311	₩ 285
Gain on disposal of intangible assets	1,561	301
Rental income	2,917	3,043
Gain on valuation of equity method	10,884	-
Others	14,035	16,068
	₩ 29,708	₩ 19,697

Details of non-operating expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014	2013
Loss on disposal of property and equipment	₩ 943	₩ 606
Loss on disposal of intangible assets	5	5
Loss on disposal of investment in subsidiary	97,579	-
Donation	13,538	17,575
Others	69.577	25,535
	₩ 181,642	₩ 43,721

44. Income tax expense

The major components of income tax expense for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014	2013
<KEB>		
Income tax currently payable (receivable) (*1)	₩ 115,147	₩ 35,773
Changes of deferred income taxes due to the tax effect of temporary differences	(55,038)	48,658
Total income tax effect	60,109	84,431
Current and deferred income taxes recognized directly to equity	5,947	14,781
Tax effect of consolidated tax return	(32,172)	-
Income tax expense of foreign branches	10,527	7,498
Income tax expense of KEB (*2)	44,411	106,710
<Subsidiaries>		
Income tax currently payable (*1)	37,361	25,010
Changes of deferred income taxes due to the tax effect of temporary differences	54	(9,193)
Current and deferred income taxes recognized directly to equity	352	396
Income tax expense of subsidiaries	37,767	16,213
	₩ 82,178	₩ 122,923

(*1) The amount of addition and refund of prior year's income tax is included.
(*2) It is a sum of the corporate income tax expenses of continued operations and discontinued operations.

44. Income tax expense (cont'd)

Reconciliations of income tax expense applicable to income before income tax at the Korea statutory tax rate to income tax expense at the effective income tax rate of the Company for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014	2013
Income before income tax	₩ 458,571	₩ 567,045
Tax at domestic statutory income tax rate	110,512	136,762
Reconciliation:		
Income not subject to tax	(4,414)	(10,879)
Expenses not deductible for tax purposes	4,957	9,715
Tax deduction	(11,507)	(7,687)
Refund of prior year's income tax	(24,887)	(15,887)
Income tax expense of foreign branches	10,527	7,498
Tax effect of consolidated tax return	(32,172)	-
Tax effect of common control transaction	(6,977)	-
Others	36,139	3,401
	(28,334)	(13,839)
Income tax expense	₩ 82,178	₩ 122,923
Effective income tax rate (%)	17.92	21.68

Details of deferred income tax assets as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
KEB F&I	₩ 28,831	₩ 28,850
KEBIS	305	263
NYFinCo	3,074	2,814
USAI	5	13
LAFinCo	1,850	2,071
KEBOC	667	1,181
KEBH	-	2,154
PT. Bank KEB Hana	60	-
KEBB	543	662
	₩ 35,335	₩ 38,008

Details of deferred income tax liabilities as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
KEB (*1)	₩ 71,641	₩ 80,325
KEBF	1,802	1,910
KEBB	2,116	2,956
KEB China	-	2,499
PT. Bank KEB Hana	915	319
Trust accounts guaranteeing the repayment of principal	4,126	3,896
	₩ 80,600	₩ 91,905

44. Income tax expense (cont'd)

(*1) Changes in temporary differences and deferred income tax assets (liabilities) for the years ended December 31, 2014 are as follows (Korean won in millions):

Classification	Deductible (taxable) temporary differences					Deferred income tax assets (liabilities) (*2)				
	January 1, 2014 (*1)	Decrease	Increase	Spinoff of a credit card division	December 31, 2014	2014 January 1, (*1)	Decrease	Increase	Spinoff of a credit card division	December 31, 2014
Temporary differences:										
Gain or loss on valuation of securities	₩ (77,673)	₩ 162,409	₩ 371,008	₩ 41,137	₩ 89,789	₩ (23,549)	₩ 39,303	₩ 94,536	₩ 9,955	₩ 21,729
Accrued income	(79,254)	(79,254)	(77,732)	-	(77,732)	(19,179)	(19,179)	(18,811)	-	(18,811)
Other provisions and others	249,646	249,645	183,086	53,743	129,344	60,414	60,414	44,307	13,006	31,301
Gain or loss on valuation of derivatives	(115,778)	(115,778)	(87,087)	-	(87,087)	(28,018)	(28,018)	(21,075)	-	(21,075)
Debt-for-equity swap securities	101,753	26,138	51,577	-	127,192	34,498	6,325	2,608	-	30,781
Advanced depreciation provisions	(62,466)	-	-	-	(62,466)	(15,117)	-	-	-	(15,117)
Investment in kind at KEB China	137,879	-	-	-	137,879	33,367	-	-	-	33,367
Financial guarantee contract	28,581	28,581	22,723	-	22,723	6,917	6,917	5,499	-	5,499
Deferred reward points income	66,515	66,515	78,279	75,039	3,240	16,097	16,097	18,944	18,159	785

44. Income tax expense (cont'd)

	Deductible (taxable) temporary differences					Deferred income tax assets (liabilities) (*2)				
Classification	January 1, 2014 (*1)	Decrease	Increase	Spinoff of a credit card division	December 31, 2014	January 1, 2014 (*1)	Decrease	Increase	Spinoff of a credit card division	December 31, 2014
Accrued expenses	78,344	78,387	75,751	2,554	73,154	18,959	18,970	18,332	618	17,703
Gain on revaluation of tangible assets	(553,765)	-	-	-	(553,765)	(134,011)	-	-	-	(134,011)
Others	191,310	(34,567)	35,505	18,417	242,965	58,264	4,723	10,304	4,457	59,388
	(34,908)	382,076	653,110	190,890	45,236	8,642	105,552	154,644	46,195	11,539
Accumulated other comprehensive income:										
Unrealized gain or loss of available-for-sale financial assets	(380,489)	(380,489)	(401,957)	-	(401,957)	(92,078)	(92,078)	(97,275)	-	(97,275)
Gain on foreign currency translation of available-for-sale financial assets	145	145	78	-	78	35	35	19	-	19
Remeasurement of the net defined benefit liability	12,709	12,053	58,164	656	58,164	3,076	2,917	14,076	159	14,076
	(367,635)	(368,291)	(343,715)	656	(343,715)	(88,967)	(89,126)	(83,180)	159	(83,180)
	₩ (402,543)	₩ 13,785	₩ 309,395	₩ 191,546	₩ (298,479)	₩ (80,325)	₩ 16,426	₩ 71,464	₩ 46,354	₩ (71,641)

(*1) Beginning balance reflects the adjustments for the difference in the reserved amount of ₩34,240 million at the time of the final tax return as at December 31, 2013. Deferred tax assets decreased by ₩8,286 million compared to that of December 31, 2013 after reflecting the adjustments.
(*2) The tax rate used for calculating deferred income tax assets and liabilities is the average tax rate applicable to the period for which the temporary differences are expected to reverse (24.2%).

45. Earnings per share

Weighted-average number of ordinary shares for the years ended December 31, 2014 and 2013 are as follows (shares in units):

Classification	2014	2013
Beginning	644,844,691	644,906,823
Exercise of appraisal rights by shareholders	-	(52,016,715)
Exercise	22,724	49,878,791
Spinoff of a credit card division	(42,432,877)	-
Ending	602,434,538	642,768,899

Since the company does not have dilutive potential ordinary stock, the weighted average number of shares of ordinary stock outstanding per basic share is the same as the weighted average number of shares of ordinary stock outstanding per diluted share.

The Company's basic earnings per share for the years ended December 31, 2014 and 2013 are calculated as follows (Korean won in millions and per share amounts in units):

Classification	2014	2013
Net income for the period	₩ 365,115	₩ 444,320
Dividends on hybrid equity securities	(14,326)	(20,064)
Net income attributable to common stock	350,789	424,256
Net income from continuing operations	326,161	345,517
Net income from a discontinued operation	24,628	78,739
Weighted-average number of shares of ordinary stocks outstanding	602,434,538	642,768,899
Basic earnings per share (Korean won)	₩ 582	₩ 660
Continuing operations (Korean won)	541	538
Discontinued operation (Korean won)	41	122

Basic earnings per share and diluted earnings per share in 2014 and 2013 are the same.

46. Share-based payment

When the stock options are exercised, the Company has the option to settle either through issuance of new shares or treasury stock or through payment of cash equivalents to the difference between the market price and the exercise price. The number of exercisable stock option is determined in accordance with management performance and the calculation criteria for the number of exercisable shares. Also, the Company granted the equity-linked special incentive (Rose Bonus and\or Rose Share) to employees for the purpose of motivation to improve long-term performance. The equity-linked special incentive is settled in cash. It can be exercised from 1 to 3 years after the grant date for the following 3 to 4 years.

46. Share-based payment (cont'd)

Details of the share-based payment as at December 31, 2014 are as follows:

Assumptions for evaluation of stock options as at December 31, 2014 are as follows (Korean won and share):

Grant date	Exercise period	Risk-free rate	Expected service period	Volatility of the underlying stock price	Expected dividends	Stock price at grant date	Fair value
2009-03-12	2011-03-13 ~ 2016-03-12	0.13%	5.87	17.99%	₩ 483	₩ 5,700	₩ 280
2009-08-04	2011-08-05 ~ 2016-08-04	2.07%	5.87	28.44%	483	11,700	1
2010-03-10	2013-03-11 ~ 2017-03-10	2.08%	5.87	23.51%	483	13,450	-
2010-03-30	2013-03-31 ~ 2017-03-30	2.08%	5.87	22.92%	483	13,600	-
2010-08-04	2013-08-05 ~ 2017-08-04	2.08%	5.87	23.62%	483	12,300	5
2010-09-29	2013-09-29 ~ 2017-09-28	2.08%	5.87	24.47%	483	13,550	5
2011-08-10	2014-08-11 ~ 2018-08-10	2.09%	5.87	27.38%	483	8,060	305
2011-08-26	2014-08-27 ~ 2018-08-26	2.09%	5.87	27.22%	483	7,720	394
2011-09-02	2014-09-03 ~ 2018-09-02	2.09%	5.87	27.12%	483	7,930	410

Changes in shares of stock options for the year ended December 31, 2014 are as follows (Korean won and share):

Grant date	Shares at beginning	Exercise	Divesture	Extinction at maturity	Shares at ending	Stock option outstanding	Exercise price
2009-03-12	267,205	(14,500)	-	-	252,705	252,705	₩ 5,800
2009-08-04	415,610	-	-	-	415,610	415,610	10,900
2010-03-10	312,350	-	-	-	312,350	312,350	13,200
2010-03-30	237,140	-	-	-	237,140	237,140	13,500
2010-08-04	251,890	-	-	-	251,890	251,890	12,400
2010-09-29	17,810	-	-	-	17,810	17,810	13,500
2011-08-10	333,000	-	-	-	333,000	333,000	9,100
2011-08-26	42,290	-	-	-	42,290	42,290	8,500
2011-09-02	11,250	-	-	-	11,250	11,250	8,400
	1,888,545	(14,500)	-	-	1,874,045	1,874,045	

Weighted average stock price as of the stock option date exercised is in the amount of ₩7,767 for the year ended December 31, 2014.

Weighted average residual expiration of exercisable stock options is 2.29 years as at December 31, 2014.

46. Share-based payment (cont'd)

Equity-linked special incentives are measured at fair value based on the binomial model and become exercisable from 1 to 3 years after the grant date for the following 3 to 4 years. Details of the equity-linked special incentives as at December 31, 2014 are as follows:

Classification	Grant date	Exercise period	Payment date	Stock option outstanding
Rose 4	2009-12-11	2011-12-11 ~ 2014-12-10	2011-12-11	-
Rose 5	2010-08-04	2012-08-04 ~ 2015-08-04	2012-08-04	11,270
Rose 6	2011-09-21	2013-09-21 ~ 2016-09-20	2013-09-21	130,250
Rose share 1-1	2010-02-19	2011-02-19 ~ 2014-02-18	2011-02-19	-
Rose share 1-2	2010-02-19	2012-02-19 ~ 2015-02-18	2012-02-19	10,375
Rose share 2-1	2010-03-19	2011-03-19 ~ 2014-03-18	2011-03-19	-
Rose share 2-2	2010-03-19	2012-03-19 ~ 2015-03-19	2012-03-19	-
Rose share 3-1	2010-08-11	2011-08-11 ~ 2014-08-10	2011-08-11	2,285
Rose share 3-2	2010-08-11	2012-08-11 ~ 2015-08-11	2012-08-11	2,855
Rose share 4-1	2011-02-21	2012-02-21 ~ 2015-02-20	2012-02-21	10,190
Rose share 4-2	2011-02-21	2013-02-21 ~ 2016-02-21	2013-02-21	4,140
Rose share 5-1	2011-02-21	2012-02-21 ~ 2015-02-20	2012-02-21	8,065
Rose share 5-2	2011-02-21	2013-02-21 ~ 2016-02-21	2013-02-21	2,595
Rose share 6-1	2011-03-21	2012-03-20 ~ 2015-03-20	2012-03-20	50
Rose share 6-2	2011-03-21	2013-03-20 ~ 2016-03-19	2013-03-20	316
Rose share 6-3	2011-03-21	2014-03-20 ~ 2017-03-19	2014-03-20	344
Rose share 7-1	2011-09-08	2012-09-08 ~ 2015-09-08	2012-09-08	500
Rose share 7-2	2011-09-08	2013-09-08 ~ 2016-09-07	2013-09-08	430
Rose share 8-1	2012-02-21	2013-02-22 ~ 2017-02-21	2013-02-22	7,105
Rose share 8-2	2012-02-21	2014-02-22 ~ 2017-02-21	2014-02-22	13,855
Rose share 9-1	2012-02-21	2013-02-22 ~ 2017-02-21	2013-02-22	715
Rose share 9-2	2012-02-21	2014-02-22 ~ 2017-02-21	2014-02-22	39,165
				244,505

Changes in shares of equity linked special incentives for the years ended December 31, 2014 and 2013 are as follows (share in units):

Classification	Outstanding number of share 2014	2013
Beginning	493,521	5,026,733
Number of shares forfeited	-	(34,136)
Number of shares exercised	(249,016)	(4,499,076)
Ending	244,505	493,521

Weighted average stock price of equity linked special incentives at the exercise date are in the amount of ₩7,340 for the year ended December 31, 2014.

Weighted average residual maturity of equity linked is 1.54 years as at December 31, 2014.

46. Share-based payment (cont'd)

Hana Financial Group (HFG) provided the Company's employees with stock rights and stock grants linked to performance and computed the compensation costs by applying the fair value approach. Details of share-based payment arrangement and share-based payment linked to performance as at December 31, 2014 are as follows:

Classification	1st	2nd	3rd
Grant date	2012-01-01	2013-01-01	2014-01-01
Grant method	Either share or cash settlement selected by HFG	Either share or cash settlement selected by HFG	Either share or cash settlement selected by HFG
Grant period	2012-01-01~2014-12-31	2013-01-01~2015-12-31	2014-01-01~2016-12-31
Payment date	2014-12-31	2015-12-31	2016-12-31
Shares at settlement date (*1)	3,220	13,500	27,350

(*1) The maximum number of shares to be compensated is pre-determined before the grant date, and vested shares are determined by performance measures. The performance assessment consists of the group performance assessment (relative shareholder return) constituting 40% and the business unit performance assessment (unit ROE, ROIC) constituting 60% of the total performance scorecard.

Details of liabilities related to share-based payment and total intrinsic value of rights accounted for as accounts payable in case that option holders achieve rights to receive cash or other assets as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
Book value of liabilities related to share-based payment:		
Stock options	₩ 195	₩ 1,206
Equity-linked special incentives (granted by KEB)	3,186	6,289
Equity-linked special incentives (granted by HFG)	3,645	2,609
	₩ 7,026	₩ 10,104

The compensation costs for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014	2013
Costs recognized due to share-based payment:		
Stock options	₩ (983)	₩ 462
Equity-linked special incentives (granted by the Bank)	73	18,912
Equity-linked special incentives (granted by HFG)	2,103	1,882
Diluted earnings per share (Korean won)	₩ 1,193	₩ 21,256

47. Cash flow information

Cash and cash equivalents in the consolidated statement of cash flows consists of cash and due from bank (excluding restricted due from bank) in the consolidated statement of financial position. Cash and cash equivalents as at December 31, 2014 and 2013 are adjusted as follows (Korean won in millions):

Classification	December 31, 2014		December 31, 2013	
Cash and due from banks	₩	9,345,799	₩	8,247,437
Less: restricted due from bank		(4,045,623)		(3,071,986)
Due from banks with original maturities exceeding three months from the date of acquisition		(246,940)		(448,616)
Cash and cash equivalents	₩	5,053,236	₩	4,726,835

Significant non-cash transactions for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014		2013	
Unrealized gain or loss on available-for-sale financial assets	₩	15,355	₩	72,243
Gain or loss on foreign currency translation of available-for-sale financial assets		52		(24)
Transfer from property and equipment to investment property		49,914		7,499
Transfer from loans receivable to available-for-sale financial assets resulting from debt-to-equity swap		28,895		4,667

48. Related party transactions

The Company's major related parties as at December 31, 2014 are as follows:

Subsidiaries	Relationship
Hana Financial Group (HFG)	Controlling company
Hanabankcorp	Entity under common control
Hana Daetoo Securities Co., Ltd.	Entity under common control
Hana Bank	Entity under common control
Hana Capital Co., Ltd.	Entity under common control
Hana Institute of Finance	Entity under common control
Hana Card Co., Ltd. (formerly, Hana SK Card Co., Ltd.)	Entity under common control
Hana I&S	Entity under common control
Hana Daol Trust	Entity under common control
Hana Savings Bank	Entity under common control
Hana Life Insurance Co., Ltd.	Entity under common control
Hana Bank (China) Co., Ltd.	Associates
Flossom Co., Ltd.	Associates
MIDAN City Development Co., Ltd.	Associates
Masan Marine New Town Co., Ltd.	Associates
KEB Mirae Asset First Securitization Specialty Co., Ltd.	Associates
KEB Mirae Asset Second Securitization Specialty Co., Ltd.	Associates

48. Related party transactions (cont'd)

Outstanding balances arising from transactions below with related parties as at December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

	December 31, 2014		
Classification	Accounts receivable	Allowance for possible loan losses	Accounts payable
Controlling company			
Hana Financial Group (HFG)	₩ -	₩ -	₩ 3,925
Entity under common control			
Hanabankcorp	-	-	109
Hana Life Insurance Co., Ltd.	338	-	-
Hana Card Co., Ltd.	17	-	12,810
Hana Institute of Finance	-	-	5
Hana Daol Trust	-	-	13,041
Hana Daetoo Securities Co., Ltd.	859	-	8,866
Hana I&S	-	-	140
Hana Bank	50,925	-	98,528
Hana First Private Equity Fund	-	-	2,585
Hana Capital Co., Ltd.	-	-	1
	52,139	-	136,085
Associates			
Masan Marine New Town Co., Ltd	3,280	(7)	21
Key management	1,449	-	4,138
	₩ 56,868	₩ (7)	₩ 144,169

	December 31, 2013		
Classification	Accounts receivable	Allowance for possible loan losses	Accounts payable
Controlling company			
Hana Financial Group (HFG)	₩ -	₩ -	₩ 2,360
Entity under common control			
Hana Life Insurance Co., Ltd.	265	-	-
Hana Card Co., Ltd.	19,603	-	7
Hana Institute of Finance	-	-	204
Hana Daetoo Securities Co., Ltd.	-	-	18,771
Hana I&S	-	-	1,174
Hana Bank	105,157	-	63,303
	125,025	-	83,459

48. Related party transactions (cont'd)

Classification	December 31, 2013 Accounts receivable	Allowance for possible loan losses	Accounts payable
Associates			
Masan Marine New Town Co., Ltd	21,932	(55)	5
MIDAN City Development Co., Ltd	3,733	9	20
	25,665	(46)	25
Key management	1,858	-	687
	₩ 152,548	₩ (46)	₩ 86,531

Details of transactions with related parties for the years ended 31, 2014 and 2013 are summarized as follows (Korean won in millions):

Classification	2014 Income	Bad debt expense	Expense
Controlling company			
Hana Financial Group (HFG)	₩ 3,603	₩ -	₩ -
Entity under common control			
Hanabankcorp	-	-	72
Hana Life Insurance Co., Ltd.	4,062	-	-
Hana Card Co., Ltd.	29,313	-	37
Hana Institute of Finance	-	-	2,530
Hana Daol Trust	-	-	41
Hana Daetoo Securities Co., Ltd.	114	-	501
Hana I&S	-	-	3,267
Hana Bank	118,929	-	189,821
Hana First Private Equity Fund	-	-	30
Hana Capital Co., Ltd.	1	-	-
	152,419	-	196,299
Associates			
Hana Bank (China) Co., Ltd	1,541	-	-
MIDAN City Development Co., Ltd	641	(55)	-
Masan Marine New Town Co., Ltd	252	(2)	1
	2,434	(57)	1
Key management	59	-	66
	₩ 158,515	₩ (57)	₩ 196,366

48. Related party transactions (cont'd)

Classification	2013 Income	2013 Bad debt expense	2013 Expense
Controlling company			
Hana Financial Group (HFG)	₩ -	₩ -	₩ 118
Entity under common control		-	
Hana Life Insurance Co., Ltd.	1,910	-	-
Hana Card Co., Ltd.	17,890	-	-
Hana Institute of Finance	-	-	2,458
Hana Daetoo Securities Co., Ltd.	4	-	1,505
Hana I&S	-	-	1,165
Hana Bank	91,291	-	61,780
Hana Capital Co., Ltd.	5	-	-
	111,100	-	66,908
Associates			
MIDAN City Development Co., Ltd	1,620	(62)	-
Masan Marine New Town Co., Ltd	147	5	-
	1,767	(57)	-
Key management	72	-	36
	₩ 112,939	₩ (57)	₩ 67,062

Details of compensation paid to key management personnel for the years ended December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

Classification	2014	2013
Short-term employee benefits	₩ 5,588	₩ 2,838
Post-retirement employee benefits	182	203
Stock options	9	(5)

The key management includes directors, executives and officers who have authority and responsibilities for decision making of the business plan, operations and control over the Company.

49. Contingencies and commitments

The Company holds written-off loans, on which the relevant statute of limitations has not expired or the Company has not lost its claim rights to borrowers and guarantors, in the amount of ₩1,632,033 million and ₩1,836,831 million as at December 31, 2014 and 2013, respectively.

Endorsed notes with collateral amount to ₩31,760 million and ₩46,785 million as at December 31, 2014 and 2013, respectively. Endorsed notes without collateral held at the merchant banking amount to ₩6,054,700 million and ₩7,834,800 million as at December 31, 2014 and 2013, respectively.

The Company has pending litigations as a plaintiff or a defendant in various lawsuits arising from the normal course of operations. The aggregate amounts of these claims brought by and against the Company are approximately ₩221,605 million (164 cases) and ₩161,711 million (100 cases) as at December 31, 2014, respectively. The Company recognized provisions is in the amount of ₩49,336 million for the lawsuits.

49. Contingencies and commitments (cont'd)

The Company believes that the outcome of these matters will not have a material impact on the Company's consolidated financial statements.

Regular bonus and other benefits paid periodically, uniformly, and steadily shall be included in ordinary wages according to the Supreme Court's decision made in the current year. The Company did not recognize provisions in the decision based on the judgment that it is not probable that the Company is required to pay additional wages due to the Supreme Court's decision, and the amount of the obligation cannot be measured with sufficient reliability as at December 31, 2014.

Asset-backed commercial paper (ABCP) purchase agreements and unused commitments relating to project financing (PF) as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
ABCP purchase agreement	₩ 315,000	₩ 325,000
Unused commitments on PF loan	278,280	321,213
	₩ 593,280	₩ 646,213

The Supreme Court ruled partially in favor of plaintiff on January 29, 2015 in the lawsuit that the Company filed for contractual amounts against Renault Samsung Motors. So, the Company will reflect the penalty for breach of contract and damages for delay, which were recognized as other liabilities after the verdict in the second trial, in the financial statements of the following fiscal year after deducting all litigation expenses.

50. Operation performance of trust accounts

Details of total assets of trust accounts as at December 31, 2014 and 2013 and operating income for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	Total assets		Operating income	
	December 31, 2014	December 31, 2013	2014	2013
Trust accounts	₩ 29,471,392	₩ 30,316,196	₩ 695,852	₩ 478,097

The carrying value of trust accounts with agreement to guarantee the principal amount or the fixed dividend and the amount that should be covered by the inherent account as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014	December 31, 2013
Trust accounts guaranteeing the repayment of principal:		
Installment trust	₩ 64	₩ 64
Household trust	417	534
Old-age pension trust	1,439	1,756
Corporate trust	5	5
Personal pension trust	190,807	192,685
Retirement trust	51,684	56,773

50. Operation performance of trust accounts (cont'd)

Classification	December 31, 2014		December 31, 2013	
New personal pension trust		92,638		84,887
New old-age pension trust		840		956
Pension trust		354,990		307,449
		692,884		645,109
Trust accounts guaranteeing a fixed rate of return and the repayment of principal:				
Unspecified monetary trust		59		59
Development money trust		5		5
		64		64
	₩	692,948	₩	645,173

51. Dividends

Details of the Company's dividend distribution for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014		2013	
Number of shares		516,906,826		644,906,826
Dividends per share (dividend rate) (Korean won)	₩	283.19(5.7%)	₩	120.07(2.4%)
Total amounts of dividends		146,384		77,433

Details of dividends payout ratio for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014		2013	
Dividends	₩	146,384	₩	77,433
Net income		365,115		444,320
Dividends payout ratio (per net income)		40.09%		17.43%
Adjusted income after deducting regulatory reserve for bad debt (*1)		480,873		385,446
Dividends payout ratio (per adjusted income after deducting regulatory reserve for bad debt)		30.44%		20.09%

(*1) Net income and adjusted income after deducting regulatory reserve for bad debt are based on equity held by the parents.

52. Unconsolidated structured entities

Details of the nature of the Company's interests in unconsolidated structured entities as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	Purpose	Major activity	Financing arrangement	Total assets December 31, 2014	Total assets December 31, 2013
Special purpose company	Financing through asset liquidation and securitization	Collection of securitized assets and financing	Issuing ABL/ABCP and others	₩ 5,970,855	₩ 7,313,872
Real estate finance	Operation for real estate (including SOC) development	Managing real estate development	Investment and borrowing	20,584,214	17,872,746
Shipping finance and accepting finance	Financing to purchase ships and ownership	Building or purchasing ships and financing	Investment and borrowing	9,421,184	6,587,181
Investment fund and trust	Managing investment fund and trust	Managing investment property	Issuing beneficiary certificates	5,542,776	6,385,442

Details of the Company's maximum exposure to loss from its interests in unconsolidated structured entities as at December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014 Special purpose company	Real estate finance	Shipping finance and accepting finance	Investment fund and trust
Assets:				
Loans receivable (A)	₩ 1,554,938	₩ 1,311,225	₩ 582,893	₩ 768,023
Securities (B)	1	21,107	-	70,784
Derivatives (C)	12,349	-	-	123
Others (D)	13,603	4,504	1,102	3,093
Liabilities:				
Derivatives	-	-	485	4,825
Provision	17	189	20	1,092
Others	14,391	3,186	-	-
Net asset	₩ 1,566,483	₩ 1,333,461	₩ 583,490	₩ 836,106
Maximum exposure to loss	₩ 3,018,491	₩ 1,421,836	₩ 684,087	₩ 842,023
Financial assets (A+B+C+D)	1,580,891	1,336,836	583,995	842,023
Credit and other commitment	1,437,600	85,000	100,092	-

52. Unconsolidated structured entities (cont'd)

	December 31, 2013							
Classification	Special purpose company		Real estate finance		Shipping finance and accepting finance		Investment fund and trust	
Assets:								
Loans receivable (A)	₩	450,628	₩	1,252,507	₩	465,566	₩	504,721
Securities (B)		1		24,123		-		68,098
Derivatives (C)		1,998		-		1,062		4,588
Others (D)		21,181		3,510		988		2,120
Liabilities:								
Derivatives		16,950		-		-		14,544
Provision		43		435		41		-
Others		21,228		564		-		-
Net asset	₩	435,587	₩	1,279,141	₩	467,575	₩	564,983
Maximum exposure to loss	₩	1,442,666	₩	1,413,544	₩	508,864	₩	580,158
Financial assets (A+B+C+D)		473,808		1,280,140		467,616		579,527
Credit and other commitment		968,858		133,404		41,248		631

53. Common control transaction

Merger between PT. Bank KEB Indonesia (KEBI) and PT. Bank Hana

In accordance with the regulations of the Bank of Indonesia, 2 or more local banks with the same ultimate parent company are prohibited to operate as an independent entity in Indonesia. Accordingly, PT. Bank KEB Indonesia (KEBI), a subsidiary of the Bank, and PT. Bank Hana, a subsidiary of Hana Bank, have completed a merger process on February 20, 2014 and changed the name to PT. Bank KEB Hana. PT. Bank KEB Hana incorporated into a subsidiary of the Bank on February 28, 2014 since the Bank owned major shares of PT. Bank KEB Hana after the acquisition.

The Company recognized the assets and liabilities acquired by the merger at the carrying amount of PT. Bank Hana, which were ultimately controlled by the same entity. Details of assets acquired and liabilities assumed as of the merger date are as follows (Korean won in millions):

Classification	Amount	
Assets acquired:		
Cash and due from banks	₩	87,368
Available-for-sale financial assets		23,745
Held-to-maturity investments		15,747
Loans receivable		653,620
Property and equipment		3,048
Intangible assets		1,208
Deferred income tax assets		143
Other assets		11,792
		796,671

53. Common control transaction (cont'd)

Merger between PT. Bank KEB Indonesia ("KEBI") and PT. Bank Hana (cont'd)

Classification		Amount
Liabilities assumed:		
Deposits		445,477
Borrowings		229,140
Current tax liabilities		1,956
Other liabilities		10,259
		686,832
Total identifiable net assets	₩	109,839

Merger plan between KEB Bank (China) Co., Ltd. and Hana Bank (China)

KEB decided on the merger of KEB Bank (China) Co., Ltd. and Hana Bank (China) at the Board of Director's meeting on December 5, 2013. KEB Bank (China) Co., Ltd. and Hana Bank (China) approved the merger at their general meetings of stockholders on December 13, 2013, the deemed date of merger.

After merger, Hana Bank (China), a surviving company, acquired KEB Bank (China) Co., Ltd., an extinct company, and consequently KEB lost the control of KEB Bank (China) Co., Ltd. as of December 31, 2014, which was converted into one of affiliates of KEB.

Plan of a merger between KEB and Hana Bank

Hana Financial Group Inc., Hana Bank and KEB decided on the merger of Hana Bank and KEB at the Board of Director's meetings on October 29, 2014.

After merger, a surviving company is KEB. On the date of merger, 2.9707919 shares of common stock of KEB will be granted to the shareholders of Hana Bank in the stockholder's list in exchange for 1 share of common stock of Hana Bank, an extinct company.

On February 4, 2015, the Seoul Central District Court ordered an injunction disallowing the merger until June 30, 2015.

54. Spin-off of a credit card division

On December 24, 2013, HFG and KEB's Board of Directors approved spinoff of a credit card division aiming for the expertise and competiveness in credit card business and for the improvement of risk management. The Financial Services Commission approved the spinoff of a credit card division and the newly established company after the spinoff on August 27, 2014.

54. Spin-off of a credit card division (cont'd)

Details of assets and liabilities transferred from KEB to KEB Card are as at December 31, 2014 and 2013 follows (Korean Won in millions):

Classification	December 31, 2014		December 31, 2013	
Assets acquired:				
Cash and due from banks	₩	330,419	₩	499,129
Loans receivable		2,719,701		2,563,070
Property and equipment		6,546		6,748
Intangible assets		5,289		6,281
Deferred income tax assets		46,354		42,535
Other assets		93,596		51,604
	₩	3,201,905	₩	3,169,367
Liabilities assumed:				
Debentures	₩	1,979,489	₩	2,029,299
Provisions		53,743		44,207
Other liabilities		529,181		456,285
	₩	2,562,413	₩	2,529,791
Equity:				
Common stock	₩	640,000	₩	640,000
Capital adjustments		(11)		(11)
Accumulated other comprehensive income		(497)		(413)
	₩	639,492	₩	639,576

Details of income from discontinued operation for the years ended December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

Classification	2014		2013	
Net interest income	₩	298,703	₩	447,266
Interest income		338,565		497,313
Interest expenses		(39,862)		(50,047)
Net fee and commission income		(132,406)		(171,812)
Fee and commission income		82,088		116,900
Fee and commission expenses		(214,494)		(288,712)
Impairment loss		(54,443)		(77,750)
Impairment loss on financial assets		(54,443)		(77,750)
General and administrative expenses		(56,448)		(88,222)
Net other operating expenses		(25,664)		(8,200)
Other operating income		26,452		42,454
Other operating expenses		(52,116)		(50,654)
Operating income		29,742		101,282
Non-operating income		2,745		2,595
Non-operating income		2,891		3,753
Non-operating expenses		(146)		(1,158)
Net income before income tax expense		32,487		103,877
Income tax expense		(7,859)		(25,138)
Net income from discontinued operations	₩	24,628	₩	78,739

54. Spin-off of a credit card division (cont'd)

Cash inflow related to a discontinued operation for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	2014	2013
Operating activities	₩ (120,063)	₩ 73,085
Investing activities	1,194	10,923
Financing activities	(49,810)	759,690

55. Approval date of financial statements and authorizing institution

The financial statements of the Bank will be approved at the board of directors on March 5, 2015 and will be finally approved at the annual meeting of shareholders on March 26, 2015.

Hana Bank and its subsidiaries

Consolidated financial statements

For the years ended December 31, 2014 and 2013

with independent auditors' report

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EY 한영
Building a better working world

Independent auditors' report

To the Board of Directors and Shareholders of
Hana Bank

We have audited the accompanying consolidated financial statements of Hana Bank and its subsidiaries (collectively referred to as the Company), which comprise the consolidated statements of financial position as at December 31, 2014 and 2013 and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years 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 (KIFRS), 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 opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hana Bank and its subsidiaries as at December 31, 2014 and 2013 and its financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Matter of emphasis

Without qualifying our opinion, we draw attention to Note 51 to the consolidated financial statements of Hana Bank, which discloses that Hana Bank decided to merge with KEB at the Board of Director's meeting on October 29, 2014, and on February 4, 2015, the Seoul Central District Court ordered an injunction to hold-off on the merger between Hana Bank and KEB until June 30, 2015.

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Other Matter

The 2013 comparative consolidated financial statements were audited in accordance with previous auditing standards generally accepted in the Republic of Korea.

Ernst & Young Han Young

March 6, 2015

This audit report is effective as at March 6, 2015, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditors' report to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

Hana Bank and its subsidiaries
Consolidated statements of financial position
As at December 31, 2014 and 2013
(Korean won in millions)

	Notes		December 31, 2014		December 31, 2013
Assets					
Cash and due from banks	5, 7, 8, 11, 48	₩	10,868,387	₩	9,640,683
Financial assets at fair value through profit or loss	5, 6, 7, 8, 12, 17		4,711,151		3,666,013
Available-for-sale financial assets	5, 7, 8, 13, 15		19,728,498		18,505,515
Held-to-maturity financial assets	5, 7, 8, 14, 15		2,111,583		2,160,990
Loans and receivables	5, 6, 7, 8, 15, 16		127,341,359		121,315,889
Derivative assets used for hedging	5, 6, 7, 8, 17		51,149		72,162
Investments in associates	18		956,729		704,569
Property and equipment	19		1,373,665		1,355,318
Investment properties	20		238,520		285,374
Intangible assets	21		91,840		102,243
Deferred income tax assets	45		18,448		5,772
Prepaid Income tax			4,107		1,122
Other assets	5, 6, 7, 8, 22		4,959,918		5,079,004
Total assets		₩	172,455,354	₩	162,894,654
Liabilities and equity					
Liabilities					
Financial liabilities at fair value through profit or loss	5, 6, 7, 8, 17, 23	₩	3,070,640	₩	1,887,962
Deposits	5, 7, 8, 24		126,903,712		116,075,010
Borrowings	5, 7, 8, 25		8,937,945		10,107,970
Debentures	5, 7, 8, 26		12,356,667		14,355,740
Derivative liabilities used for hedging	5, 6, 7, 8, 17		39,162		125,142
Net defined benefit liability	27		90,295		101,625
Provisions	28		118,108		121,296
Deferred income tax liabilities	45		157,146		4,050
Income taxes payable			9,650		40,982
Other liabilities	5, 6, 7, 8, 29, 47		8,012,461		8,629,607
Total liabilities			159,695,786		151,449,384
Equity					
Common stock	30		1,147,404		1,147,404
Capital surplus	30		2,874,846		2,763,998
Capital adjustments			147		(1,124)
Accumulated other comprehensive income	32		259,643		78,850
Retained earnings	31		8,115,908		7,430,668
(Reserve for bad debts)	10		(1,212,038)		(1,142,323)
(Required reversal of (reserve for) bad debts)	10		6,110		(69,715)
(Planned reversal of (reserve for) bad debts)	10		6,110		(69,715)
Equity attributable to equity owner of the parent			12,397,948		11,419,796
Non-controlling interests			361,620		25,474
Total equity			12,759,568		11,445,270
Total liabilities and equity		₩	172,455,354	₩	162,894,654

The accompanying notes are integral part of the consolidated financial statements

Hana Bank and its subsidiaries
Consolidated statements of comprehensive income
For the years ended December 31, 2014 and 2013

(Korean won in millions, except per share amounts)

	Notes	2014	2013
Net interest income	9, 33, 34		
Interest income		₩ 5,843,083	₩ 6,146,254
Interest expenses		(3,216,952)	(3,528,352)
		2,626,131	2,617,902
Net fees and commission income	9, 33, 35		
Fees and commission income		438,500	453,435
Fees and commission expenses		(100,352)	(100,715)
		338,148	352,720
Net gain on financial instruments at fair value through profit and loss	33, 36	125,117	145,013
Net gain (loss) on derivative financial instruments used for hedging	33, 37	2,661	(40,700)
Net gain on other financial assets	33, 38	361,447	187,818
Gain (loss) on foreign currency translation and transactions	33	(26,073)	(24,374)
Total operating income		3,427,431	3,238,379
Impairment losses on financial assets	33, 39	(604,412)	(567,234)
Net operating income		2,823,019	2,671,145
General and administrative expenses	9, 33, 40	(1,627,592)	(1,544,399)
Other operating income	33, 41	100,572	52,579
Other operating expense	33, 42	(382,856)	(378,538)
Operating income	3	913,143	800,787
Non-operating income			
Gain on valuation of equity method investments, net	18	92,286	76,068
Other non-operating income	43	162,218	51,004
Other non-operating expenses	44	(74,639)	(52,944)
Net income before income tax expense		1,093,008	874,915
Income tax expense	9, 45	(236,589)	(166,175)
Net income	10	856,419	708,740
(Adjusted income after deducting provisions for bad debt reserve of ₩862,529 and ₩639,025 for the years ended December 31, 2014 and 2013, respectively)			
Equity holders of the parent		856,076	706,240
Non-controlling interests		343	2,500
Other comprehensive income for the year, net of tax	32		
Items not reclassified subsequently to profit or loss:			
Remeasurements of defined benefit pension plans		(43,946)	(31,194)
		(43,946)	(31,194)
Items reclassified subsequently to profit or loss:			
Gain (loss) on valuation of available-for-sale financial assets		186,430	(134,600)
Exchange differences on translation of foreign operations		47,073	(28,164)
Equity adjustments in equity method		(7,232)	(2,576)
		226,271	(165,340)
		182,325	(196,534)
Total comprehensive income for the year, net of tax		₩ 1,038,744	₩ 512,206
Equity holders of the parent		1,036,869	516,973
Non-controlling interests		1,875	(4,767)
Earnings per share			
Basic and diluted earnings per share (in Korean won)	46	₩ 3,895	₩ 3,213

The accompanying notes are integral part of the consolidated financial statements

Hana Bank and its subsidiaries
Consolidated statements of changes in equity
For the years ended December 31, 2014 and 2013

(Korean won in millions)

	Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Controlling interest	Non-controlling interest	Total
As at January 1, 2013	₩ 1,147,404	₩ 2,763,446	₩ 591	₩ 268,117	₩ 6,854,110	₩ 11,033,668	₩ 30,241	₩ 11,063,909
Dividend	–	–	–	–	(129,682)	(129,682)	–	(129,682)
Gain (loss) on share-based payment transactions	–	552	(1,715)	–	–	(1,163)	–	(1,163)
Others								
	1,147,404	2,763,998	(1,124)	268,117	6,724,428	10,902,823	30,241	10,933,064
Net income for the year	–	–	–	–	706,240	706,240	2,500	708,740
Changes in remeasurements of the net defined benefit liability	–	–	–	(31,194)	–	(31,194)	–	(31,194)
Gain (loss) on valuation of available-for-sale financial assets	–	–	–	(134,514)	–	(134,514)	(86)	(134,600)
Differences arising from translation of foreign operations	–	–	–	(20,983)	–	(20,983)	(7,181)	(28,164)
Gain (loss) on valuation of equity method investments	–	–	–	(2,576)	–	(2,576)	-	(2,576)
Total consolidated comprehensive income for the year	–	–	–	(189,267)	706,240	516,973	(4,767)	512,206
As at December 31, 2013	₩ 1,147,404	₩ 2,763,998	₩ (1,124)	₩ 78,850	₩ 7,430,668	₩ 11,419,796	₩ 25,474	₩ 11,445,270

	Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Controlling interest	Non-controlling interest	Total
As at January 1, 2014	₩ 1,147,404	₩ 2,763,998	₩ (1,124)	₩ 78,850	₩ 7,430,668	₩ 11,419,796	₩ 25,474	₩ 11,445,270
Dividend	–	–	–	–	(170,836)	(170,836)	–	(170,836)
Changes of interest in subsidiary	–	110,659	–	–	–	110,659	334,271	444,930
Gain on share-based payment transactions	–	189	1,271	–	–	1,460	–	1,460
	1,147,404	2,874,846	147	78,850	7,259,832	11,361,079	359,745	11,720,824
Net income for the year	–	–	–	–	856,076	856,076	343	856,419
Changes in remeasurements of the net defined benefit liability	–	–	–	(43,946)	–	(43,946)	–	(43,946)
Gain on valuation of available-for-sale financial assets	–	–	–	186,420	–	186,420	10	186,430
Differences arising from translation of foreign operations	–	–	–	45,551	–	45,551	1,522	47,073
Gain (loss) on valuation of equity method investments	–	–	–	(7,232)	–	(7,232)	–	(7,232)
Total consolidated comprehensive income for the year	–	–	–	180,793	856,076	1,036,869	1,875	1,038,744
As at December 31, 2014	₩ 1,147,404	₩ 2,874,846	₩ 147	₩ 259,643	₩ 8,115,908	₩ 12,397,948	₩ 361,620	₩ 12,759,568

The accompanying notes are integral part of the consolidated financial statements

Hana Bank and its subsidiaries
Consolidated statements of cash flows
For the years ended December 31, 2014 and 2013
(Korean won in millions)

	For the years ended December 31, 2014	2013
Operating activities		
Net income before income tax expenses	₩ 1,093,008	₩ 874,915
Adjustments to reconcile net income before income tax expenses to net cash flows:		
Net loss (gain) on valuation of financial instruments at fair value through profit or loss	10,452	(36,552)
Net gain on disposal of available-for sale financial assets	(299,838)	(156,918)
Net gain on disposal of held-to-maturity financial assets	-	(345)
Impairment loss on available-for-sale financial assets	184,268	117,411
Valuation loss on derivative financial instruments used for hedging	1,357	40,700
Net gain on redemption of debentures	(4,253)	(1,988)
Provision of allowance for bad debts and other losses	420,144	449,823
Gain on valuation of equity method investments, net	(92,286)	(76,068)
Loss on disposal of property and equipment, net	4,378	132
Gain on disposal of intangible assets, net	(797)	(1,047)
Depreciation and amortization	118,539	148,300
Impairment loss of property and equipment	22,236	-
Impairment loss of intangible asset	620	375
Net reversal of allowances	(1,379)	(4,057)
Provision for pension benefits	107,497	73,670
Share based payment expense	3,361	4,566
Net interest expense	94,835	48,550
Loss on foreign exchange translations	26,989	82,091
Impairment loss of investments in associates	-	430
Gain on disposal of investments in subsidiaries	(113,011)	-
Others	122	1,208
	483,234	690,281
Changes in operating assets and liabilities:		
Due from banks	(1,858,437)	716,339
Financial assets at fair value through profit or loss	1,461,850	1,605,989
Loans and receivables	(5,100,941)	(7,072,761)
Derivative assets used for hedging	86,936	58,205
Other assets	178,292	(465,668)
Financial liabilities at fair value through profit or loss	(1,335,672)	(1,390,370)
Deposits	8,461,461	6,532,757
Derivative liabilities used for hedging	(114,597)	(54,632)
Net defined benefit liability	(175,272)	(87,618)
Provisions	(3,286)	(22,080)
Other liabilities	(633,841)	1,126,470
	966,493	946,631
Income tax paid	(191,462)	(91,103)
Net cash flows provided by operating activities	2,351,273	2,420,724

(Continued)

Hana Bank and its subsidiaries
Consolidated statements of cash flows
For the years ended December 31, 2014 and 2013
(Korean won in millions)

	For the years ended December 31, 2014		For the years ended December 31, 2013	
Investing activities				
Purchase of available-for-sale financial assets	₩	(15,931,841)	₩	(10,368,454)
Proceeds from disposal of available-for-sale financial assets		15,211,045		9,777,013
Purchase of held-to-maturity financial assets		(372,086)		(375,803)
Proceeds from disposal of held-to-maturity financial assets		427,017		248,148
Purchase of investments in associates		-		(32,490)
Proceeds from disposal of investments in associates		3,866		22,274
Receipts of dividends from investments in associates		52,664		26,982
Acquisition of property and equipment		(83,470)		(76,704)
Proceeds from disposal of property and equipment		22,350		2,624
Acquisition of intangible assets		(34,680)		(27,941)
Proceeds from disposal of intangible assets		4,422		2,221
Decrease in guarantee deposits, net		31,155		74,346
Net cash flow used in purchasing subsidiaries		(87,368)		-
Others		(686)		(1,286)
Net cash flows used in investing activities		(757,612)		(729,070)
Financing activities				
Increase (decrease) in borrowings, net		(1,285,673)		482,425
Issuance of debentures		2,712,311		3,678,181
Redemption of debentures		(4,877,839)		(3,804,987)
Dividends paid		(170,836)		(129,682)
Net inflow due to changes in investment interests in subsidiaries		1,322,991		-
Net cash flows provided by (used in) financing activities		(2,299,046)		225,937
Effect of changes in foreign exchange rates on cash and cash equivalents		74,652		(53,967)
Net increase (decrease) in cash and cash equivalents		(630,733)		1,863,624
Cash and cash equivalents at the beginning of the year (Note 48)		4,968,809		3,105,185
Cash and cash equivalents at the end of the year (Note 48)	₩	4,338,076	₩	4,968,809

The accompanying notes are integral part of the consolidated financial statements

1. Company information

The accompanying consolidated financial statements include Hana Bank (the Bank), and its controlled subsidiaries (collectively, the Company). The general information describing the Company's operations and equity–method investees is provided below.

1.1 Hana Bank

The Bank was initially incorporated in November 1959 under the name of Seoul Bank and acquired Korea Trust Bank in August 1976. On September 27, 2002, Seoul Bank entered into a business combination agreement with the previously existing Hana Bank and on December 1, 2002, upon completion of the merger with Seoul Bank which was deemed as the sole surviving entity, and subsequently changed its name to its current form.

The Bank primarily engages in commercial banking, capital markets, investment trusts and foreign currency exchanges, and other related operations as permitted under the Banking Act, the Capital Market and Financial Investment Business Act and other relevant laws and regulations in the Republic of Korea. The Bank has also been engaged in the bancassurance business since September 26, 2003, upon revisions to the Insurance Act. The Bank operates 606 domestic branches and 4 overseas branches as of December 31, 2014. The 2014 consolidated financial statements of the Company were approved by the Board of Directors on March 5, 2015

On December 1, 2005, the Bank became a wholly–owned subsidiary of Hana Financial Group Inc. (HFG) through a stock exchange with HFG. As a result, the Bank was delisted from the Korea Exchange (KRX) on December 12, 2005. The Bank is authorized to issue 2,000,000,000 ordinary shares with a par value of ₩5,000 per share, and has 219,799,157 ordinary shares issued and outstanding amounting to ₩1,147,404 million as of December 31, 2014. Pursuant to a resolution passed at the meeting of the Bank's Board of Directors, 9,681,720 ordinary shares held as treasury stock were disposed to receive retained earnings as of December 31, 2014.

1.2 Scope and overview of consolidation

The Company's ownership percentages in its consolidated subsidiaries as of December 31, 2014 are summarized as follows (ownership in %):

Investee	Country	Reporting date	Industry	Ownership (%)	
Hana Bank (China) Co., Ltd.(*)	China	December 31	Bank	59.7	100.0
Hana Micro Finance Ltd	Myanmar	December 31	Other financial business	100.0	–
Trust Accounts	Korea	December 31	Trust	–	–
Sevenstar Co., Ltd.	Korea	December 31	Other financial business	–	–
Joong-ang star Co., Ltd.	Korea	December 31	Other financial business	–	–
Hana CSP Co., Ltd.	Korea	December 31	Other financial business	–	–
Marine Solution Co., Ltd.	Korea	December 31	Other financial business	–	–
Coverbill Llc	Korea	December 31	Other financial business	–	–
LS Leading Solution PEF Invest Trust 143	Korea	December 31	Asset management company	100.0	–
Hyundai Trust PEF Invest 15	Korea	December 31	Asset management company	100.0	–
Hyundai Trust PEF Invest 16	Korea	December 31	Asset management company	100.0	–
Hana UBS Power PEF Invest Trust 20	Korea	December 31	Asset management company	100.0	–
Hana UBS Power PEF Invest Trust 21	Korea	December 31	Asset management company	100.0	–
Korea Basic PEF Invest Trust 63	Korea	December 31	Asset management company	100.0	–

(*) In 2014, the Company acquired KEB china, one of the subsidiaries of KEB.

1. Company information (cont'd)

1.2. Scope and overview of consolidation (cont'd)

Subsidiaries included in consolidation scope during the period ended December 31, 2014 are as follows:

	Reason
Hana Micro Finance Ltd	Newly established
Coverbill Llc	Newly established
LS Leading Solution PEF Invest Trust 143	Gain of control in current period
Hyundai Trust PEF Invest 15	Gain of control in current period
Hyundai Trust PEF Invest 16	Gain of control in current period
Hana UBS Power PEF Invest Trust 20	Gain of control in current period
Hana UBS Power PEF Invest Trust 21	Gain of control in current period
Hanhwa PEF Invest Trust 69	Gain of control in current period
Korea Basic PEF Invest Trust 63	Gain of control in current period

Subsidiaries excluded during the period ended December 31, 2014 are as follows:

	Reason
LS Leading Solution PEF Invest Trust 128	Disposal
Hana UBS Power PEF Invest Trust 18	Disposal
Hana UBS Power PEF Invest Trust 19	Disposal
Hanhwa PEF Invest Trust 29	Disposal
Hanhwa PEF Invest Trust 69	Disposal
Hyundai Trust PEF Invest 6	Disposal
Hyundai Trust PEF Invest 14	Disposal
Samsung Partner PEF Invest Trust 22	Disposal
Korea Basic PEF Invest Trust 54	Disposal
Hana Aphrodite Co., Ltd.	Complete Liquidation
Hana Cymbidium Co., Ltd	Complete Liquidation
PT Bank Hana(*)	Loss of control

(*) PT Bank Hana was merged with PT Bank KEB in the current period and subsequently changed its name to PT Bank KEB Hana. The Bank lost its control over the bank and changed its classification from a subsidiary to Investments in associates.

Condensed financial statements of main subsidiaries as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014					
	Assets	Liabilities	Equity	Revenue	Net income	Comprehensive Income (loss)
Hana Bank (China) Co., Ltd.	₩ 7,748,870	₩ 6,851,549	₩ 897,321	₩ 171,551	₩ (759)	₩ 8,459
Hana Micro Finance	909	32	877	7	(31)	(31)

	December 31, 2013					
	Assets	Liabilities	Equity	Revenue	Net income	Comprehensive Income (loss)
Hana Bank (China) Co., Ltd.	₩ 4,394,126	₩ 3,977,543	₩ 416,583	₩ 143,311	₩ 5,853	₩ 10,586
PT Bank Hana	750,944	648,635	102,309	53,555	10,041	(19,140)

1. Company information (cont'd)

1.2. Scope and overview of consolidation (cont'd)

Hana Bank (China) Co., Ltd. (Hana Bank China)

Hana Bank China was incorporated to engage in commercial banking, foreign currency exchanges and other related operations in China on December 14, 2007. The Bank contributed the assets and liabilities of the branches in Shanghai and Shenyang and its interests in the International Bank of Qingdao, which is the subsidiary of the Bank, to the Hana Bank China in the form of equity contributions on December 24, 2007. Hana Bank (China) Co., Ltd., one of subsidiaries in China, acquired and merged with KEB China, one of affiliates in the Hana Financial Group, on December 15, 2014. As of December 31, 2014, the Bank owns 59.7% shares and Korea Exchange Bank (KEB) has 40.3% shares of Hana Bank (China) Co., Ltd. Its paid-in capital is 3.35 billion yuan, and it owns a head office in Beijing and 30 branches.

Hana Micro Finance Ltd.

Hana Micro Finance Ltd., a subsidiary established in Yangon, Myanmar on August 7, 2014, is doing a small-loan finance service. The objective of the service is to satisfy low incomers' demand for small-loan finance and at the same time to lay the foundation for a retail market with excellent growth potential. As of December 31, 2014, its captial is US$ 1 million, and it owns a head office in Yangon.

1.3. Consolidated structured entities

LS Leading Solution PEF Investment Trust 143 and a set of 5 other private equity investment vehicles

In accordance with K–IFRS 1110 Consolidated Financial Statements, 6 private equity investment vehicles were included in consolidation scope, because the Company has existing rights that give it the current ability to direct the relevant activities, and is not only exposed, or has rights, to variable returns, but also has the ability to use its power to affect the Company's returns from its involvement with the investee.

Hana CSP Co., Ltd. and 4 other special purpose entities

In accordance with K–IFRS 1110 Consolidated Financial Statements, 5 special purpose companies were included in consolidation scope, because the Company has existing rights that give it the current ability to direct the relevant activities, and is not only exposed, or has rights, to variable returns, but also has the ability to use its power to affect the Company's returns from its involvement with the investee.

Trust accounts

In accordance with K–IFRS 1110 Consolidated Financial Statements, 16 trust accounts are included in consolidation scope because the Company has existing rights that give it the current ability to direct the relevant activities, and is not only exposed, or has rights, to variable returns, but also has the ability to use its power to affect the Company's returns from its involvement with the investee.

Characteristics and Intentions of contractual commitments offered by company to consolidated structured entities are as follows:

Entity	The Characteristics and Purposes	Intention
16 trust accounts including development trust	The Bank offers principal preserve commitment to trust accounts. The Bank is required to preserve the deficit in case the trust account stands below the principal as a result of operation.	Credit risk mitigation on financial management of trust account

1. Company information (cont'd)

1.3 Consolidated structured entities (cont'd)

Details of the nature of the Company's Interests in unconsolidated structured entities as of December 31, 2014 and 2013 are as follows (Korean won in millions):

Type	Characteristics and purposes	Financing arrangement	Total Assets December 31, 2014	Total Assets December 31, 2013
Special purpose company	Securitization of backed asset	Issuing ABL/ABCP and others	₩ 5,815,531	₩ 4,588,589
Real estate finance	Operation for real estate (including SOC) development	Investment and borrowing	10,966,236	7,946,084
Shipping finance and primary market finance	Building or purchasing ships and NPL purchase, M&A	Investment and borrowing	14,679,784	10,532,428
Investment fund	Managing investment property	Issuing beneficiary certificates	11,240,652	11,202,724

Details of the Company's maximum exposure to loss from its interests in unconsolidated structured entities as of December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	December 31, 2014 Special purpose company	Real estate finance	Shipping finance and primary market finance	Investment fund
Assets:				
Loans receivable (A)	₩ 660,826	₩ 861,318	₩ 1,873,802	₩ 391,514
Allowance for possible loan losses (B)	(72,713)	(17,827)	(7,270)	(1,100)
Securities (C)	–	75,875	–	1,154,070
Derivatives (D)	–	5,260	262	7,452
Others (E)	2,545	3,055	7,872	1,212
	590,658	927,681	1,874,666	1,553,148
Liabilities:				
Provision	398	19	92	1
Derivative liabilities	–	–	–	717
	398	19	92	718
Net asset	₩ 590,260	₩ 927,662	₩ 1,874,574	₩ 1,552,430
Maximum exposure to loss	1,149,742	947,742	2,059,396	1,553,788
Financial assets (A+B+C+D+E)	590,658	927,681	1,874,666	1,553,148
Credit and other commitment	559,084	20,061	184,730	640

Classification	December 31, 2013 Special purpose company	Real estate finance	Shipping finance and primary market finance	Investment fund
Assets:				
Loans receivable (A)	₩ 537,559	₩ 801,168	₩ 1,768,027	₩ 536,595
Allowance for possible loan losses (B)	(58,092)	(1,829)	(8,418)	(1,701)
Securities (C)	–	72,923	–	839,482
Derivatives (D)	–	3,913	906	–

1. Company information (cont'd)

1.3 Consolidated structured entities (cont'd)

	December 31, 2013			
Classification	Special purpose company	Real estate finance	Shipping finance and primary market finance	Investment fund
Others (E)	1,295	2,403	10,944	3,978
	480,762	878,578	1,771,459	1,378,354
Liabilities:				
Provision	243	4	116	1
Derivatives	–	–	–	1,314
	243	4	116	1,315
Net asset	₩ 480,519	₩ 878,574	₩ 1,771,343	₩ 1,377,039
Maximum exposure to loss	891,372	889,645	1,977,401	1,390,094
Financial assets (A+B+C+D+E)	480,762	878,578	1,771,459	1,378,354
Credit and other commitment	410,610	11,067	205,942	11,740

2. Scope and principles of consolidation

The Bank has the ability to determine the financial and operating policies of subsidiaries. Generally the Bank classified the entity as subsidiary in case the Bank has existing rights that give it the current ability to direct the relevant activities, and is not only exposed, or has rights, to variable returns, but also has the ability to use its power to affect the Company's returns from its involvement with the investee. Subsidiaries are fully consolidated from the date on which the control is transferred to the Company.

The investment accounts of the Company and the corresponding equity accounts of the subsidiaries are eliminated in consolidation. The consolidated financial statements reflect on only the share of the consolidated subsidiaries post–application of purchase accounting method.

The difference between the cost of investment and the Company's share of the fair value of identifiable net assets and liabilities of the subsidiaries at the date of purchase accounting method application is presented as goodwill or negative goodwill. A review of impairment is performed at the end of each reporting date.

If the controlling company additionally acquires the subsidiaries' share, the elimination of subsidiaries' equity account is based on the acquisition date of shares. The difference between the investment accounts of the Company and the corresponding equity accounts of the subsidiaries is amounted to the consolidated capital surplus (or capital adjustment).

All significant intercompany transactions and the account balances among the consolidated companies are eliminated on consolidation. Unrealized gains or losses included in loans and borrowings arising from transactions between consolidated companies are eliminated on consolidation. The related accounts receivable and payable are also eliminated on consolidation.

Investments in entities over which the Company has control or significant influence are accounted for using the equity method. Under the equity method of accounting, the Company's initial investment in an investee is recorded at acquisition cost. Subsequently, the carrying amount of the investment is adjusted to reflect the Company's share of income or loss of the investee in the statement of profit or loss and other comprehensive income and share of changes in equity that have been recognized directly in the equity of the investee in the related equity account of the Company on the statement of financial position. If the Company's share of losses of the investee equals or exceeds its interest in the investee, it suspends recognizing its share of further losses. However, if the Company has other long–term interests in the investee, it continues recognizing its share of further losses to the extent of the

2. Scope and principles of consolidation (cont'd)

carrying amount of such long–term interests. The Company resumes the application of the equity method if the Company's share of income or change in equity of an investee exceeds the Company's share of losses accumulated during the period of suspension of the equity method of accounting.

At the date of acquisition, the excess of the cost of the investment over the Company's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as goodwill or negative goodwill. The amortization expense is included as a part of valuation gain or loss on the equity method investments in the statement of profit or loss and other comprehensive income. The difference related to goodwill is recorded as the carrying amount. Goodwill is reviewed for the impairment when signs of damage arise and is not amortized over its useful life.

Further, the Company's share of any difference between the net fair value of the investee's identifiable assets and liabilities, and the net book value of such assets and liabilities are amortized based on the investee's accounting treatments on the related assets and liabilities and charged or credited to the valuation gain or loss on the equity method investments in the statement of profit or loss and other comprehensive income.

The Company's share in the investee's unrealized profits and losses resulting from transactions between the Company and its investee are eliminated to the extent of the interest in the investee.

A special reserve provided for the possible future losses on certain trust accounts under the arrangement of guaranteed fixed rate of return and repayment of the principal and guaranteed repayment of the principal is included under the retained earnings in the consolidated fixed.

Subsidiaries' equity which is not included in the Company's share is accounted as non-controlling interests. In case subsidiaries' non-controlling interests is below "0", minus non-controlling interests is presented as deduction of equity.

3. Basis of preparation and significant accounting policies

3.1 Basis of preparation

The Company prepares statutory consolidated financial statements in the Korean language in accordance with Korean International Financial Reporting Standards (KIFRS) enacted by the Corporate External Audit Law.

The accompanying consolidated financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the consolidated financial statements or the report on review of consolidated financial statements thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

3.2 Changes in accounting policies and disclosures

New and amended standards

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2013, except for the adoption of new standards and interpretation as at January 1, 2014, noted below:

3.2.1 Standards related to investment entities (K-IFRS 1110, 1112, and 1027) (Amendment)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under K–IFRS 1110. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that these amendments would be relevant to the Company, since the Company would not qualify to be an investment entity under K–IFRS 1110.

3. Summary of significant accounting policies (cont'd)

3.2 Changes in accounting policies and disclosures (cont'd)

3.2.2 K–IFRS 1032 Financial Instrument: Presentation - Offsetting Financial Assets and Liabilities (Amendment)

The amendment clarifies the meaning of "currently has a legally enforceable right to set–off". This amendment also clarifies the application of the K–IFRS 1032 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. This amendment is not expected to have material impact on the Company's consolidated financial statements.

3.2.3 K–IFRS 1039 Financial Instrument : Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendment)

The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Company has not novated derivatives for current and previous periods, that the Company does not expect that this amendment will have material impact on the Company's consolidated financial statements.

3.2.4 K–IFRS 1036: Impairment of Assets - Disclosure of recoverable amounts of non-financial assets (Amendment)

The amendment removes the unintended consequences of K–IFRS 1113 on the disclosures required under K–IFRS 1036. In addition, this amendment requires disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. This amendment is not expected to have material impact on the Company's consolidated financial statements.

3.2.5 K–IFRS 2121: Levies (New)

K–IFRS 2121 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. It is not expected to have material impact on the Company's consolidated financial statements.

The Company has not early adopted any other standard, interpretation or amendment that been issued but is not yet effective.

3.3 Foreign currency transaction

3.3.1 Functional currency

When preparing for the consolidated financial statements, the Company measures and recognizes all items and transactions according to the functional currency. The term, functional currency, is defined as the monetary unit of account of the principal economic environment in which the entity operates, and trades between entities using its own functional currency and other currencies which are converted to the Company's functional currency to be measured and recognized.

3. Summary of significant accounting policies (cont'd)

3.3 Foreign currency transaction (cont'd)

3.3.2 Transactions and balances at the end of the reporting period

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the reporting date. All differences arising on non–trading activities are taken to 'Other operating income' in the statement of profit or loss and other comprehensive income, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. These differences are taken directly to equity until the disposal of the net investment, at which time, they are recognized in the statement of profit or loss and other comprehensive income.

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non–monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

3.3.3 Translation of the presentation currency

As at the reporting date, the assets and liabilities of overseas branches are translated into the Company's presentation currency, Korean won (KRW), at the rate of exchange as at the reporting date, and their statement of profit or loss and other comprehensive income are translated at the average exchange rates for the period. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity related to that particular foreign operation is recognized in 'Other operating expenses' or 'Other operating income' in the statement of profit or loss and other comprehensive income.

3.4 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise of cash at Banks and on hand and short-term deposits with an original maturity of three months or less. The purpose of cash and cash equivalents is to make short-term investments and to meet short-term cash demands. Cash and cash equivalents are highly liquidable, easily convertible and subject to changes in value.

3.5 Financial assets – classification and subsequent measurement

All financial assets are classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets, and loans and receivables. The Company determines the classification of its financial assets at initial recognition.

All financial assets are initially recognized on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. This includes 'Regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

The classification of financial assets at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial assets are measured initially at their fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

3. Summary of significant accounting policies (cont'd)

3.5 Financial assets – classification and subsequent measurement (cont'd)

3.5.1 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held–for–trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held–for–trading if they are acquired for the purpose of selling or repurchasing in the short–term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments as defined by K–IFRS 1039 Financial Instruments: Recognition and Measurement. Derivatives, including separate embedded derivatives are also classified as held–for–trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognized in finance income or finance cost in the statement of profit or loss and other comprehensive income.

3.5.2 Available–for–sale financial assets

Available–for–sale financial assets include equity and debt securities. Equity investments classified as available–for sale are those, which are neither classified as held–for–trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in market conditions.

After initial measurement, available–for–sale financial assets are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income in the available–for–sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available–for–sale reserve to impairment loss in the statement of profit or loss and other comprehensive income. Interest earned whilst holding available–for–sale financial assets is reported as interest income using the effective interest rate method (EIR). However, non–marketable securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured using the cost method. Dividends earned whilst holding available–for–sale financial assets are recognized in the statement of profit or loss and other comprehensive income when the right of the payment has been established.

3.5.3 Held–to–maturity financial assets

Non–derivative financial assets with fixed or determinable payments and fixed maturities are classified as held–to–maturity when the Company has the positive intention and ability to hold them to maturity. From initial measurement, held–to–maturity financial assets are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of profit or loss and other comprehensive income. The losses arising from impairment are recognized in finance costs in the statement of profit or loss and other comprehensive income.

3.5.4 Loans and receivables

Loans and receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of profit or loss and other comprehensive income except for short–term loans and receivables which the recognition of interest income is deemed immaterial.

3. Summary of significant accounting policies (cont'd)

3.6 Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments such as forward currency contracts, interest rate swaps and forward commodity contracts to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are classified as trading derivatives or hedging derivatives depending on whether hedge accounting is applied or not, and are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives are taken directly to the statement of profit or loss and other comprehensive income, except for the effective portion of cash flow hedges or hedges of net investment in a foreign operation, which is recognized in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk)
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or also the foreign currency risk in an unrecognized firm commitment

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The 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 effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

3.6.1 Fair value hedges

The change in the fair value of an interest rate hedging derivative is recognized in finance costs in the statement of profit or loss and other comprehensive income. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognized in the statement of profit or loss and other comprehensive income.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through the statement of profit or loss and other comprehensive income over the remaining term to maturity. EIR amortization may begin as soon as an adjustment exists no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedge item is derecognized, the unamortized fair value is recognized immediately in the statement of profit or loss and other comprehensive income.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the statement of profit or loss and other comprehensive income.

3. Summary of significant accounting policies (cont'd)

3.6 Derivative financial instruments and hedge accounting (cont'd)

3.6.2 Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognized directly in equity as other comprehensive income. The ineffective portion of gain or loss on the hedging instrument is recognized immediately under finance costs in the statement of profit or loss and other comprehensive income.

Amounts recognized as other comprehensive income are transferred to the statement of profit or loss and other comprehensive income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non–financial asset or non–financial liability, the amounts recognized as other comprehensive income are transferred to the initial carrying amount of the non–financial asset or liability statement of profit or loss and other comprehensive income.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity are transferred to the statement of profit or loss and other comprehensive income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit and loss.

3.6.3 Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

3.6.4 'Day 1' profit or loss

In case of derivatives in level 3 (see Note 5), whose fair value is determined using data which is not observable from markets, the difference between the transaction price and fair value at initial recognition (a 'Day 1' profit or loss) is deferred and amortized over the life of the associated instrument using the straight–line method and the amortization is recognized in the statement of profit or loss and other comprehensive income.

3.6.5 Liquidity adjustment and credit valuation adjustment

When measuring derivatives at fair value using valuation techniques, the liquidity adjustment and credit valuation adjustment are calculated to reflect the spread for bid and ask prices to reflect costs to close out positions and credit risk of counterparties.

3.7 Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and if that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3. Summary of significant accounting policies (cont'd)

3.7 Impairment of financial assets (cont'd)

3.7.1 Available–for–sale financial assets

For available–for–sale financial assets, the Company assesses at each reporting date whether there is objective evidence that an asset is impaired. When there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit or loss and other comprehensive income, is removed from other comprehensive income and recognized in the statement of profit or loss and other comprehensive income.

In the case of equity investments classified as available–for–sale, objective evidence would include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Impairment loss on equity investments is not reversed through the statement of profit or loss and other comprehensive income; increases in their fair value after impairment are recognized directly in other comprehensive income. In the case of debt investments classified as available–for–sale, if, in a subsequent year, increases in the fair value because of an event occurring after the impairment were recognized, the previously recognized impairment is reversed.

3.7.2 Held–to–maturity financial assets

When objective evidence exists for the impairment of a particular held–to–maturity financial asset, the Company calculates the difference between the carrying amount and the present value of the estimated future cash flows using the EIR. If, in subsequent years, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment is reversed and reduced by adjusting the allowance account. If the carrying amount does not reflect the impairment at the initial recognition after the reversal, the amount cannot exceed the amortized cost at the date of the reversal recognition.

3.7.3 Loans and receivables

The Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the individual impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the individual impairment loss is recognized in the statement of profit or loss and other comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the amount of the individual impairment loss.

The present value of the estimated future cash flows is discounted at the financial assets original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past–due status and other relevant factors.

3. Summary of significant accounting policies (cont'd)

3.7 Impairment of financial assets (cont'd)

3.7.3 Loans and receivables (cont'd)

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude).

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3.8 Reclassification of financial assets

The Company may reclassify, in certain circumstances, non–derivative financial assets out of the 'Financial asset at fair value through profit or loss' category and into the 'Available–for–sale', 'Loans and receivables', or 'Held–to–maturity' categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the 'Available–for–sale' category and into the 'Loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

For a financial asset reclassified out of the 'Available–for–sale' category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the statement of profit or loss and other comprehensive income.

The Company may reclassify a non–derivative trading asset out of the 'Held–for–trading' category and into the 'Loans and receivables' category if it meets the definition of loans and receivables and the Company has the intent and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimates.

3.9 Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'Pass–through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

3. Summary of significant accounting policies (cont'd)

3.9 Derecognition of financial assets (cont'd)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

3.10 Recognition and measurement of financial liabilities

All financial liabilities are classified as financial liabilities at fair value through profit or loss, borrowings or others and measured initially at their fair value plus transaction costs, except in the case of financial liabilities recorded at fair value through profit or loss.

3.10.1 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held–for–trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held–for–trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by K–IFRS 1039 Financial Instruments: Recognition and Measurement. Separated embedded derivatives are also classified as held–for–trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held–for–trading are recognized in the statement of profit or loss and other comprehensive income.

3.10.2 Deposits, borrowings, and debentures

After initial recognition, interest bearing deposits, borrowings and debentures are subsequently measured at amortized cost using the EIR. Gains and losses are recognized in the statement of profit or loss and other comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the statement of profit or loss and other comprehensive income.

3.11 Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of profit or loss and other comprehensive income.

3.12 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3. Summary of significant accounting policies (cont'd)

3.13 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that 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 provision is used only for expenditures for which the provision was originally recognized. If the effect of the time value of money is material, provisions are stated at present value.

Confirmed acceptances and guarantees, unconfirmed acceptances and guarantees and bills endorsed are not recognized on the statement of financial position, but are disclosed as off–statement financial position items in the notes to the financial statements. The Company provides a provision for such off–statement financial position items, applying a Cash Conversion Factor (Cash CF) and provision rates, and records the provision as a reserve for possible losses on acceptances and guarantees. The Company provides an allowance for possible losses on a certain portion of unused credit line. The Company records the provision for such unused balances as an allowance for possible losses on unused commitments which are calculated by applying a Credit Conversion Factor (CCF) and provision rates.

3.14 Financial guarantees

In the ordinary course of business, the Company gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the statement of profit or loss and other comprehensive income, and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees and the premium received are recognized in the statement of profit or loss and other comprehensive income.

3.15 Bonds purchased under resale agreements and bonds sold under repurchase agreements

Bonds purchased under resale agreements and bonds sold under repurchase agreements are included in loans and borrowings, respectively, in the accompanying statement of financial position.

3.16 Property and equipment

Property and equipment (including equipment under operating leases where the Company is the lessor) is stated at cost excluding the costs of day–to–day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and are treated as changes in accounting estimates.

Depreciation is calculated using the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

	Depreciation method	Years
Buildings	Straight–line method	5 to 55
Vehicles, furniture and fixtures, leasehold improvements	Declining balance method	5

Property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in other operating income in the statement of profit or loss and other comprehensive income when the asset is derecognized.

3. Summary of significant accounting policies (cont'd)

3.17 Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated using the cost model.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the statement of profit or loss and other comprehensive income in the period of derecognition, and transfers are made to or from investment property only when there is a change in use.

Depreciation method to measure buildings which are classified as investment properties is the straight–line method with useful lives ranging from 5 to 55 years.

3.18 Intangible assets

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Company.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss.

Amortization is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives. The estimated useful lives are as follows:

	Depreciation method	Years
Industrial property, software, system ddevelopment	Straight–line method	5
Other intangible assets	Straight–line method	1 to 7

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over their useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least each financial year's end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the expense category consistent with the function of the intangible asset in the statement of profit or loss and other comprehensive income. Intangible assets with indefinite useful lives are not amortized but are annually tested for impairment. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

3.19 Impairment of non–financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash–generating unit's (CGU) fair value less costs to sell and its value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

3. Summary of significant accounting policies (cont'd)

3.20 Pension benefits

The Company operates a defined benefit pension plan and verifies the amount payable to the employees for the services rendered to the Company based on elements such as years of service and salary. The defined benefit liability comprises the present value of the defined benefit obligation less unrecognized past service costs and less the fair value of plan assets out of which the obligations are to be settled directly, less actuarial losses not yet recognized. The cost of providing benefits under the defined benefit plan is determined separately using the projected unit credit actuarial valuation method. The present value of the defined benefit liability is recorded in the same currency as the payment itself and is calculated by discounting the expected future cash flow and using the interest rate of other reputable companies with similar payment and end of reporting dates.

Changes in the actuarial assumptions and actuarial gains and losses between estimates and results are recognized in the period they occur as part of other comprehensive income.

Past service cost is recognized as an expense on a straight–line basis over the average period until the benefits become vested. If the benefits vest immediately following the introduction of, or changes to, a pension plan, the past service cost is recognized immediately.

3.21 Share–based payment transactions

Employees (including senior executives) of the Company receive remuneration in the form of share–based payment transactions, whereby employees render services as consideration for equity instruments, or they are granted share appreciation rights, which can only be settled in cash. If the goods or services provided cannot be reliably measured, the endowed equity is indirectly estimated at fair value and the Company accounts for compensation costs and equity.

The cost of cash–settled transactions is measured initially at fair value at the grant date, taking into account the terms and conditions upon which the instruments were granted. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, which changes in fair value recognized in the statement of profit or loss and other comprehensive income. Also, in the case of a selectable share–based payment transaction in which the employees have a choice between a cash–settled transaction and an equity–settled transaction, the Company records the amount depending on its materiality.

3.22 Employee benefits

3.22.1 Short-term employee benefits

When employees have rendered services to the Company during an accounting period, the Company recognizes the undiscounted amount of Short-term employee benefits. This amount is expected to be settled in whole before twelve months after the end of the reporting period, in exchange for those services.

3.22.2 Termination benefits

The Company recognizes an expense for termination benefits when an employee accepts the offer or when a restriction on the Company's ability to withdraw the offer takes effect.

3. Summary of significant accounting policies (cont'd)

3.23 Income tax expenses and deferred tax assets and liabilities

Income taxes comprise of current and deferred taxes. All items related to taxes, other than those recognized directly in equity, are accounted for in the statement of profit or loss and other comprehensive income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Company operates and generates taxable income. If the applied tax laws require an interpretation, the Company calculates income tax payable expected to be paid to the taxation authorities based on the opinion made when the taxes were reported.

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the years when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and taxation authority.

3.24 Equity

3.24.1 Classification of equity

The Company classifies financial instruments at initial recognition as either financial liabilities or financial equity depending on the contractual materiality. In the case where it is possible to avoid the related contractual obligations, the financial item is classified as a financial equity.

3.24.2 Stock issuance costs

New stock issuance costs or incremental costs related to the stock issuance for business combinations are recorded as a deduction from paid–in capital net of tax effects.

3.25 Earning Per share

Basic and diluted earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding during the year.

3. Summary of significant accounting policies (cont'd)

3.26 Accounting basis for trust accounts

The Company separately maintains the books of accounts and financial statements in connection with the trust operations (the "trust accounts") from those of the Bank's accounts in accordance with the Financial Investment Services and Capital Markets Act ("FSCMA"). When surplus funds are generated through the management of trust assets, such funds are deposited with the Bank and are recorded as due to trust accounts of the Bank's accounts. Also, the borrowings from the Bank's accounts are recorded as due from trust accounts of the Bank's accounts. The Company receives fees for operation and management of the trust business and accounts for them as fee and commission income from trust accounts.

With respect to certain trust account products, the Company guarantees the repayment of principal and interest of these trust accounts, in certain cases, with a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in these trust accounts, offsetting trust fee payable to the Bank's accounts and receiving compensation contributions from the Bank's accounts. If the Company pays compensating contributions to the guaranteed return trusts to cover such deficiencies, these contributions are reflected as fee and commission expense from trust accounts in the Company's consolidated statements of comprehensive income.

3.27 Interest income and interest expense

For all financial instruments measured at amortized cost, and interest bearing financial assets classified as available–for–sale, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

Interest income on impaired loans is recognized on a cash basis. Once the recorded value of a financial asset has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.28 Fees and commission income

The Company earns fee and commission income from a diverse range of services it provides to its customers. Fee income related to financial services is treated differently depending on the objective imposed by the related financial item. Fee income can be divided into the following categories:

- Fees earned for the provision of services over a period of time are accrued over that period.
- Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan.
- Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized upon completion of the underlying transaction.

3.29 Dividend income

Dividend income is recognized when the Company's right to receive the payment is established.

4. Significant judgments and accounting estimates

The preparation of the Company's consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Company's accounting policies, management has made the following judgments that have a significant effect on the amounts recognized in the consolidated financial statements:

4.1 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable market data where possible, but where this is not feasible, a degree of judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in detail in Note 5.

4.2 Impairment loss on equity securities classified as available–for–sale financial assets

The Company reviews its equity securities classified as available–for–sale assets at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Company also records impairment on available–for–sale equity investments when there has been a significant (30% or more) or prolonged decline (six months or more) in the fair value of the investment below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Company evaluates, among other factors, historical share price movements, duration, and extent to which the fair value of an investment is less than its cost.

4.3 Impairment loss on loans

The Company reviews its individually significant loans at each reporting date to assess whether impairment should be recorded in the statement of profit or loss and other comprehensive income. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss, if any. These estimates are based on assumptions regarding a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans that have been assessed individually and found not to be impaired and all individually insignificant loans are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilization, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

4.4 Provision for pension benefits

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method. Actuarial assumptions were made for the discount rate, and an increase in the future pay rate. Severance and retirement benefits include significant uncertainties in the estimates due to the long-term duration.

4. Significant judgments and accounting estimates (cont'd)

4.5 Impairment of non–financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

4.6 Income taxes

Different taxation laws that the Company's foreign subsidiaries are exposed to require judgment in determining the amount of tax expenses that can be recognized. In addition, there has been various transactions and tax accounting methods which have made computing the final tax expenses for the period uncertain. The contingent liability from any future tax assessments is based on the estimates of the likelihood of additional taxes imposed and has been included in the Company's consolidated financial statements for the current period. When the finalized tax expense assessments are different from the appropriated amounts, the differences, if any, are recognized in current deferred tax assets, liabilities, and expenses for the period.

5. Fair value of financial assets and financial liabilities

5.1 Book value and Fair value of financial assets and financial liabilities

The book value and fair value of financial instruments as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014		December 31, 2013	
	Book value	Fair value	Book value	Fair value
Financial assets :				
Cash and due from banks	₩ 10,868,387	₩ 10,868,228	₩ 9,640,683	₩ 9,638,020
Financial assets at fair value through profit or loss				
Equity securities	10,518	10,518	17,350	17,350
Debt securities	2,062,135	2,062,135	1,752,199	1,752,199
Derivative assets used for trading	2,638,498	2,638,498	1,896,464	1,896,464
Available-for-sale financial assets				
Equity securities	1,728,436	1,728,436	1,939,559	1,939,559
Debt securities	18,000,062	18,000,062	16,565,956	16,565,956
Held–to–maturity financial assets	2,111,583	2,250,328	2,160,990	2,241,012
Loans	127,341,359	128,212,420	121,315,889	121,196,422
Derivative assets used for hedging	51,149	51,149	72,162	72,162
Others	4,857,121	4,857,121	4,635,615	4,635,615
	₩ 169,669,248	₩ 170,678,895	₩ 159,996,867	₩ 159,954,759
Financial liabilities :				
Financial liabilities at fair value through profit or loss				
Financial liabilities held–for–trading				
Securities sold	₩ 133,452	₩ 133,452	₩ 31,825	₩ 31,825
Derivative liabilities used for trading	2,687,155	2,687,155	1,856,137	1,856,137

5. Fair value of financial assets and financial liabilities (cont'd)

5.1 Book value and Fair value of financial assets and financial liabilities (cont'd)

	December 31, 2014		December 31, 2013	
	Book value	Fair value	Book value	Fair value
Financial liabilities designated at fair value through profit or loss	250,033	250,033	–	–
Deposits	126,903,712	127,077,761	116,075,010	116,033,218
Borrowings	8,937,945	8,938,531	10,107,970	10,109,462
Debentures	12,356,667	12,394,534	14,355,740	14,395,739
Derivative liabilities used for hedging	39,162	39,162	125,142	125,142
Others	7,859,133	7,859,133	8,310,337	8,310,337
	₩ 159,167,259	₩ 159,379,761	₩ 150,862,161	₩ 150,861,860

The following standards are applied in measuring fair value of financial assets and financial liabilities:

- Financial assets and financial liabilities traded in active markets at the reporting date are based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For all other financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques.
- Valuation techniques include the discounted cash flow method, comparison with the similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models. These techniques incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments. Valuation techniques which provide reliable estimates on mark–to–market prices are applied.
- When determining fair value using the valuation techniques, comparison with the current market transaction of another instrument that is substantially the same as the financial instrument needed to be objectively substantiated or inclusion of variables in the marketable data must be performed. Not all of the significant market variables are observable and in relevant cases, the reasonable estimates or assumptions are required to determine the fair value.
- Investments in equity instruments that do not have a quoted market price in an active market as well as the derivatives that are linked to these equity instruments are accounted for using the cost method when it is determined that their fair values cannot be reliably measured.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: Other techniques in which all significant inputs and significant value drivers are observable in active markets
- Level 3: Techniques, such as pricing models, discounted cash flow methodologies, or similar techniques based on significant unobservable inputs, as well as management judgments or estimates that are significant to valuation

5. Fair value of financial assets and financial liabilities (cont'd)

5.2 Financial instruments that are measured at fair value in the statement of financial position

The levels of the fair value hierarchy of financial instruments that are measured at fair value in the statement of financial position as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014			
	Levels of the fair value hierarchy			
	Level 1 (*2)	Level 2 (*2)	Level 3	Total
Financial assets :				
Financial assets at fair value through profit or loss				
Equity securities	₩ 10,518	₩ –	₩ –	₩ 10,518
Debt securities	1,316,752	745,383	–	2,062,135
Derivative assets used for trading	139	2,636,464	1,895	2,638,498
Available–for–sale financial assets				
Equity securities (*1)	237,540	991,497	499,399	1,728,436
Debt securities	7,594,405	10,398,865	6,792	18,000,062
Derivative assets used for hedging	–	40,302	10,847	51,149
	₩ 9,159,354	₩ 14,812,511	₩ 518,933	₩ 24,490,798
Financial liabilities :				
Financial liabilities at fair value through profit or loss				
Financial liabilities held–for–trading				
Securities sold	133,452	–	–	133,452
Derivative liabilities used for trading	–	2,687,155	–	2,687,155
Financial liabilities designated at fair value through profit or loss	–	168,577	81,456	250,033
Derivative liabilities used for hedging	–	39,162	–	39,162
	₩ 133,452	₩ 2,894,894	₩ 81,456	₩ 3,109,802

	December 31, 2013			
	Levels of the fair value hierarchy			
	Level 1 (*2)	Level 2 (*2)	Level 3	Total
Financial assets :				
Financial assets at fair value through profit or loss				
Equity securities	₩ 17,350	₩ –	₩ –	₩ 17,350
Debt securities	1,062,853	689,346	–	1,752,199
Derivative assets used for trading	142	1,892,749	3,573	1,896,464
Available–for–sale financial assets				
Equity securities (*1)	676,294	611,771	651,494	1,939,559
Debt securities	5,192,357	11,366,259	7,340	16,565,956
Derivative assets used for hedging	–	58,317	13,845	72,162
	₩ 6,948,996	₩ 14,618,442	₩ 676,252	₩ 22,243,690

5. Fair value of financial assets and financial liabilities (cont'd)

5.2 Financial instruments that are measured at fair value in the statement of financial position (cont'd)

	December 31, 2013			
	Levels of the fair value hierarchy			
	Level 1 (*2)	Level 2 (*2)	Level 3	Total
Financial liabilities :				
Financial liabilities at fair value through profit or loss				
Securities sold	31,825	–	–	31,825
Derivative liabilities used for trading	–	1,855,997	140	1,856,137
Derivative liabilities used for hedging	–	117,492	7,650	125,142
	₩ 31,825	₩ 1,973,489	₩ 7,790	₩ 2,013,104

(*1) Available–for–sale financial assets amounting to ₩39,012 million and ₩47,738 million were valued at cost as of December 31, 2014 and 2013, respectively, since their fair values could not be reasonably estimated, and they are included in Level 3 in the fair value hierarchy.

(*2) There was no transfer between Level 1 and Level 2 of the financial instruments that were measured at fair value for the periods ended December 31, 2014 and 2013. The Company recognizes transfers between levels at the beginning of quarter when events or changes in circumstances causing the transfers between levels have occurred.

Fair value, descriptions of the valuation technique and the inputs used in the fair value measurement of financial instruments categorized as Level 2 of the fair value hierarchy of financial instruments measured at fair value in the statement of financial position as of December 31, 2014 and 2013 are as follows (Korean won in million):

	Fair value			
	December 31, 2014	December 31, 2013	Description of the valuation technique	Inputs used in the fair value measurement
Financial assets:				
Financial assets at fair value through profit or loss				
Debt securities	₩ 745,383	₩ 689,346	DCF model	Discount rate
Derivative assets held-for-trading	2,636,464	1,892,749	Black-Scholes model Hull-White 1 factor model Black model DCF model	Volatility, Discount rate, Exchange rate, and Interest rate, etc.
Available-for-sale financial assets				
Equity securities	991,497	611,771	DCF model	Discount rate
Debt securities	10,398,865	11,366,259	DCF model	Discount rate
Derivative assets used for hedging	40,302	58,317	Hull-White 1 factor model Black model	Volatility and Discount rate, etc.
	₩ 14,812,511	₩ 14,618,442		

5. Fair value of financial assets and financial liabilities (cont'd)

5.2 Financial instruments that are measured at fair value in the statement of financial position (cont'd)

	Fair value		Description of the valuation technique	Inputs used in the fair value measurement
	December 31, 2014	December 31, 2013		
Financial liabilities :				
Financial liabilities at fair value through profit or loss				
Derivative liabilities used for trading	₩ 2,687,155	₩ 1,855,997	Black-Scholes model Hull-white 1 factor model Black model DCF model	Volatility, discount rate, exchange rate and interest rate, etc.
Financial liabilities designated at fair value through profit or loss	168,577	–	Hull-white short-rate model	KRW interest swap yield curve KRW swaption volatility
Derivative liabilities used for hedging	39,162	117,492	Hull-White 1 factor model Black model	Volatility and discount rate, etc.
	₩ 2,894,894	₩ 1,973,489		

Fair value, descriptions of the valuation technique, the inputs used in the fair value measurement and quantative information about the significant unobservable inputs used in the fair value measurement of financial instruments, which are categorised as Level 3 of the fair value hierarchy, measured at fair value in the statement of financial position are as follows. (Korean won in millions):

	Fair value		Description of the valuation technique	Inputs used in the fair value measurement	Significant unobservable inputs used in the fair value measurement	Range	The effect of changes in unobservable Inputs on fair value
	December 31, 2014	December 31, 2013					
Financial assets :							
Financial assets at fair value through profit or loss							
Derivative assets used for trading	₩ 1,895	₩ 3,573	Black model	KRW interest swap yield curve KRW treasury bond yield curve Volatility of each bond yield Correlation of underlying assets	Correlation of underlying assets	0.94	When the correlation increases, the fair value decreases
Available-for-sale financial assets							
Equity securities	499,399	651,494	DCF model		Growth rate	0.0 ~+0.2	Positive
			Comparative on similar business Net asset value model Utilization of Past transaction	Growth rate Discount rate	Discount rate	4.2 ~15.4	Negative

5. Fair value of financial assets and financial liabilities (cont'd)

5.2 Financial instruments that are measured at fair value in the statement of financial position (cont'd)

	Fair value						
	December 31, 2014	December 31, 2013	Description of the valuation technique	Inputs used in the fair value measurement	Significant unobservable inputs used in the fair value measurement	Range	The effect of changes in unobservable Inputs on fair value
Debt securities	6,792	7,340	DCF model	Discount rate	Discount rate	27.8	Negative
Derivative assets used for hedging	10,847	13,845	Hull-White 1 factor model	KRW interest swap yield curve USD treasury bond yield curve Volatility of interest rate Correlation of underlying assets	Correlation of underlying assets	0.46 ~0.97	Positive
				Correlation between USD interest rate and KRW/USD exchange rate	Correlation between USD interest rate and KRW/USD exchange rate	0.24	Positive
	₩ 518,933	₩ 676,252					
Financial liabilities :							
Financial liabilities at fair value through profit or loss							
Derivative liabilities used for trading	₩ –	₩ 140	Black model	KRW interest swap yield curve KRW treasury bond yield curve Volatility of interest rate Correlation of underlying assets	Correlation of underlying assets	–	Positive
Financial liabilities at fair value through profit or loss	81,456	–	Hull-White 1 factor model	KRW treasury bond yield curve USD interest swap yield curve Volatility of interest rate Correlation of underlying assets	Correlation of underlying assets	0.46	Positive
				Correlation between USD interest rate and KRW/USD exchange rate	Correlation between USD interest rate and KRW/USD exchange rate	0.24	Positive
Derivative liabilities used for hedging	–	7,650	Hull-White 1 factor model	KRW interest swap yield curve USD treasury bond yield curve Volatility of interest rate Correlation of underlying assets	Correlation of underlying assets	–	Positive
				Correlation between USD interest rate and KRW/USD exchange rate	Correlation between USD interest rate and KRW/USD exchange rate	–	Positive
	₩ 81,456	₩ 7,790					

Changes in the fair value of financial instruments categorised as Level 3 of the fair value hierarchy of financial instruments that are measured at fair value in the statement of financial position for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

5. Fair value of financial assets and financial liabilities (cont'd)

5.2 Financial instruments that are measured at fair value in the statement of financial position (cont'd)

Changes in the fair value of financial instruments categorised as Level 3 of the fair value hierarchy of financial instruments that are measured at fair value in the statement of financial position for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	Available-for-sale financial assets		Net derivative instruments		Financial Liabilities at fair value through profit or loss
	Equity securities	Debt securities	Held-for-trading	Held-for-hedging	
January 1, 2014	₩ 651,493	₩ 7,340	₩ 3,433	₩ 6,195	–
From Level 3 to Others (*)	(48,922)	–	–	–	–
From Others to Level 3 (*)	14,460	–	–	–	–
Total profit or loss					
Profit or loss	(152,141)	–	(1,675)	4,491	(1,456)
Other comprehensive income	65,334	(548)	–	–	–
Buy / Issue	11,601	–	–	161	(80,000)
Sell / Settlement	(42,426)	–	137	–	–
December 31, 2014	₩ 499,399	₩ 6,792	₩ 1,895	₩ 10,847	(81,456)

	Available-for-sale financial assets		Net derivative instruments	
	Equity securities	Debt securities	Held-for-trading	Held-for-hedging
January 1, 2013	₩ 653,586	₩ 51,459	₩ 2,279	₩ 15,775
From Level 3 to Others (*)	(35,280)	–	–	–
Total profit or loss				
Profit or loss	(36,150)	3,080	675	(1,930)
Other comprehensive income	(7,056)	(1,821)	–	–
Buy / Issue	136,538	–	–	(7,650)
Sell / Settlement	(60,144)	(45,378)	479	–
December 31, 2013	₩ 651,494	₩ 7,340	₩ 3,433	₩ 6,195

(*) This amount was classified from Level 3 into Level 1 because the valuation method changed from external evaluation to market price. The Company recognizes the changes between hierarchies at the beginning of the year when the changes occurred.

Gains or losses recognized from financial instruments categorized as Level 3 of the fair value hierarchy of financial instruments are measured at fair value in the statement of financial position for the years ended December 31, 2014 and 2013 and the line items in profit or loss in which those gains or losses are recognized are as follows (Korean won in million):

5. Fair value of financial assets and financial liabilities (cont'd)

5.2 Financial instruments that are measured at fair value in the statement of financial position (cont'd)

	2014			
	Income or loss during the reporting period		Income or loss related to financial instruments held at the end of the reporting period	
Loss on financial instruments at fair value through profit or loss	₩	(3,131)	₩	(3,133)
Gain (loss) related to derivative instruments held for hedging		4,491		(3,158)
Other income related to financial instruments		8,845		–
Impairment related to financial assets		(160,986)		(159,888)
	₩	(150,781)	₩	(166,179)

	2013			
	Income or loss during the reporting period		Income or loss related to financial instruments held at the end of the reporting period	
Gain on financial instruments at fair value through profit or loss	₩	675	₩	950
Loss related to derivative instruments held for hedging		(1,930)		(1,636)
Other income related to financial instruments		29,499		–
Impairment related to financial assets		(62,569)		(62,192)
	₩	(34,325)	₩	(62,878)

The sensitivity analysis of the changes in significant unobservable inputs as of December 31, 2014 and , 2013 for the fair value measurement for financial instruments categorized as Level 3 is as follows. When changes in fair value are recognized in profit or loss or other comprehensive income, the effects of those changes are calculated separately to reflect favorable and unfavorable changes (Korean won in millions):

	December 31, 2014				December 31, 2013			
	Favorable changes		Unfavorable changes		Favorable changes		Unfavorable changes	
Financial assets :								
Financial assets at fair value through profit or loss								
Derivative assets held-for-trading (*1)	₩	20	₩	(102)	₩	216	₩	(551)
Available-for-sale financial assets								
Equity securities (*2)		148,389		(39,327)		134,824		(36,501)
Derivative assets used for hedging (*1)		2,330		(2,464)		4,089		(3,879)
	₩	150,739	₩	(41,893)	₩	139,129	₩	(40,931)
Financial liabilities :								
Financial liabilities at fair value through profit or loss (*1)	₩	59	₩	(58)	₩	–	₩	–
Derivative liabilities used for hedging (*1)		–		–		432		(424)
	₩	59	₩	(58)	₩	432	₩	(424)

5. Fair value of financial assets and financial liabilities (cont'd)

5.2 Financial instruments that are measured at fair value in the statement of financial position (cont'd)

(*1) ① Correlation between rates of interest rate swap of KRW, ② Correlation between interest rates of treasury, ③ Correlation between interest rate swap and interest rate of treasury, ④ Correlation between KRW-USD interest rate swap, ⑤ Favorable and unfavorable changes are calculated by taking 10% fluctuation of correlation between KRW/USD exchange rate and rate of USD interest rate swap.

(*2) Changes in fair value of equity securities are calculated by changing growth rate (-1.0~1.0%) and discount rate, which are unobservable inputs which are main, unobservable inputs.

When a financial instrument is initially recognized, the fair value of the financial instrument is generally a transaction price. However, if the transaction price does not reflect the fair value, the fair value is different from the transaction price. A difference between the fair value and transaction price at transaction date is immediately recognized as current profit or loss. However, if the fair value of the financial instrument is appraised by using unobservable input variables, the difference is not immediately recognized as current profit or loss but is deferred and recognized. The deferred profit or loss is amortized using a straight-line method during the transaction period, and recognized as current profit or loss. The deferred profit or loss not recorded as current profit or loss for the year ended December 31, 2014 is as follows (Korean won in millions):

		2014
January 1, 2014	₩	–
Amounts newly occurred		(1,010)
Amounts recognized as current profit or loss		25
December 31, 2014		(985)

5.3 Financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed

The levels of the fair value hierarchy of financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014							
	Levels of the fair value hierarchy							
	Level 1		Level 2		Level 3		Total	
Financial assets :								
Cash and due from banks	₩	1,328,736	₩	9,539,492	₩	–	₩	10,868,228
Financial assets held-to-maturity		362,689		1,887,639		–		2,250,328
Loans		–		–		128,212,420		128,212,420
Others		–		–		4,857,121		4,857,121
	₩	1,691,425	₩	11,427,131	₩	133,069,541	₩	146,188,097

5. Fair value of financial assets and financial liabilities (cont'd)

5.3 Financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed (cont'd)

	December 31, 2014			
	Levels of the fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Deposits	₩ –	₩ 127,077,761	₩ –	₩ 127,077,761
Borrowings	–	8,938,531	–	8,938,531
Debentures	–	12,394,534	–	12,394,534
Others	–	–	7,859,133	7,859,133
	₩ –	₩ 148,410,826	₩ 7,859,133	₩ 156,269,959

	December 31, 2013			
	Levels of the fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets :				
Cash and due from banks	₩ 1,822,124	₩ 7,815,896	₩ –	₩ 9,638,020
Financial assets held–to–maturity	350,015	1,890,997	–	2,241,012
Loans	–	–	121,196,422	121,196,422
Others	–	–	4,635,615	4,635,615
	₩ 2,172,139	₩ 9,706,893	₩ 125,832,037	₩ 137,711,069
Financial liabilities :				
Deposits	₩ –	₩ 116,033,218	₩ –	₩ 116,033,218
Borrowings	–	10,109,462	–	10,109,462
Debentures	–	14,395,739	–	14,395,739
Others	–	–	8,310,337	8,310,337
	₩ –	₩ 140,538,419	₩ 8,310,337	₩ 148,848,756

Fair value, descriptions of the valuation technique, the inputs used in the fair value measurement of financial instruments, which are categorized as Level 2 of the fair value hierarchy, not measured at fair value in the statement of financial position but for which the fair value is disclosed as of December 31, 2014 and 2013 are as follows (Korean won in millions):

5. Fair value of financial assets and financial liabilities (cont'd)

5.3 Financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed (cont'd)

	Fair value				Descriptions of the valuation technique	Inputs
	December 31, 2014		December 31, 2013			
Financial assets :						
Cash and due from banks	₩	9,539,492	₩	7,815,896	DCF model	Discount rate
Financial assets held-to-maturity		1,887,639		1,890,997	DCF model	Discount rate
	₩	11,427,131	₩	9,706,893		
Financial liabilities :						
Deposits	₩	127,077,761	₩	116,033,218	DCF model	Discount rate
Borrowings		8,938,531		10,109,462	DCF model	Discount rate
Debentures		12,394,534		14,395,739	DCF model	Discount rate
	₩	148,410,826	₩	140,538,419		

Fair value, descriptions of the valuation technique, the inputs used in the fair value measurement of financial instruments, which are categorised as Level 3 of the fair value hierarchy, not measured at fair value in the statement of financial position but for which the fair value is disclosed as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Fair value				Descriptions of the valuation technique	Inputs
	December 31, 2014		December 31, 2013			
Financial assets :						
Loans	₩	128,212,420	₩	121,196,422	DCF model	Discount rate
Others		4,857,121		4,635,615	(*)	
	₩	133,069,541	₩	125,832,037		
Financial liabilities :						
Others		7,859,133		8,310,337	(*)	
	₩	7,859,133	₩	8,310,337		

(*) Other financial assets and liabilities are temporary accounts derived from various transactions. The book values of these assets and liabilities are regarded as the fair values without applying DCF method because their maturities are not fixed or short.

6. Offsetting of financial assets and liabilities

Financial assets offset, the executable master netting arrangements and financial assets subject to a similar agreement at the end of the reporting period are as follows (Korean won in millions):

	December 31, 2014					
				Related amounts not offset in the statement of financial position (*)		
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivatives	₩ 2,659,432	₩ –	₩ 2,659,432	₩ (1,899,704)	₩ (32,558)	₩ 727,170
Bonds purchased under resale agreement	1,237,457	–	1,237,457	(1,237,457)	–	–
Receivables unpaid spot exchanges	1,833,608	–	1,833,608	(1,833,330)	–	278
Domestic exchange Settlement debts	14,520,054	(13,657,839)	862,215	–	–	862,215
Other financial instruments	6,484	(1,266)	5,218	–	–	5,218
	₩ 20,257,035	₩ (13,659,105)	₩ 6,597,930	₩ (4,970,491)	₩ (32,558)	₩ 1,594,881

	December 31, 2013					
				Related amounts not offset in the statement of financial position (*)		
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivatives	₩ 1,683,834	₩ –	₩ 1,683,834	₩ (1,258,811)	₩ (155,932)	₩ 269,091
Bonds purchased under resale agreement	1,512,800	–	1,512,800	(1,512,800)	–	–
Receivables unpaid spot exchanges	1,323,111	–	1,323,111	(1,323,009)	–	102
Domestic exchange Settlement debts	12,783,625	(11,620,090)	1,163,535	–	–	1,163,535
	₩ 17,303,370	₩ (11,620,090)	₩ 5,683,280	₩ (4,094,620)	₩ (155,932)	₩ 1,432,728

(*) The rights to offset exist only in case of default, insolvency or bankruptcy. Accordingly, the amounts are not offset in the statement of financial position as they do not meet the criteria for offsetting.

6. Offsetting of financial assets and liabilities (cont'd)

Financial liabilities offset, the executable master netting arrangements and financial liabilities subject to a similar agreement at the end of the reporting period are as follows (Korean won in millions):

	December 31, 2014					
				Amounts related are not offset in the statement of financial position (*)		
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivatives	₩ 2,001,803	₩ –	₩ 2,001,803	₩ (1,702,065)	₩ (38,314)	₩ 261,424
Bonds sold under repurchase agreements	459,881	–	459,881	(459,881)	–	–
Payables unpaid spot exchange	1,834,807	–	1,834,807	(1,833,330)	–	1,477
Domestic exchange settlement credits	14,561,929	(13,657,839)	904,090	–	–	904,090
Other financial instruments	1,285	(1,266)	19	–	–	19
	₩ 18,859,705	₩ (13,659,105)	₩ 5,200,600	₩ (3,995,276)	₩ (38,314)	₩ 1,167,010

	December 31, 2013					
				Amounts related are not offset in the statement of financial position (*)		
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivatives	₩ 1,757,834	₩ –	₩ 1,757,834	₩ (1,209,309)	₩ (844)	₩ 547,681
Bonds sold under repurchase agreements	653,985	–	653,985	(653,985)	–	–
Payables unpaid spot exchange	1,323,180	–	1,323,180	(1,323,009)	–	171
Domestic exchange settlement credits	12,679,551	(11,620,090)	1,059,461	–	–	1,059,461
	₩ 16,414,550	₩ (11,620,090)	₩ 4,794,460	₩ (3,186,303)	₩ (844)	₩ 1,607,313

(*) The rights to offset exist only in case of default, insolvency or bankruptcy. Accordingly, the amounts are not offset in the statement of financial position as they do not meet the criteria for offsetting.

7. Categories of financial assets and financial liabilities

The Company categorizes its financial assets and financial liabilities as of December 31, 2014 and 2013 as follows (Korean won in millions):

	December 31, 2014					
	Financial instruments at fair value through profit or loss	Available–for–sale financial instruments	Held–to–maturity financial assets	Amortized cost of financial asset or financial liability	Derivatives for hedging	Total
Financial assets:						
Cash and due from Banks	₩ –	₩ –	₩ –	₩ 10,868,387	₩ –	₩ 10,868,387
Financial assets at fair value through profit or loss	4,711,151	–	–	–	–	4,711,151
Available–for–sale financial assets	–	19,728,498	–	–	–	19,728,498
Held–to–maturity financial assets	–	–	2,111,583	–	–	2,111,583
Loans	–	–	–	127,341,359	–	127,341,359
Derivative assets used for hedging	–	–	–	–	51,149	51,149
Others	–	–	–	4,857,121	–	4,857,121
	₩ 4,711,151	₩ 19,728,498	₩ 2,111,583	₩ 143,066,867	₩ 51,149	₩ 169,669,248
Financial liabilities:						
Financial liabilities fair value through profit or loss	₩ 3,070,640	₩ –	₩ –	₩ –	₩ –	₩ 3,070,640
Deposits	–	–	–	126,903,712	–	126,903,712
Borrowings	–	–	–	8,937,945	–	8,937,945
Debentures	–	–	–	12,356,667	–	12,356,667
Derivative liabilities used for hedging	–	–	–	–	39,162	39,162
Others	–	–	–	7,859,133	–	7,859,133
	₩ 3,070,640	₩ –	₩ –	₩ 156,057,457	₩ 39,162	₩ 159,167,259

	December 31, 2013					
	Financial instruments at fair value through profit or loss	Available–for–sale financial instruments	Held–to–maturity financial assets	Amortized cost of financial asset or financial liability	Derivatives for hedging	Total
Financial assets:						
Cash and due from banks	₩ –	₩ –	₩ –	₩ 9,640,683	₩ –	₩ 9,640,683
Financial assets at fair value through profit or loss	3,666,013	–	–	–	–	3,666,013
Available–for–sale financial assets	–	18,505,515	–	–	–	18,505,515
Held–to–maturity assets	–	–	2,160,990	–	–	2,160,990
Loans	–	–	–	121,315,889	–	121,315,889
Derivative assets used for hedging	–	–	–	–	72,162	72,162
Others	–	–	–	4,635,615	–	4,635,615
	₩ 3,666,013	₩ 18,505,515	₩ 2,160,990	₩ 135,592,187	₩ 72,162	₩ 159,996,867

7. Categories of financial assets and financial liabilities (cont'd)

	December 31, 2013					
	Financial instruments at fair value through profit or loss	Available–for–sale financial instruments	Held–to–maturity financial assets	Amortized cost of financial asset or financial liability	Derivatives for hedging	Total
Financial liabilities:						
Financial liabilities at fair value through profit or loss	₩ 1,887,962	₩ –	₩ –	₩ –	₩ –	₩ 1,887,962
Deposits	–	–	–	116,075,010	–	116,075,010
Borrowings	–	–	–	10,107,970	–	10,107,970
Debentures	–	–	–	14,355,740	–	14,355,740
Derivative liabilities used for hedging	–	–	–	–	125,142	125,142
Others	–	–	–	8,310,337	–	8,310,337
	₩ 1,887,962	₩ –	₩ –	₩ 148,849,057	₩ 125,142	₩ 150,862,161

8. Risk management

The Company is exposed to credit risk, liquidity risk, market risk and various operating risks. The objectives of risk management are to pursue economic benefits by managing the associated risk in the changing financial environment and to utilize capital efficiently.

The basic principles of risk management are as follows:

- Minimize the rapid fluctuation in profit by balancing the risks and the income.
- Maximize long–term shareholder value.
- Comply with procedures to ensure operating activities are confined to allowable risk limits.
- Examine the type and size of risk in accordance with the changes in potential economic value of portfolios for the efficient use and distribution of assets and to establish risk management strategy.

The basic policies in order to realize the basic principles of risk management are as follows:

- Set and comply with allowable limits for each risk type.
- Establish an appropriate balance between income and associated risk.
- When a conflict between income and associated risk exists, the Company pursues income while complying with the allowable risk limits.
- Prioritize the distribution of risk in order to avoid risk concentration in certain areas.
- Analyse the effect of various market fluctuations on parts or the entire portfolio on a regular basis.
- Separate risk management segments, operational segments, and other segments which deal with trade confirmations and payments in order to maintain independence.

The Company has built an organization–wide risk management system attributable to the new BIS standards in order to manage risks with advanced methodologies in the rapidly changing financial environment. The Company has used the Foundation Internal Ratings–Based Credit Risk Approach since November 2008, Operational Risk Advanced Internal Ratings–Based Approach since November 2008, and the Market Risk Internal Model since July 2006 (revised in January 2012) upon the Financial Supervisory Board's approval.

The Company manages risk assets which is appropriate for the developed system and puts emphasis on the management of potential risk arising from changes in the business environment and risk management capacity strength of all personnel. For proactive and pre–emptive risk management, the Company applies Hana Financial Company's FLS ('Forward Looking Statements') based upon the outlook on economic and financial markets and experience on financial losses to risk management policies.

8. Risk management (cont'd)

The Risk Committee is responsible for setting the allowable limits for each risk type, and the Risk Management Committee is responsible for the compliance to the limit and monitoring risk levels on a monthly basis. The Company has also established the Comprehensive Risk Management Committee, Credit Risk Management Committee, and Credit Rating Team composed of the risk office and each of these groups' reports to the middle office on a daily basis.

The Risk Committee is the top decision–making body within the Board of Directors for risk management. The committee examines credit risk, market risk, and various operating risks, in respect of the risk limits and other controls more than once every quarter.

The Risk Management Committee is the secondary decision–making body that manages the actual conditions of risk on a monthly basis. The Risk Management Committee has the overall responsibility of implementation of risk strategy.

The Risk Management Office consists of the Comprehensive Risk Management Department which manages the market risk, interest rate and liquidity risks, operational risk, and internal capital; the Credit Risk Management Department which manages the credit risk and the Credit Rating Team that deals with the corporate credit ratings and industry analysis. The Risk Management Office deals with monitoring of risks, measuring of risks and assets exposed to risks, and forecasting the changes of risks. It also mainly assists the complementary system which enables the middle office of each group to function as a member of the Risk Management Organization. The Risk Management Office is responsible for reporting the contents of middle office's works including the conditions related to the risks and management status to the Risk Committee, the Risk Management Committee, as well as the management.

Credit risk is a risk incurred when the Company faces a loss because its customers or counterparties fail to discharge their contractual obligations. Credit risk arises from on–balance and off–balance accounts including loans, derivatives, securities, financial guarantees, and acceptances and guarantees.

To determine the possibility of bankruptcy for its customers or counterparties, the Company uses various methods comprehensively. Risks pertaining to the retail sector compared to those pertaining to the corporate sector are relatively easy to predict but cyclical and seasonal factors may influence the outcomes. The frequency of impairment loss in the overall retail sector is relatively high but in terms of individual cases, the loss rate is lower than in the corporate sector. Based on these differences, the Company manages each segment differently in terms of credit rating, pricing and subsequent management.

As for the business customers, the branch managers and credit rating team carries out the credit risk assessment by using a detailed valuation model depending on the size and the nature of the industry. The corporate financial valuation model is further subdivided based on the characteristics of the loans and is a combination of statistical and expert valuation models. Also, the Loan Review team of the Credit Risk Management regularly performs the subsequent reviews in order to establish adequacy of the credit grading. As for the retail sector, a Credit Scoring System is used to compute the credit scores of the borrower. The system includes an Application Scoring Model which is used for the application of loans and a Behavioural Scoring Model which has been used after handling of the loans.

Expected loss is calculated using the expected default rate based upon the historical default rate and the estimated loss rate gives a rise to the default rate from a collection of historical information. A measured expected loss is reflected on the client's interest rate and allowances when applying or renewing a loan.

Unexpected loss takes into account the allowance for potential volatility in the actual loss. Unexpected loss is calculated using the inner Credit Metrics model with 99.9% of the confidence level and the measured figure is used as a credit risk reference value and is used as part of the unexpected loss when calculating interest rates.

8. Risk management (cont'd)

Both retail and corporate sectors are developing and operating a credit risk management system appropriately designed for each sector. The Credit Risk Management Committee and Credit Rating Team measure and manage credit risks for the corporate sector; Credit Risk Management Committee and Personal Loans Committee measure and manage credit risks for the retail sector. The Company manages as well as controls the credit risk by setting the limits on the amount of risk willing to accept for individual counterparties and for geographical and industry concentration, and by monitoring exposures relating to such limits. The Company reviews on a monthly basis in accordance with the economic conditions and industry characteristics and examines the adequacy of the limits on a semi-annual basis. The Company continuously manages credit rating models for retail and corporate sectors and examines the adequacy of LGD (Loss Given Default) and EAD (Exposure At Default), and any related information.

The Company annually performs a comprehensive analysis on economic conditions and changes in the economic environment in order to appropriately assess the credit quality of financial assets by setting credit limits on same entities, industries, countries, and financial instruments. In addition, for the unexpected loss management, the Company regularly sets, distributes and checks for the compliance maintenance of internal capital limits according to the corporate and household sectors and the size of clients through the risk management system.

The Company measures and manages the risk indicators such as delinquency rate, roll–rate, and vintage rate of each operating segment. Also, in order to assess the credit quality of the assets, the Company operates an early warning system and regularly examines companies whose credit rating is likely to degrade.

In order to separately evaluate the characteristics of clients in the corporate sector, the Company operates a detailed valuation model based on the external and non–external audit and is in the process of continuing the stability of the corporate credit rating system through the subsequent examinations and performance improvements. The Company operates a detailed valuation model based on the credit rating model and the activity rating model for the household sector in accordance with the client's characteristics. The Company improves the efficiency of the model through the subsequent examinations and performance improvements. Credit rating on new clients as well as an automatic renewal and adjustments to the credit limits are managed by the household and SOHO credit extension system.

For a large amount of credit line, after the approval of credit extension, the Company regularly examines the borrower's credit status and the adequacy of the borrower's credit rating as in part of the subsequent management process. In addition, the Company significantly focuses on industries by increasing credit risks based on the analysis of the risk indicators and examines the sample for smaller credit extensions.

The Company obtains the collateral for the granted loans in order to reduce risks. The amount and type of the collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of the collateral obtained are as follows:

- For retail lending, mortgages over residential properties
- For commercial lending, charges over real estate properties, inventory and trade receivables
- For securities lending and reverse repurchase transactions, cash, or securities

The Company trades the debt securities above the Investment–Grade Status level in order to manage the credit risks and manage the exposure of credit ratings to maintain credit quality of the assets.

The credit risk arising from the derivative financial instruments is, at any time, limited to those with the positive fair values, as recorded on the statement of financial position. The Company manages the exposure as a part of the unused commitment of loans.

8. Risk management (cont'd)

The maximum exposure to credit risk as of December 31, 2014 and 2013 is as follows. The following table shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by geography of counterparty and by industry before the effect of mitigation through the use of master netting and collateral agreements. Equity securities in financial assets at fair value through profit or loss and financial assets available–for–sale are excluded (Korean won in millions):

	December 31, 2014		December 31, 2013	
On–balance item:				
Due from banks	₩	9,539,651	₩	7,818,559
Financial assets at fair value through profit or loss		4,700,633		3,648,663
Available–for–sale financial assets		18,000,062		16,565,956
Held–to–maturity financial assets		2,111,583		2,160,990
Derivatives for hedging		51,149		72,162
Loans		127,341,359		121,315,889
Household loans		57,752,575		54,744,713
Large–sized businesses		26,544,972		26,863,236
Small and medium–sized businesses		38,973,428		35,904,884
Public sector and others		4,070,384		3,803,056
Others		4,857,121		4,635,615
	₩	166,601,558	₩	156,217,834
Off–balance item:				
Financial guarantees	₩	1,227,194	₩	1,370,934
Guarantee contracts		9,256,024		9,755,146
Commitment		52,840,707		50,788,683
	₩	63,323,925	₩	61,914,763

Details of collateral management and credit risk mitigation as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014									
	Impaired loan				Not impaired loan					
	Individual assessment		Collective assessment		Past due		Non past due		Total	
Guarantees	₩	4,420	₩	63,383	₩	59,762	₩	11,905,106	₩	12,032,671
Deposits		70		13,131		22,940		2,711,729		2,747,870
Securities		1,732		514		5		1,273,355		1,275,606
Real estate		412,761		303,223		263,525		61,943,774		62,923,283
Movable assets		500		–		–		31,880		32,380
Others		1,484		209		3,462		290,332		295,487
	₩	420,967	₩	380,460	₩	349,694	₩	78,156,176	₩	79,307,297

8. Risk management (cont'd)

	December 31, 2013				
	Impaired loan		Not impaired loan		
	Individual assessment	Collective assessment	Past due	Non past due	Total
Guarantees	₩ 8,627	₩ 71,642	₩ 61,433	₩ 9,957,272	₩ 10,098,974
Deposits	376	15,219	15,170	1,962,663	1,993,428
Securities	346	1,073	–	1,463,588	1,465,007
Real estate	363,957	309,561	205,753	57,536,162	58,415,433
Movable assets	–	–	–	39,022	39,022
Others	–	348	4,000	261,984	266,332
	₩ 373,306	₩ 397,843	₩ 286,356	₩ 71,220,691	₩ 72,278,196

Details of delinquency rates on loans as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014				
	Household loans	Large-sized businesses	Small and medium-sized businesses	Public institution and others	Total
Neither past due nor impaired	₩ 57,000,068	₩ 26,205,067	₩ 38,462,577	₩ 4,057,352	₩ 125,725,064
Past due but not impaired	331,317	18,786	106,451	33	456,587
Impaired	416,745	692,647	957,550	19,770	2,086,712
	57,748,130	29,916,500	39,526,578	4,077,155	128,268,363
Deferred loan fees, net of expenses	119,433	(11,643)	16,422	466	124,678
Allowance for possible loan losses	(114,988)	(359,885)	(569,572)	(7,237)	(1,051,682)
	₩ 57,752,575	₩ 26,544,972	₩ 38,973,428	₩ 4,070,384	₩ 127,341,359

	December 31, 2013				
	Household loans	Large-sized businesses	Small and medium-sized businesses	Public institution and others	Total
Neither past due nor impaired	₩ 54,039,712	₩ 26,458,929	₩ 35,305,619	₩ 3,789,331	₩ 119,593,591
Past due but not impaired	264,559	–	87,734	–	352,293
Impaired	456,910	904,530	962,286	22,208	2,345,934
	54,761,181	27,363,459	36,355,639	3,811,539	122,291,818
Deferred loan fees, net of expenses	108,133	(12,588)	9,308	553	105,406
Allowance for possible loan losses	(124,601)	(487,635)	(460,063)	(9,036)	(1,081,335)
	₩ 54,744,713	₩ 26,863,236	₩ 35,904,884	₩ 3,803,056	₩ 121,315,889

Delinquency in interest occurs when the counterparty is unable to make a principal and interest payment as at the due date. A financial item is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events which have occurred after the initial recognition of the item (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows, such as changes in arrears or economic conditions which correlate with defaults, delinquency in interest for more than 90 days, credit deterioration resulting in misleading information, damages incurred due to poor exposure and significant financial difficulty of the issuer or obligor.

8. Risk management (cont'd)

Details on loans that are neither impaired nor overdue as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014				
		Corporate loans			
	Household loans	Large–sized businesses	Small and medium–sized businesses	Public institution and others	Total
Grade 1	₩ 42,204,585	₩ 5,680,290	₩ 2,820,985	₩ 1,495,325	₩ 52,201,185
Grade 2	14,337,558	20,343,600	34,701,412	1,306,537	70,689,107
Grade 3	444,790	181,177	929,253	30	1,555,250
Others	13,135	–	10,927	1,255,460	1,279,522
	₩ 57,000,068	₩ 26,205,067	₩ 38,462,577	₩ 4,057,352	₩ 125,725,064

	December 31, 2013				
		Corporate loans			
	Household loans	Large–sized businesses	Small and medium–sized businesses	Public institution and others	Total
Grade 1	₩ 30,938,184	₩ 15,006,519	₩ 6,484,338	₩ 2,254,916	₩ 54,683,957
Grade 2	22,451,352	11,215,725	27,252,073	1,468,847	62,387,997
Grade 3	609,867	236,685	965,736	406	1,812,694
Others	40,309	–	603,472	65,162	708,943
	₩ 54,039,712	₩ 26,458,929	₩ 35,305,619	₩ 3,789,331	₩ 119,593,591

The Company classifies the grade of loan in accordance with the credit rating chart below, based on the credit worthiness of borrowers.

	Household loans	Corporate loans	SOHO
Grade 1	Less or equal to 0.37% of PD	A1+ ~ A3	Grade 1 ~ 4
Grade 2	From 0.37% to 9.03% of PD	B1+ ~ B3	Grade 5 ~ 20
Grade 3	From 9.03% to 100% of PD	C1 ~ C3	Grade 21 ~ 29

8. Risk management (cont'd)

The Company assesses that loans past due by less than 90 days are not impaired if no evidence of impairment is given. Loans that are past due by less than 90 days but not yet impaired as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014				
	Household loans	Large–sized businesses	Small and medium–sized businesses	Public institution and others	Total
Less than 30 days	₩ 298,610	₩ 18,786	₩ 88,897	₩ 33	₩ 406,326
30 to 59 days	21,433	–	11,218	–	32,651
60 to 89 days	11,274	–	6,336	–	17,610
	₩ 331,317	₩ 18,786	₩ 106,451	₩ 33	₩ 456,587

	December 31, 2013		
	Household loans	Small and medium–sized businesses	Total
Less than 30 days	₩ 227,807	₩ 65,325	₩ 293,132
30 to 59 days	24,010	12,226	36,236
60 to 89 days	12,742	10,183	22,925
	₩ 264,559	₩ 87,734	₩ 352,293

Types of impaired loans as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014				
		Corporate loans			
	Household loans	Large–sized businesses	Small and medium–sized businesses	Public institution and others	Total
Individual impairment					
Book value	₩ –	₩ 634,517	₩ 756,102	₩ 19,670	₩ 1,410,289
Deferred loan fees, net of expenses	–	–	3	–	3
Allowance for possible loan losses	–	(268,153)	(344,363)	(2,503)	(615,019)
	–	366,364	411,742	17,167	795,273
Collective impairment					
Book value	416,745	58,130	201,448	100	676,423
Deferred loan fees, net of expenses	498	–	(6)	17	509
Allowance for possible loan losses	(56,794)	(20,000)	(50,719)	(31)	(127,544)
	360,449	38,130	150,723	86	549,388
	₩ 360,449	₩ 404,494	₩ 562,465	₩ 17,253	₩ 1,344,661

8. Risk management (cont'd)

	December 31, 2013				
		Corporate loans			
	Household loans	Large–sized businesses	Small and medium–sized businesses	Public institution and others	Total
Individual impairment					
Book value	₩ 7	₩ 694,194	₩ 736,485	₩ 16,000	₩ 1,446,686
Deferred loan fees, net of expenses	–	(57)	(28)	36	(49)
Allowance for possible loan losses	(7)	(281,287)	(318,318)	(3,933)	(603,545)
	–	412,850	418,139	12,103	843,092
Collective impairment					
Book value	456,903	210,336	225,801	6,208	899,248
Deferred loan fees, net of expenses	572	–	(90)	1	483
Allowance for possible loan losses	(62,679)	(4,212)	(38,035)	(557)	(105,483)
	394,796	206,124	187,676	5,652	794,248
	₩ 394,796	₩ 618,974	₩ 605,815	₩ 17,755	₩ 1,637,340

Interest income on impaired loans for the years ended December 31, 2014 and 2013 is as follows (Korean won in millions):

	2014				
		Corporate loans			
	Household loans	Large–sized businesses	Small and medium–sized businesses	Public institution and others	Total
Individual impairment	₩ –	₩ 21,978	₩ 20,946	₩ 648	₩ 43,572
Collective impairment	21,200	2,266	8,230	538	32,234
	₩ 21,200	₩ 24,244	₩ 29,176	₩ 1,186	₩ 75,806

	2013				
		Corporate loans			
	Household loans	Large–sized businesses	Small and medium–sized businesses	Public institution and others	Total
Individual impairment	₩ –	₩ 14,551	₩ 12,426	₩ 494	₩ 27,471
Collective impairment	22,452	2,345	6,788	256	31,841
	₩ 22,452	₩ 16,896	₩ 19,214	₩ 750	₩ 59,312

8. Risk management (cont'd)

Overdue payments on debt securities as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014			
	Financial assets at fair value through profit or loss	Available–for–sale financial assets	Held–to–maturity financial assets	Total
Neither past due nor impaired	₩ 2,062,135	₩ 17,993,270	₩ 2,111,583	₩ 22,166,988
Impaired	–	6,792	–	6,792
	₩ 2,062,135	₩ 18,000,062	₩ 2,111,583	₩ 22,173,780

	December 31, 2013			
	Financial assets at fair value through profit or loss	Available–for–sale financial assets	Held–to–maturity financial assets	Total
Neither past due nor impaired	₩ 1,752,199	₩ 16,558,616	₩ 2,160,990	₩ 20,471,805
Impaired	–	7,340	–	7,340
	₩ 1,752,199	₩ 16,565,956	₩ 2,160,990	₩ 20,479,145

Internal credit ratings of debt securities as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014			
	Financial assets at fair value through profit or loss	Available–for–sale financial assets	Held–to–maturity financial assets	Total
Grade 1	₩ 2,062,135	₩ 17,952,712	₩ 2,111,583	₩ 22,126,430
Grade 2	–	40,558	–	40,558
Others	–	6,792	–	6,792
	₩ 2,062,135	₩ 18,000,062	₩ 2,111,583	₩ 22,173,780

	December 31, 2013			
	Financial assets at fair value through profit or loss	Available–for–sale financial assets	Held–to–maturity financial assets	Total
Grade 1	₩ 1,752,199	₩ 16,527,572	₩ 2,147,232	₩ 20,427,003
Others	–	38,384	13,758	52,142
	₩ 1,752,199	₩ 16,565,956	₩ 2,160,990	₩ 20,479,145

The credit rating classification of debt securities which are rated by external rating agencies is as follows:

	Internal credit rating	Domestic rating agencies	Overseas rating agencies		
			Moody's	S&P	Fitch
Grade 1	A1+ ~ A3	AAA ~ A–	Aaa ~ Baa2	AAA ~ BBB	AAA ~ BBB
Grade 2	B1+ ~ B3	BBB+ ~ BB	Baa3 ~ B3	BBB– ~ B–	BBB– ~ B–

8. Risk management (cont'd)

	Internal credit rating	Domestic rating agencies	Overseas rating agencies: Moody's	Overseas rating agencies: S&P	Overseas rating agencies: Fitch
Grade 3	C1 ~ C3	BB– ~ B–	Caa1 ~ Caa3	CCC+ ~ CCC–	CCC+ ~ CCC–

Credit risk concentration in each major industry as of December 31, 2014 and 2013 is as follows (Korean won in millions):

		December 31, 2014			
				Total	
	Industry	Korean won	Foreign currency	Amount	Ratio (%)
On balance item:					
Due from banks	Financial services	₩ 6,302,582	₩ 3,237,069	₩ 9,539,651	100.0
Financial assets at fair value through profit or loss	Financial services	532,917	–	532,917	25.8
(Debt securities)	Manufacturing	81,783	–	81,783	4.0
	Public administration	1,396,597	–	1,396,597	67.7
	Wholesale & retail	20,335	–	20,335	1.0
	Others	30,503	–	30,503	1.5
		2,062,135	–	2,062,135	100.0
Available-for-sale financial assets	Financial services	5,519,515	793,664	6,313,179	35.1
(Debt securities)	Manufacturing	214,750	57,131	271,881	1.5
	Public administration	9,585,097	62,681	9,647,778	53.6
	Construction	6,792	–	6,792	0.0
	Wholesale & retail	40,589	–	40,589	0.2
	Others	1,517,233	202,610	1,719,843	9.6
		16,883,976	1,116,086	18,000,062	100.0
Held–to–maturity financial assets	Financial services	475,279	–	475,279	22.5
	Manufacturing	49,908	–	49,908	2.4
	Public administration	777,738	–	777,738	36.8
	Wholesale & retail	20,000	–	20,000	0.9
	Others	788,658	–	788,658	37.4
		2,111,583	–	2,111,583	100.0
Loan	Household loans	57,708,837	39,293	57,748,130	45.3
	Financial services	2,958,126	3,914,558	6,872,684	5.4
	Manufacturing	16,572,284	7,403,793	23,976,077	18.8
	Construction	2,256,372	246,740	2,503,112	2.0
	Wholesale & retail	7,654,449	1,825,970	9,480,419	7.4
	Real estate rental	10,067,226	249,631	10,316,857	8.1
	Others	14,903,062	2,468,022	17,371,084	13.6
		112,120,356	16,148,007	128,268,363	100.6
	Deferred loan fees and expenses	124,576	102	124,678	0.2
	Allowance for possible loan losses	(947,304)	(104,378)	(1,051,682)	(0.8)
		111,297,628	16,043,731	127,341,359	100.0

8. Risk management (cont'd)

	Industry	December 31, 2014 Korean won	Foreign currency	Total Amount	Ratio (%)
		₩ 138,657,904	₩ 20,396,886	₩ 159,054,790	
Off balance item:					
Financial guarantees	Manufacturing	₩ 453,018	₩ 129,080	₩ 582,098	47.4
	Construction	12,956	4,950	17,906	1.5
	Wholesale & retail	240,855	25,573	266,428	21.7
	Real estate rental	6	2,198	2,204	0.2
	Others	265,090	93,468	358,558	29.2
		971,925	255,269	1,227,194	100.0
Guarantee contracts	Manufacturing	314,611	4,866,895	5,181,506	56.0
	Construction	13,996	639,895	653,891	7.1
	Wholesale & retail	289,811	936,365	1,226,176	13.2
	Financial services	15,110	36,544	51,654	0.6
	Real estate rental	3,003	152,012	155,015	1.7
	Others	197,516	1,790,266	1,987,782	21.4
		834,047	8,421,977	9,256,024	100.0
Commitment	Manufacturing	9,797,614	13,104,145	22,901,759	43.3
	Construction	1,355,433	382,519	1,737,952	3.3
	Wholesale & retail	2,336,118	3,165,709	5,501,827	10.4
	Financial services	2,112,691	184,541	2,297,232	4.3
	Real estate rental	131,045	8,127	139,172	0.3
	Others	18,327,209	1,935,556	20,262,765	38.4
		34,060,110	18,780,597	52,840,707	100.0
		₩ 35,866,082	₩ 27,457,843	₩ 63,323,925	

	Industry	December 31, 2013 Korean won	Foreign currency	Total Amount	Ratio (%)
On balance item:					
Due from banks	Financial services	₩ 4,570,032	₩ 3,248,527	₩ 7,818,559	100.0
Financial assets at fair value through profit or loss	Financial services	438,995	–	438,995	25.1
(Debt securities)	Manufacturing	43,252	–	43,252	2.5
	Public administration	1,243,326	–	1,243,326	71.0
	Others	26,626	–	26,626	1.4
		1,752,199	–	1,752,199	100.0
Available-for-sale financial assets	Financial services	6,997,775	567,874	7,565,649	45.7
(Debt securities)	Manufacturing	324,883	71,710	396,593	2.4
	Public administration	6,427,461	11,004	6,438,465	38.9
	Construction	7,340	–	7,340	–

8. Risk management (cont'd)

		December 31, 2013			
				Total	
	Industry	Korean won	Foreign currency	Amount	Ratio (%)
	Wholesale & retail	81,192	30,692	111,884	0.7
	Others	1,705,815	340,210	2,046,025	12.3
		15,544,466	1,021,490	16,565,956	100.0
Held–to–maturity financial assets	Financial services	660,351	–	660,351	30.6
	Manufacturing	49,850	–	49,850	2.3
	Public administration	595,359	19,595	614,954	28.5
	Others	835,835	–	835,835	38.6
		2,141,395	19,595	2,160,990	100.0
Loan	Household loans	54,720,796	40,384	54,761,180	45.1
	Financial services	3,745,042	2,236,715	5,981,757	4.9
	Manufacturing	17,691,523	6,060,988	23,752,511	19.6
	Construction	2,270,980	216,990	2,487,970	2.1
	Wholesale & retail	7,385,202	2,230,082	9,615,284	7.9
	Real estate rental	8,732,064	173,893	8,905,957	7.3
	Others	14,800,218	1,986,941	16,787,159	13.9
		109,345,825	12,945,993	122,291,818	100.8
	Deferred loan fees and expenses	107,518	(2,112)	105,406	0.1
	Allowance for possible loan losses	(983,101)	(98,234)	(1,081,335)	(0.9)
		108,470,242	12,845,647	121,315,889	100.0
		₩ 132,478,334	₩ 17,135,259	₩ 149,613,593	
Off balance item:					
Financial guarantees	Manufacturing	₩ 518,778	₩ 90,309	₩ 609,087	44.4
	Construction	26,248	2,884	29,132	2.1
	Wholesale & retail	262,928	34,366	297,294	21.7
	Real estate rental	254	2,111	2,365	0.2
	Others	319,615	113,441	433,056	31.6
		1,127,823	243,111	1,370,934	100.0
Guarantee contracts	Manufacturing	331,329	6,129,239	6,460,568	66.2
	Construction	153,185	557,001	710,186	7.3
	Wholesale & retail	256,671	1,530,006	1,786,677	18.3
	Financial services	13,014	287,625	300,639	3.1
	Real estate rental	2,001	53,028	55,029	0.6
	Others	126,149	315,898	442,047	4.5
		882,349	8,872,797	9,755,146	100.0
Commitment	Manufacturing	9,845,629	10,636,924	20,482,553	40.3
	Construction	1,855,313	315,741	2,171,054	4.3
	Wholesale & retail	2,469,266	2,784,991	5,254,257	10.3
	Financial services	2,460,112	312,133	2,772,245	5.5
	Real estate rental	110,563	15,958	126,521	0.2
	Others	18,277,462	1,704,591	19,982,053	39.4

8. Risk management (cont'd)

Industry	December 31, 2013 Korean won	Foreign currency	Total Amount	Total Ratio (%)
	35,018,345	15,770,338	50,788,683	100.0
	₩ 37,028,517	₩ 24,886,246	₩ 61,914,763	

Credit risk concentration in each major country as of December 31, 2014 and 2013 is as follows (Korean won in millions, ratio in %):

	Country	December 31, 2014 Korean won	Foreign currency	Total Amount	Total Ratio (%)
On balance item:					
Due from banks	Korea	₩ 6,302,582	₩ 158,514	₩ 6,461,096	67.7
	China	–	153,919	153,919	1.6
	U.S	–	2,665,082	2,665,082	27.9
	Japan	–	17,469	17,469	0.2
	Others	–	242,085	242,085	2.6
		6,302,582	3,237,069	9,539,651	100.0
Financial assets at fair value through profit or loss (Debt securities)	Korea	2,062,135	–	2,062,135	100.0
Available-for-sale financial assets (Debt securities)	Korea	16,883,976	787,956	17,671,932	98.2
	China	–	15,956	15,956	0.1
	U.S	–	90,921	90,921	0.5
	Japan	–	25,735	25,735	0.1
	Others	–	195,518	195,518	1.1
		16,883,976	1,116,086	18,000,062	100.0
Held–to–maturity financial assets	Korea	2,111,583	–	2,111,583	100.0
Loan	Korea	112,019,715	11,171,444	123,191,159	96.7
	China	–	2,310,577	2,310,577	1.8
	U.S	7,827	653,979	661,806	0.5
	Japan	–	128,766	128,766	0.1
	Hong Kong	750	652,291	653,041	0.5
	Others	92,064	1,230,950	1,323,014	1.0
		112,120,356	16,148,007	128,268,363	100.6
	Deferred loan fees and expenses	124,576	102	124,678	0.2
	Allowance for possible loan losses	(947,304)	(104,378)	(1,051,682)	(0.8)
		111,297,628	16,043,731	127,341,359	100.0
		₩ 138,657,904	₩ 20,396,886	₩ 159,054,790	

8. Risk management (cont'd)

	December 31, 2014				
				Total	
	Country	Korean won	Foreign currency	Amount	Ratio (%)
Off balance item:					
Financial guarantees	Korea	₩ 971,926	₩ 255,268	₩ 1,227,194	100.0
Guarantee contracts	Korea	832,984	7,235,142	8,068,126	87.2
	China	–	1,095,912	1,095,912	11.8
	U.S	–	9,267	9,267	0.1
	Japan	–	4,411	4,411	0.0
	Hong Kong	–	6,854	6,854	0.1
	Others	1,063	70,391	71,454	0.8
		834,047	8,421,977	9,256,024	100.0
Commitment	Korea	34,058,562	18,541,295	52,599,857	99.6
	China	54	237,464	237,518	0.4
	U.S	700	550	1,250	0.0
	Japan	–	1,288	1,288	0.0
	Others	794	–	794	0.0
		34,060,110	18,780,597	52,840,707	100.0
		₩ 35,866,082	₩ 27,457,843	₩ 63,323,925	

	December 31, 2013				
				Total	
	Country	Korean won	Foreign currency	Amount	Ratio (%)
On balance item:					
Due from banks	Korea	₩ 4,570,032	₩ 671,527	₩ 5,241,559	67.0
	China	–	1,017,538	1,017,538	13.0
	U.S	–	848,919	848,919	10.9
	Japan	–	7,974	7,974	0.1
	Others	–	702,569	702,569	9.0
		4,570,032	3,248,527	7,818,559	100.0
Financial assets at fair value through profit or loss (Debt securities)	Korea	1,752,199	–	1,752,199	100.0
Available-for-sale financial assets (Debt securities)	Korea	15,544,466	568,670	16,113,136	97.3
	U.S	–	101,968	101,968	0.6
	Japan	–	14,322	14,322	0.1
	Others	–	336,530	336,530	2.0
		15,544,466	1,021,490	16,565,956	100.0
Held–to–maturity financial assets	Korea	2,141,395	–	2,141,395	99.1
	Singapore	–	5,837	5,837	0.3
	Others	–	13,758	13,758	0.6
		2,141,395	19,595	2,160,990	100.0

8. Risk management (cont'd)

		December 31, 2013			
				Total	
	Country	Korean won	Foreign currency	Amount	Ratio (%)
Loan	Korea	109,235,061	7,692,457	116,927,518	96.4
	China	–	3,002,959	3,002,959	2.5
	U.S	–	577,580	577,580	0.5
	Japan	3	297,221	297,224	0.2
	Hong Kong	750	445,399	446,149	0.4
	Others	110,011	930,377	1,040,388	0.8
		109,345,825	12,945,993	122,291,818	100.8
	Deferred loan fees and expenses	107,518	(2,112)	105,406	0.1
	Allowance for possible loan losses	(983,101)	(98,234)	(1,081,335)	(0.9)
		108,470,242	12,845,647	121,315,889	100.0
		₩ 132,478,334	₩ 17,135,259	₩ 149,613,593	
Off balance item:					
Financial guarantees	Korea	₩ 1,127,823	₩ 243,111	₩ 1,370,934	100.0
Guarantee contracts	Korea	881,286	7,256,376	8,137,662	83.4
	China	–	1,285,460	1,285,460	13.2
	U.S	–	20,581	20,581	0.2
	Japan	–	3,794	3,794	–
	Hong Kong	–	40,397	40,397	0.4
	Others	1,063	266,189	267,252	2.8
		882,349	8,872,797	9,755,146	100.0
Commitment	Korea	35,016,598	15,159,689	50,176,287	98.8
	China	93	459,316	459,409	0.9
	U.S	878	1,055	1,933	–
	Japan	–	1,284	1,284	–
	Others	776	148,994	149,770	0.3
		35,018,345	15,770,338	50,788,683	100.0
		₩ 37,028,517	₩ 24,886,246	₩ 61,914,763	

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

The Company uses a liquidity ratio in Korean won (more than 100%), liquidity ratio in foreign currency (more than 85%), currency maturity mismatch ratio (more than (–)3% for a week, more than (–)10% for a month), long–term access to financing ratio (more than 100%) in accordance with the guidelines and standards of the Financial Supervisory Service. In addition, the Company has a secondary indicator which measures liquidity risks and early warning indicators in order to identify worsening trends in the beginning of the period and to respond in a timely manner.

At an early stage, the Company identifies factors affecting liquidity in order to manage liquidity risks and has achieved an adequate level of liquidity via performing a systematic management.

8. Risk management (cont'd)

The Company has the following basic principles for liquidity risk management:

- Set and comply an acceptable limit and early warning indicators for liquidity risks
- Regularly execute an analysis of stress tests and prepare an emergency procurement plan in case of illiquidity
- Focus on maintaining a diversified portfolio in order to avoid excessive concentrations of risks
- Evaluate and manage the effect of a large amount of money which is loaned out, invested, or procured on liquidity risks

In order to manage the liquidity risks, the Company is building the internal control systems for each department. In order to comply with Liquidity ratios and the maturity mismatch ratio set by the Financial Supervisory Service, the Comprehensive Risk Management monitors the ratios based on the calculated univariate liquidity ratio and maturity mismatch ratios. Liquidity risk status is reported to the Risk Management Committee on a monthly basis and to the Risk Committee on a quarterly basis.

In order to maintain the liquidity risk management indicators to stay within the acceptable limits, the Treasury Department and the International Finance Department recommends the necessary measures in relation to the procurement and operation of the assets and liabilities traded in the capital market.

In addition, the emergency planning in stages has been established in order to respond to liquidity emergencies. Planning and management department has established a portfolio management strategy based on the internal and external liquidity risk management requirements, procurement, and an outlook on the operating markets.

The details of the remaining contractual maturities of financial assets are analyzed by the contractual maturity date when the Company will receive, based on the undiscounted cash flows including the principal of the Company's financial assets and future interest receivable from the financial assets.

The details of the remaining contractual maturities of financial liabilities are analyzed by the earliest maturity date when the Company would be required to pay, based on the undiscounted cash outflows of the Company's financial liabilities.

In addition, financial liabilities at fair value through profit or loss and depository liabilities (payment on demand) are shown at fair value in the immediate payment column. All derivatives used for hedging purposes are interest rate swaps, and those are shown in net cash flows as all interest rate swaps are paid by the net amount.

The remaining contractual maturities of financial assets as of December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

	December 31, 2014								
	On Demand	Within 1 month	After 1 month ~ but no later than 3 months	After 3 months ~ but no later than 6 months	After 6 months ~ but no later than 1 year	After 1 year ~ but no later than 3 years	After 3 years ~ but no later than 5 years	After 5 years	Total
Cash and due from banks(*1)	₩ 8,202,745	₩ 2,166,626	₩ 170,223	₩ 135,752	₩ 192,885	–	–	500	₩ 10,868,731
Financial assets at fair value through profit or loss(*2,3)	4,700,633	–	–	–	–	–	–	–	4,700,633
Available–for–sale financial assets(*3)	–	180,486	641,175	775,921	1,634,658	7,399,253	5,033,561	3,580,785	19,245,839
Held–to–maturity financial assets	–	15,321	21,466	73,340	211,301	486,442	811,889	924,046	2,543,805
Loans	9,051,700	12,089,236	15,346,311	18,088,189	23,512,547	26,394,046	8,037,021	31,187,638	143,706,688
Derivative assets used for hedging(*4)	–	(2,712)	110,912	34,143	17,101	24,140	4,587	37,543	225,714
Other financial assets	337,981	3,510,033	26,626	27,699	198,409	176,974	33,991	22,869	4,334,582
	₩22,293,059	₩17,958,990	₩16,316,713	₩19,135,044	₩25,766,901	₩34,480,855	₩13,921,049	₩35,753,381	₩185,625,992

8. Risk management (cont'd)

	December 31, 2013								
	On Demand	Within 1 month	After 1 month ~ but no later than 3 months	After 3 months ~ but no later than 6 months	After 6 months ~ but no later than 1 year	After 1 year ~ but no later than 3 years	After 3 years ~ but no later than 5 years	After 5 years	Total
Cash and due from banks(*1)	₩ 7,585,765	₩ 1,499,225	₩ 142,907	₩ 167,751	₩ 51,455	₩ 500	–	₩ 198,202	₩ 9,645,805
Financial assets at fair value through profit or loss(*2,3)	3,648,663	–	–	–	–	–	–	–	3,648,663
Available–for–sale financial assets(*3) (Debt securities)	–	178,804	693,996	962,020	1,820,243	7,596,251	5,633,000	1,532,862	18,417,176
Held–to–maturity financial assets	–	8,786	188,654	98,180	195,359	684,101	557,250	870,486	2,602,816
Loans	9,390,574	13,001,905	14,746,958	17,846,265	23,651,211	22,478,627	8,157,395	29,260,695	138,533,630
Derivative assets used for hedging(*4)	–	(5,914)	219	34,614	18,422	49,268	(4,945)	22,332	113,996
Other financial assets	230,069	3,381,516	18,490	118,851	122,623	220,929	34,731	29,961	4,157,170
	₩20,855,071	₩18,064,322	₩15,791,224	₩19,227,681	₩25,859,313	₩31,029,676	₩14,377,431	₩31,914,538	₩177,119,256

(*1) Due from banks of restricted use is included in on demand.
(*2) Financial assets held–for–trading are included in on demand as the Company holds such assets for the purpose of disposal or repayment before maturity.
(*3) Equity securities of financial assets at value through profit or loss and available–for–sale financial assets are excluded.
(*4) Cash inflows and outflows are presented on a net basis

The remaining contractual maturities of financial liabilities as of December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

	December 31, 2014								
	Immediate payment	Within 1 month	After 1 month ~ but no later than 3 months	After 3 months ~ but no later than 6 months	After 6 months ~ but no later than 1 year	After 1 year ~ but no later than 3 years	After 3 years ~ but no later than 5 years	After 5 years	Total
On–balance item									
Financial liabilities at fair value through profit or loss(*1)	₩ 2,820,607	₩ –	₩ –	₩ –	₩ –	₩ –	₩ –	₩ 249,049	₩ 3,069,656
Deposits	42,017,054	13,497,626	20,338,368	18,221,629	27,504,115	4,648,522	733,507	2,099,647	129,060,468
Borrowings	1,498,021	1,375,433	1,086,526	1,008,114	1,199,629	1,976,141	666,423	290,357	9,100,644
Debentures	5,670	381,941	687,326	516,354	2,839,508	5,299,543	208,753	3,241,429	13,180,524
Derivative liabilities used for hedging(*2)	–	(639)	9,583	(15,183)	(1,955)	(26,045)	(3,560)	(23,893)	(61,692)
Others	1,773,582	4,646,701	3,126	9,164	91,724	5,337	40	–	6,529,674
	48,114,934	19,901,062	22,124,929	19,740,078	31,633,021	11,903,498	1,605,163	5,856,589	160,879,274
Off–balance item									
Financial guarantees(*3)	1,227,194	–	–	–	–	–	–	–	1,227,194
Commitment(*4)	52,840,707	–	–	–	–	–	–	–	52,840,707
	54,067,901	–	–	–	–	–	–	–	54,067,901
	₩ 102,182,835	₩ 19,901,062	₩ 22,124,929	₩ 19,740,078	₩ 31,633,021	₩ 11,903,498	₩ 1,605,163	₩ 5,856,589	₩ 214,947,175

8. Risk management (cont'd)

	December 31, 2013								
	Immediate payment	Within 1 month	After 1 month ~ but no later than 3 months	After 3 months ~ but no later than 6 months	After 6 months ~ but no later than 1 year	After 1 year ~ but no later than 3 years	After 3 years ~ but no later than 5 years	After 5 years	Total
On–balance item									
Financial liabilities at fair value through profit or loss(*1)	₩ 1,887,962	₩ –	₩ –	₩ –	₩ –	₩ –	₩ –	₩ –	₩ 1,887,962
Deposits	35,570,207	12,498,374	18,557,962	15,141,670	29,683,728	4,143,668	509,972	2,207,773	118,313,354
Borrowings	2,058,388	2,793,331	549,818	633,042	1,406,903	1,783,860	714,873	306,595	10,246,810
Debentures	9,810	621,889	215,177	1,271,948	2,819,088	5,101,066	1,946,818	3,002,230	14,988,026
Derivative liabilities used for hedging (*2)	–	(797)	(8,897)	(13,545)	8,339	(22,077)	336	116,730	80,089
Others	2,722,726	4,262,781	1,275	1,332	50,399	14,183	635	96	7,053,427
	42,249,093	20,175,578	19,315,335	17,034,447	33,968,457	11,020,700	3,172,634	5,633,424	152,569,668
Off–balance item									
Financial guarantees(*3)	1,370,934	–	–	–	–	–	–	–	1,370,934
Commitment(*4)	50,788,683	–	–	–	–	–	–	–	50,788,683
	52,159,617	–	–	–	–	–	–	–	52,159,617
	₩ 94,408,710	₩ 20,175,578	₩ 19,315,335	₩ 17,034,447	₩ 33,968,457	₩ 11,020,700	₩ 3,172,634	₩ 5,633,424	₩ 204,729,285

(*1) Financial assets at fair value through profit or loss are included in immediate payment as the Company holds such liabilities for the purpose of disposal or repayment before contractual maturity.
(*2) Cash inflows and outflows are presented on a net basis.
(*3) Cash outflows in the financial guarantee contract are classified based on the earliest period when the contracts can be executed
(*4) Because payments can be charged at any time, amount of the unused credit is included in the section which immediately becomes receivable and payable. The amount of the unused credit line of commitment is included in immediate payment so that it can be charged to pay at any time.

Available assets which exist in redeeming financial liabilities and unused loan commitments are cash and bank deposits, debt securities, equity securities, and loans. In addition, the Company is able to cope with unexpected cash flows through the sale of securities and the additional sources of funding, similar to the asset backed securitization.

The purpose of market risk management is to manage the loss of assets and liabilities incurred due to changes in market variables such as interest rates, foreign exchanges and equity prices to remain within the allowable limits in order to ensure the profitability and stability.

Market risk management targets include marketable securities, foreign currency net positions, derivatives and other assets and liabilities with embedded market risks. The Company classifies exposures to market risk into either trading or non–trading portfolios and manages each of those portfolios separately.

The trading portfolio includes interest rate positions, equity price positions, commodity, positions, and all foreign exchange positions:

- Financial instruments for the purpose of acquiring the differences incurred due to short–term trading or price fluctuations.
- Financial instruments for the purpose of hedging risks
- Financial instruments for the purpose of acquiring arbitrages
- Derivatives which are not applied to fair value hedge accounting under K–IFRS

8. Risk management (cont'd)

- All foreign exchange and gold positions in accordance with Regulations on Supervision of Banking Business Appendix 3–2

The Risk Committee determines capital limits and annual loss limits in relation to market risks of the trading portfolio on an annual basis, and divides exposure limits and VaR limits into business units on a quarterly basis. The Risk Management Committee further subdivides the limits quarterly into quarter loss limits, exposure limit for desks and VaR limits. The Risk Management Group provides information necessary for deliberation and review by the Committee, reports trading limits, and measures risks. The Middle Office carries out the mark–to–market measures, trade violations, and examination of compliance with the limits.

The Company regularly measures the degree of market risks and complies with the allowable limits set for the various areas of the trading portfolio. In addition, the Company reviews the adequacy of the risk–reward ratio by evaluating risks and related profits and losses on a regular basis and complies with the established trading policy regulations. The Company separately examines and analyses the change in exposures with checking its compliance of the limits and emergency situations, and reports to the management on a daily basis.

Value at Risk (VaR) is a method that manages and measures the degree of market risks of the trading portfolio subject to exposure. The Company calculates the VaR by applying Historical Simulation Method for 10 days in the 99% confidence level. Furthermore, the stress test is performed to measure the size of the loss in order to account for the method's limited use in extreme cases.

Back–testing is performed daily on trading units to verify the predictive power of the value–at risk calculations. When back–testing is performed, the Company compares the daily profits and losses with VaR of the previous day and reports the result of subsequent examinations separately to the director of the Risk Management Department. The Company analyses the result of subsequent examination and reports to the Financial Supervisory Service and management. If the cumulated occurrence of excess becomes more than 10, the Company adjusts the multiplier to calculate the internal capital.

Risk VaRs as of December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

	December 31, 2014	Average	Min	Max	December 31, 2013
Interest rates risk	₩ 4,134	₩ 15,842	₩ 2,533	₩ 30,903	₩ 26,549
Foreign exchange rates risk	15,082	12,543	4,165	16,985	3,981
Stock price risk	188	1,269	44	3,649	232
Variance risk	865	1,555	790	2,573	2,468
Total risk(*)	₩ 16,016	₩ 19,718	₩ 10,734	₩ 30,924	₩ 27,501

(*) The Company reflects the correlation of risk factors and volatility on the moving average method. The calculation of the total risk VaR takes into consideration the correlation and diversification effects between each risk factor and therefore, it is not the same as the total VaRs.

Although commodity positions are held, only back-to-back positions are held, so commodity risk is measured as "0".

8. Risk management (cont'd)

Interest rate risk arises from the possibility of changes in interest rates which affects the future cash flows or the fair values of financial instruments. The Company manages the interest rate risks in order to maintain the stability of net interest income and net asset value.

- Financial assets with interest rates such as bank deposits, debt securities, and loans
- Financial liabilities with interest rates such as depository liabilities, borrowings, and debentures
- Financial derivatives such as interest rate swaps

Measurement of interest rate risk is calculated using the interest rate gaps. The interest rate risks measure the interest rate gap ratio as a primary indicator, and the interest rate EaR, VaR and duration are used as secondary indicators. The Risk Committee establishes the interest risk limits on an annual basis; the Risk Committee as well as the Risk Management Committee measures the interest rate risk indicators on a monthly basis and reports the compliance with the limits to management.

The interest rate VaR is an estimated maximum loss of net asset due to the adverse changes of the interest rate. Details of the interest rate VaR as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014	Average	Min	Max	December 31, 2013
Interest rate VaR	₩ 552,468	₩ 285,831	₩ 108,230	₩ 554,147	₩ 203,401

The interest rate VaR is calculated by using the maturity bucket reprising gap, the interest maturity bucket on modified duration, and the expected gap due to the interest rate fluctuation in accordance with BIS standards. Assets below the substandard and amounts in checking accounts and temporary deposits are excluded from the calculated amount.

Equity price risk is a risk incurred when the fair value of equities results in changes in the level of related revenue and capital. Effects on capital due to the fluctuation in equity price risk as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014			
	20% decline	10% decline	10% rise	20% rise
Equity price risk	₩ (38,250)	₩ (19,125)	₩ 19,125	₩ 38,250

	December 31, 2013			
	20% decline	10% decline	10% rise	20% rise
Equity price risk	₩ (132,050)	₩ (66,025)	₩ 66,025	₩ 132,050

The Company measures the equity price risk on domestic marketable available–for–sale equity securities only.

Currency risk is a risk incurred when the value of a financial instrument or future cash flows fluctuates due to the changes in foreign exchange rates. Currency risk arises from the financial instruments expressed in currencies other than the functional currency. Currency risk does not arise from the financial instruments expressed in the functional currency or in non–monetary items measured by using the historical foreign exchange rates. In order to establish the stop loss and limits, the Company manages the foreign exchange net exposure amount of the trading and non–trading portfolios by each currency.

8. Risk management (cont'd)

Significant assets and liabilities denominated in foreign currencies as of December 31, 2014 and 2013 are as follows (Korean won in millions or U.S. dollar in thousands):

Account	Currency	December 31, 2014 Amounts in foreign currencies in units	U.S. dollars (*)	Korean won equivalent
Assets:				
Cash and due from bank	USD	993,077,627	US$ 993,078	₩ 1,091,591
	JPY	5,643,726,866	47,244	51,930
	EUR	27,071,993	32,917	36,182
	CNY	12,073,569,230	1,946,687	2,139,799
	IDR	1,894,894,836	152	167
	Others		52,184	57,361
			3,072,262	3,377,030
Financial assets at fair value through profit or loss	USD	99,398,686	99,399	109,259
	JPY	659,458,862	5,520	6,068
	EUR	14,453,250	17,574	19,317
			122,493	134,644
Available-for-sale financial assets	USD	585,270,240	585,270	643,329
	CNY	90,028,710	14,516	15,956
	Others		415,576	456,801
			1,015,362	1,116,086
Loan	USD	10,352,897,749	10,352,898	11,379,905
	JPY	89,256,716,358	747,168	821,287
	EUR	259,870,174	315,977	347,322
	CNY	19,060,884,797	3,073,290	3,378,161
	Others		106,493	117,056
			14,595,826	16,043,731
Derivative assets used for hedging	USD	32,746,380	32,746	35,995
Others	USD	1,045,341,165	1,045,341	1,149,039
	JPY	5,317,526,798	44,513	48,929
	EUR	37,168,826	45,194	49,677
	CNY	698,684,321	112,653	123,828
	Others		12,889	14,167
			1,260,590	1,385,640
			US$ 20,099,279	₩ 22,093,126
Liabilities:				
Financial liabilities at fair value through profit or loss	USD	105,695,718	US$ 105,696	₩ 116,181
	JPY	654,609,563	5,480	6,023
	EUR	6,756,294	8,215	9,030
			119,391	131,234

8. Risk management (cont'd)

Account	Currency	December 31, 2014 Amounts in foreign currencies in units	U.S. dollars (*)	Korean won equivalent
Deposits	USD	4,639,895,386	4,639,895	5,100,173
	JPY	42,555,765,019	356,234	391,573
	EUR	78,558,278	95,519	104,995
	CNY	28,779,960,242	4,640,350	5,100,672
	IDR	2,157,656	–	–
	Others		154,829	170,188
			9,886,827	10,867,601
Borrowings	USD	4,131,846,793	4,131,847	4,541,726
	JPY	30,466,517,476	255,035	280,335
	EUR	190,280,544	231,363	254,314
	CNY	180,000,000	29,022	31,901
	Others		8,309	9,133
			4,655,576	5,117,409
Debentures	USD	3,204,117,937	3,204,118	3,521,966
	EUR	36,000,000	43,772	48,115
	Others		376,284	413,612
			3,624,174	3,983,693
Derivative liabilities used for hedging	USD	13,394,297	13,394	14,723
Others	USD	1,565,821,957	1,565,822	1,721,151
	JPY	17,540,683,627	146,833	161,399
	EUR	9,153,805	11,130	12,234
	CNY	861,521,772	138,908	152,688
	IDR	433,827,135	35	38
	Others		16,376	18,000
			1,879,104	2,065,510
			US$ 20,178,466	₩ 22,180,170

Account	Currency	December 31, 2013 Amounts in foreign currencies in units	U.S. dollars (*)	Korean won equivalent
Assets:				
Cash and due from bank	USD	1,743,014,939	US$ 1,743,015	₩ 1,839,404
	JPY	7,949,886,372	75,684	79,869
	EUR	27,058,430	37,339	39,404
	CNY	7,853,910,059	1,295,638	1,367,287
	IDR	321,175,754,063	26,295	27,750
	Others		45,401	47,911
			3,223,372	3,401,625
Financial assets at fair value through profit or loss	USD	79,354,555	79,355	83,743
	JPY	968,517,229	9,220	9,730
	EUR	17,742,740	24,484	25,838
			113,059	119,311

8. Risk management (cont'd)

		December 31, 2013		
Account	Currency	Amounts in foreign currencies in units	U.S. dollars (*)	Korean won equivalent
Available-for-sale financial assets	USD	598,931,560	598,932	632,052
	CNY	197,750,000	32,622	34,426
	IDR	241,955,289,997	19,809	20,905
	Others		316,599	334,107
			967,962	1,021,490
Held-to-maturity financial assets	IDR	159,232,825,069	13,037	13,758
	Others		5,531	5,837
			18,568	19,595
Loan	USD	8,565,375,200	8,565,375	9,039,040
	JPY	102,116,534,012	972,163	1,025,924
	EUR	215,793,599	297,784	314,252
	CNY	11,197,672,366	1,847,250	1,949,403
	IDR	4,500,772,576,723	368,489	388,867
	Others		121,444	128,161
			12,172,505	12,845,647
Derivative assets used for hedging	USD	51,449,007	51,449	54,294
Others	USD	970,528,142	970,528	1,024,198
	JPY	9,195,478,229	87,542	92,383
	EUR	72,144,299	99,555	105,061
	CNY	67,068,415	11,064	11,676
	IDR	19,667,183,176	1,610	1,699
	Others		23,610	24,915
			1,193,909	1,259,932
			US$ 17,740,824	₩ 18,721,894
Liabilities:				
Financial liabilities at fair value through profit or loss	USD	81,464,932	US$ 81,465	₩ 85,970
	JPY	970,612,117	9,240	9,751
	EUR	7,508,249	10,361	10,934
			101,066	106,655
Deposits	USD	3,915,586,654	3,915,587	4,132,119
	JPY	44,448,393,970	423,155	446,555
	EUR	69,831,845	96,364	101,693
	CNY	18,886,595,777	3,115,671	3,287,967
	IDR	3,099,068,119,420	253,728	267,759
	Others		99,925	105,452
			7,904,430	8,341,545
Borrowings	USD	3,407,828,160	3,407,828	3,596,281
	JPY	41,713,377,153	397,117	419,078
	EUR	275,740,442	380,508	401,550
	IDR	1,010,000,000,014	82,691	87,264
	Others		18,575	19,602
			4,286,719	4,523,775

8. Risk management (cont'd)

	December 31, 2013			
Account	Currency	Amounts in foreign currencies in units	U.S. dollars (*)	Korean won equivalent
Debentures	USD	2,843,154,654	2,843,155	3,000,381
	JPY	38,269,776,633	364,333	384,481
	Others		621,328	655,687
			3,828,816	4,040,549
Derivative liabilities used for hedging	USD	68,427,441	68,427	72,211
Others	USD	1,438,592,989	1,438,593	1,518,147
	JPY	4,816,354,577	45,852	48,388
	EUR	42,859,197	59,143	62,414
	CNY	310,860,350	51,282	54,118
	IDR	22,701,763,604	1,859	1,961
	Others		46,349	48,912
			1,643,078	1,733,940
			US$ 17,832,536	₩ 18,818,675

(*) All foreign currencies other than USD are expressed in USD amounts at the reporting date.

Operational risk is the risk of loss arising from system failure, human error, fraud or other external events. Risks related to legal or regulatory implications are identified as operational risks but risks related to the strategy of damaging reputation are excluded from operational risks. Operational risk includes non–financial risks related to losses due to internal operational problems and externalities such as natural disasters and terrorist attacks. Operational risk does not have a direct correlation with income and the Company needs to mitigate such risk through internal controls and insurance.

The Company calculates the operational risk capital using the Advanced Measurement Approach (AMA) and sets the amount as the basic indicator to manage the limits. Length of the period in which the AMA is in use is one year with a 99.9% confidence level. The Company uses the loss distribution approach to measure 9 different business units and 7 operational risk event types. In addition, the Company combines the loss distribution of the internal and external data on losses with results of the scenario analysis to calculate the amount of capital and takes into account business environment and changes in the controls in order to adjust the amount of capital and determine the total amount.

The Risk Committee determines the operational risk limits. In the case where the capital amount is expected to exceed the internal capital limits, an approval from the Risk Committee is needed beforehand. If such a situation occurs in cases outlined as exceptions, an approval from the Risk Committee is needed for the information on exceeded amount, post hoc results, as well as the subsequent plans.

The Company implements the BIS capital requirement system in order to secure the capital adequacy and comply with the supervisory regulations. By BIS (Bank for International Settlements) regulation, the Company keeps its BIS capital adequacy ratio (hereinafter BIS ratio) above the minimum BIS ratio (total capital ratio of 8.0%, tier 1 capital ratio of 5.5%, common equity ratio of 4.0%) for risk-weighted assets. In addition, the Company performs a capital adequacy assessment in order to cope with an unexpected loss.

8. Risk management (cont'd)

Risk–weighted assets which are calculated per each risk type when calculating BIS ratio are as follows:

- Risk–weighted assets of credit risk are calculated using the Advanced Internal Ratings–Based Approach (A–IRB). The Company intends to use the permanent Standardized Approach (SA) for governments, banks, and public institutes. The Company intends to apply the Foundation Internal Ratings–Based Approach (F–IRB) for households and non–profit organizations.
- Risk–weighted assets of market risk are calculated by adding higher of (1) the VaR measured at the previous business day and (2) the average VaR measured in the last 60 business days times a multiplier to the separate risk calculated by using a standardized model.
- Risk–weighted assets of the operational risk are calculated by multiplying 12.5 to the amount of operational risk capital.

Based on changes in the year ended December 31, 2014, the BIS ratio as of December 31, 2014 is prepared in respect to Basel III standards and the BIS ratio in December 31, 2013, is written in respect to Basel II.

Regulatory capital in accordance with the Regulations on the Supervision of Banking Business for calculating BIS ratio as of December 31, 2014 is as follows:

- Common equity: Capital incurred in connection with common stock issued to meet the eligible requirement, capital surplus and capital adjustments, retained earnings, accumulated other comprehensive income and other capital surplus, capital adjustments, non-controlling interest on common shares issued by banks, affiliated subsidiaries, etc.
- Other basic capital: The capital securities to meet accreditation requirements of other basic capital, capital surplus associated with the issuance of the other basic capital, non-qualifying capital securities and the accredited amount as other basic capital of a non-controlling interest on equity securities issued by a subsidiary, etc.
- Supplementary capital: The capital securities to meet supplementary capital accreditation requirements, capital surplus associated with the issuance of supplementary capital, the accredited amount of supplementary capital of non-qualifying capital securities, the accredited amount as supplementary capital of a non-controlling interest on equity securities issued by a subsidiary, eligible allowance for possible loan losses on "normal" or "critical" category assets, allowance for possible loan losses in excess of the total amount of expected losses, etc.

Regulatory capital and BIS ratios as of December 31, 2014 and 2013 are as follows (Korean won in millions):

		December 31, 2014		December 31, 2013
Common Equity				
Capital incurred in connection with common stock issued to meet the eligible requirement, capital surplus and capital adjustments	₩	3,595,766	₩	3,594,493
Retained earnings		6,909,980		6,218,631
Accumulated other comprehensive income and other capital surplus, capital adjustments		686,274		394,633
Non-controlling interest on common shares issued by a bank, a subsidiary company in connection		135,534		10,281
Deduction		(350,764)		(273,079)
	₩	10,976,790	₩	9,944,959
Other basic capital				
Accredited amount as other basic capital of a non-controlling interest on equity securities issued by a subsidiary	₩	155,698	₩	12,257
	₩	155,698	₩	12,257

8. Risk management (cont'd)

		December 31, 2014		December 31, 2013
Supplementary capital				
Equity securities satisfying the criteria of supplementary capital	₩	329,760	₩	–
Accredited amount as supplementary capital of non-qualifying capital securities		2,357,200		2,651,850
Accredited amount as supplementary capital of a non-controlling interest on equity securities issued by a subsidiary		38,724		2,937
Allowance for possible loan losses on assets categorized as "normal" or "critical"		143,437		130,655
Eligible allowance for possible loan losses in excess of the total amount of expected losses		401,688		399,863
		3,270,809		3,185,305
	₩	14,403,297	₩	13,142,521
Risk–weighted assets				
Credit risk–weighted assets (*)	₩	92,009,231	₩	87,534,456
Operational risk–weighted assets		3,975,125		4,208,036
Market risk–weighted assets		1,867,265		2,716,893
	₩	97,851,621	₩	94,459,385
BIS capital ratio				
Total capital ratio		14.72%		13.91%
Common equity ratio		11.22%		10.53%
Tier 1 capital ratio		11.38%		10.54%
Tier 2 capital ratio		3.34%		3.37%

(*) The equity below the lowest limit is presented in credit risk weighted assets.

Internal capital is the amount which allows for continuous operation of business while accounting for all risks. Internal capital is defined as the size of capital needed to cope with unexpected loss under a certain rate. The purpose of managing the internal capital is to compare the size of internal capital and available capital (Tier 1) and to serve as a measure of financial strength. Managing the internal capital also provides the amount of risk–adjusted capital and basic measurement. The indicators are composed of the risk appetite ratio as well as exhaustion ratio of foreign holding limits. The risk appetite ratio is an internal capital ratio established after taking into consideration a capital buffer in Tier 1 capital. The exhaustion ratio of foreign holding limits is a ratio used to measure the amount of internal capital used against the internal capital limits.

Internal capital limits are established after accounting for the size of current and subsequent Tier 1 capital as well as the components, quality, risk appetite, target credit rating, operational strategy and business plans. The Risk Committee determines risk types and the internal capital limits for the Company more than once a year. In the case where new operations or the expansion of operations result in the amount exceeding the internal capital limits, an approval from the Risk Committee is needed beforehand. If such a situation occurs in cases outlined as exceptions, an approval from the Risk Committee is needed for the information on exceeded amount, post hoc results, as well as the subsequent plans.

9. Operating segment information

For strategical purpose and performance evaluation, the line of business consists of 5 groups as follows.

A. Channel 1 sales group: it consists of 8 sales divisions in retail sector, 2 sales divisions in corporate sector, and a center organization in private banking division. For retail and corporte customers, it lends loans, receives deposits, and sells retirement pension plans.
B. Channel 2 sales group: it consists of 7 sales divisions in retail sector, 1 sales division in corporate sector, and a center organization in private banking division. For retail and corporte customers, it lends loans, receives deposits, and sells retirement pension plans.
C. Chungcheong sales group: it consists of 3 sales divisions in North and South Chungcheong Provinces. For households and soho customers, it lends loans, receives deposits, and sells retirement pension plans.
D. Youngnam sales group: it consists of 3 sales divisions in North and South Gyeongsang Provinces. For households and soho customers, it lends loans, receives deposits, and sells retirement pension plans.
E. Finance sector and other sector: the finance sector invests in and manages marketable securities; underwrites and sells government bonds; develops and manages derivaties. Other sector includes overseas business division, head office support division, trust division, risk management division, inspection division, and after-service division.
To create new customers pool and strengthen sales competitiveness, the Company executed reorganization by combining the sales channels of existing retail sector and corporate sector and creating channel 1 sales group and channel 2 sales group in July 2014. Through reorganization, the management expects to see synergy effects from providing banking services not only to individual customers but also to corporate customers regardless of sector. The Company has managed the income from sales sector based on the reorganization starting in the year of 2014. Accordingly,the sector information for the year ended December 31, 2013 is not restated on the basis of the year ended December 31, 2014 and the sector information for the year ended December 31, 2014 is not restated on the basis of the year ended December 31, 2013.

The net income of the operating segments for the years ended December 31, 2014 and 2013 is as follows (Korean won in millions):

	2014							
	Channel 1 sales group	Channel 2 sales group	Chungcheong sales group	Youngnam sales group	Finance sector and other sector	Subtotal	Adjustments	Total
Operating income								
Net interest income	₩ 948,938	₩ 791,238	₩ 242,358	₩ 190,090	₩ 453,534	₩ 2,626,158	₩ (27)	₩ 2,626,131
Net fee and commission income	184,113	154,587	35,995	33,650	60,763	469,108	(130,960)	338,148
Net other operating income (loss)	(150,519)	(149,763)	(41,983)	(38,253)	333,998	(46,520)	222,322	175,802
	982,532	796,062	236,370	185,487	848,295	3,048,746	91,335	3,140,081
Operating loss								
General and Administrative expense	374,806	309,379	115,119	101,636	774,858	1,675,798	(48,206)	1,627,592
Operating income	607,726	486,683	121,251	83,851	73,437	1,372,948	139,541	1,512,489
Provision for possible credit losses(*1)	197,388	135,240	31,401	35,822	160,779	560,630	(141,149)	419,481
Income tax expenses	99,302	85,049	21,744	11,623	(54,069)	163,648	72,941	236,589
Net income for the period	₩ 311,036	₩ 266,394	₩ 68,106	₩ 36,406	₩ (33,273)	₩ 648,670	₩ 207,749	₩ 856,419

9. Operating segment information (cont'd)

	2013					
	Retail financing segment(*2)	Corporate financing segment(*2)	Money market segment(*2)	Subtotal	Adjustments	Total
Operating income						
Net interest income	₩ 2,077,034	₩ 563,849	₩ (23,100)	₩ 2,617,783	₩ 119	₩ 2,617,902
Net fee and commission income	320,036	89,466	30,178	439,680	(86,960)	352,720
Net other operating income (loss)	(339,665)	(63,415)	245,420	(157,660)	59,625	(98,035)
	2,057,405	589,900	252,498	2,899,803	(27,216)	2,872,587
Operating loss						
General and administrative expense	831,124	118,654	648,782	1,598,560	(54,161)	1,544,399
Operating income	1,226,281	471,246	(396,284)	1,301,243	26,945	1,328,188
Provision for possible credit losses(*1)	330,209	108,095	98,559	536,863	(83,590)	453,273
Income tax expenses	216,849	88,530	(106,533)	198,846	(32,671)	166,175
Net income for the period	₩ 679,223	₩ 274,621	₩ (388,310)	₩ 565,534	₩ 143,206	₩ 708,740

(*1) Provision for possible credit losses consists of net transfer of provision of allowance for loans and other assets, allowance for possible losses on acceptances and guarantees, and allowance for unused commitments.

(*2) Effects of reorganization executed in the current period were not reflected on the net income of the operating segments from the previous period. The line of business consists of 3 sectors of service rendered, customer and region.

A. Retail sector: it consists of retail sales division, private banking (PB) division, Chungcheong business division, and Youngnam business division. For households and soho customers, it lends loans, receives deposits, and sells pension plans.
B. Corporate sector: it consists of corporate sales division and foreign branches. For conglomerates or small and medium sized enterprises, it lends loans, receives deposits, and provides real estate financing and project financing.
C. Finance sector and other sector: the finance sector invests in and manages marketable securities; underwrites and sells government bonds; develops and manages derivaties; and deals in foreign exchange. Other sector includes trust division and loan management division.

External customers by operating sector and revenue from transactions in each sector for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014							
	Channel 1 sales group	Channel 2 sales group	Chungcheong sales group	Youngnam sales group	Finance sector and other sector	Subtotal	Adjustments	Total
Revenue from external customers	₩ 982,532	₩ 796,062	₩ 236,370	₩ 185,487	₩ 848,295	₩ 3,048,746	₩ 91,335	₩ 3,140,081

	2013					
	Retail financing segment	Corporate financing segment	Money market segment	Subtotal	Adjustments	Total
Revenue from external customers	₩ 1,915,826	₩ 563,250	₩ 420,727	₩ 2,899,803	₩ (27,216)	₩ 2,872,587
Revenue from Internal transaction	141,579	26,650	(168,229)	–	–	–

9. Operating segment information (cont'd)

	2013					
	Retail financing segment	Corporate financing segment	Money market segment	Subtotal	Adjustments	Total
	₩ 2,057,405	₩ 589,900	₩ 252,498	₩ 2,899,803	₩ (27,216)	₩ 2,872,587

Significant non–cash transactions included in income of operating segments for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014							
	Channel 1 sales group	Channel 2 sales group	Chungcheong sales group	Youngnam sales group	Finance sector and other sector	Subtotal	Adjustments	Total
Earnings from equity method Investments	₩ –	₩ –	₩ –	₩ –	₩ 92,286	₩ 92,286	₩ –	₩ 92,286
Depreciation and amortization	11,108	9,620	9,137	3,080	85,594	118,539	–	118,539

	2013					
	Retail financing segment	Corporate financing segment	Money market segment	Subtotal	Adjustments	Total
Earnings from equity method Investments	₩ –	₩ –	₩ 76,068	₩ 76,068	₩ –	₩ 76,068
Depreciation and amortization	45,283	7,271	95,746	148,300	–	148,300

Revenue by region from the external customers for the years ended December 31, 2014 and 2013 and non–current assets by region as of December 31, 2014 are as follows (Korean won in millions):

	Revenue from external customers		Non–current assets	
	2014	2013	December 31, 2014	December 31, 2013
Domestic	₩ 2,911,503	₩ 2,739,873	₩ 1,667,984	₩ 1,712,761
Foreign				
Hong Kong	17,163	19,846	84	125
Singapore	10,751	15,859	220	113
New York	13,380	14,462	174	212
Tokyo	6,002	6,833	325	418
China	84,435	70,846	35,196	24,364
Indonesia	5,467	32,084	4,255	3,955
Myanmar	45	–	42	–
	137,243	159,930	40,296	29,187
Adjustments	91,335	(27,216)	(4,255)	987
	₩ 3,140,081	₩ 2,872,587	₩ 1,704,025	₩ 1,742,935

Non–current assets are composed of property and equipment, investment properties, and intangible assets and classified as either domestic or overseas depending on its asset location.

10. Regulatory reserve for bad debts

In accordance with the Regulations for Supervision of Financial Supervisory Service, when provisions for credit loss required under K–IFRS are deemed insufficient for regulatory purposes, the Company compensates for the difference as a regulatory reserve for bad debts under retained earnings.

Balances of regulatory reserve for bad debts as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014		December 31, 2013	
Beginning balance	₩	1,212,038	₩	1,142,323
Required reserve for (reversal of) bad debt		(6,110)		69,715
Ending balance	₩	1,205,928	₩	1,212,038

Required reversal of (reserve for) bad debt reserve and income adjusted for the deductions for the years ended December 31, 2014 and 2013 is as follows (Korean won in millions):

	2014		2013	
Net income before deducting provisions for bad debt	₩	856,419	₩	708,740
Required amount for provision for (reversal of) bad debt reserve (*)		6,110		(69,715)
Adjusted income after deducting provisions for bad debt		862,529		639,025
Adjusted earnings per share after reflecting reserve for bad debt (in Korean won)	₩	3,924	₩	2,907

(*) It is calculated by deducting the beginning balance from the ending balance of regulatory reserve for bad debts

11. Cash and due from banks

Cash and due from banks as of December 31, 2014 and 2013 is as follows (Korean won in millions):

	Counterparty	Annual interest rate (%)	December 31, 2014	December 31, 2013
Cash		–	₩ 1,328,736	₩ 1,822,124
Due from banks in Korean won:				
Reserve deposits with BOK	Bank of Korea ("BOK")	–	4,587,372	2,443,330
Certificates of deposit	Other banks	2.3	30,000	465,000
Monetary stabilization account	BOK	2.0	600,000	500,000
Other deposits	Other financial institutions	0.0~2.8	1,085,210	1,161,702
			6,302,582	4,570,032
Due from banks in foreign currencies:				
Due from banks on demand	BOK and other banks	0.0~6.6	1,807,475	2,634,289
Due from others on demand	Other financial institutions	–	1,429,594	614,238
			3,237,069	3,248,527
			₩ 10,868,387	₩ 9,640,683

Restricted balances in due from banks as of December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

	December 31, 2014	December 31, 2013	Restriction
Due from banks in Korean won:			
Reserve deposits with BOK	₩ 4,587,372	₩ 2,443,330	Bank of Korea Act
Monetary stabilization account	600,000	500,000	Bank of Korea Act
Other deposits	95,741	50,502	Financial Investment Business and Capital Markets Act and Others
	5,283,113	2,993,832	
Due from banks in foreign currencies:			
Due from banks on demand	228,556	707,705	Reserve for payment of deposits, etc.
Due from others on demand	38,314	43,111	OTC derivatives transactions, etc.
	266,870	750,816	
	₩ 5,549,983	₩ 3,744,648	

12. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Category	Annual interest rate (%)	Fair value (Book value) December 31, 2014	Fair value (Book value) December 31, 2013
Equity securities	Stocks	–	₩ 10,518	₩ 17,350
Debt securities	Government and public bonds	2.0~5.3	1,316,759	1,062,860
	Financial bonds	2.0~2.9	562,175	519,015
	Corporate bonds and Others	2.6~4.7	183,201	170,324
			2,062,135	1,752,199
Trading derivative instruments (*)		–	2,638,498	1,896,464
			₩ 4,711,151	₩ 3,666,013

(*) Refer to Note 17.

Debt securities included in trading securities as of December 31, 2014 and 2013 consist of the following (Korean won in millions):

	December 31, 2014			
	Par value	Acquisition cost	Amortized Cost	Fair value (Book value)
Government and public bonds	₩ 1,335,050	₩ 1,312,164	₩ 1,311,348	₩ 1,316,759
Finance bonds	560,000	561,546	561,689	562,175
Corporate bonds and others	180,000	180,839	181,071	183,201
	₩ 2,075,050	₩ 2,054,549	₩ 2,054,108	₩ 2,062,135

	December 31, 2013			
	Par value	Acquisition cost	Amortized Cost	Fair value (Book value)
Government and public bonds	₩ 1,073,657	₩ 1,067,866	₩ 1,065,135	₩ 1,062,860
Finance bonds	570,000	569,527	569,047	519,015
Corporate bonds and others	121,150	121,194	119,893	170,324
	₩ 1,764,807	₩ 1,758,587	₩ 1,754,075	₩ 1,752,199

The fair value of debt securities is measured based on the average of the valuations provided by KIS Pricing Inc., the Korea Asset Pricing Co., NICE Pricing Service Inc and Fn Pricing Inc.

13. Available–for–sale financial assets

Available–for–sale financial assets as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Counterparty	Annual interest rate (%)	Fair value (Book value) December 31, 2014	Fair value (Book value) December 31, 2013
Equity securities	POSCO and others	–	₩ 579,453	₩ 1,127,314
Investments in partnerships	United PF 1ST Corporate Financial Stability Private Equity Fund and others	–	111,910	116,389
Beneficiary certificates	Kyobo Axa Alpha plus security 1 ST Investment Trust and others	–	989,470	592,351
Government and public bonds	Treasury bonds	2.8~5.8	7,568,630	5,192,358
	Housing bonds	2.3~3.0	1,843,693	1,185,012
			9,412,323	6,377,370
Finance bonds	Currency stabilization bonds	2.1~2.9	2,020,039	2,604,033
	Commercial bank bonds	2.2~2.8	298,960	359,097
	Small and medium industry finance bonds	2.0~3.1	605,683	457,637
	Industrial financial bonds	2.2~3.8	756,248	880,623
	KEXIM bonds	2.1~4.9	240,900	330,902
			3,921,830	4,632,292
Corporate bonds	Non–financial corporate bonds	2.6~6.3	773,363	1,211,757
	State owned entity bonds	2.2~6.9	2,776,460	3,323,047
			3,549,823	4,534,804
Securities denominated in foreign currencies	Equity securities in foreign currencies	–	20,238	68,084
	Investment in foreign currencies	–	25,794	35,421
	Bonds in foreign currencies	1.9~8.0	1,116,086	1,021,490
		–	1,162,118	1,124,995
Others		–	1,571	–
			₩ 19,728,498	₩ 18,505,515

Equity securities (including equity securities denominated in foreign currencies) as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Book value before valuation (*)	Accumulated other Comprehensive Income	Fair value (Book value) December 31, 2014	Fair value (Book value) December 31, 2013
Marketable equity securities	₩ 221,976	₩ 15,564	₩ 237,540	₩ 694,308
Non–marketable equity securities	314,056	48,095	362,151	501,090
	₩ 536,032	₩ 63,659	₩ 599,691	₩ 1,195,398

(*) Book values prior to valuation of Marketable equity securities and Non-marketable equity securities are the amounts computed after deducting impairment loss recognized for the years ended December 31, 2014 and 2013 amounting to ₩19,972 million and ₩141,828 million respectively.

13. Available–for–sale financial assets (cont'd)

Non–marketable equity securities including Korea Asset Management Corporation, amounting to ₩11,620 million and ₩17,655 million were valued at cost as of December 31, 2014 and 2013 respectively, because their fair values could not be reasonably estimated.

The fair value of the available–for–sale non–marketable equity securities such as Korea Housing Guarantee Co., Ltd. was measured by an independent valuer using actuarial assumptions. The fair value was determined based on more than one valuation model such as the Discounted Cash Flow (DCF) model, Market Approach model, Imputed Market Value (IMV) model, and Risk Adjusted Discounted Cash Flow (RADCF) model, depending on the characteristic of the equity securities as deemed appropriate.

Shares held by the Company that are embedded with restrictions on disposal as of December 31, 2014 are summarized as follows (Korean won in millions):

	December 31, 2014		
	Number of shares	Book value	Disposal restriction
STX Engine Co., Ltd	924,000	₩ 1,980	Until December 31, 2017
Kukje Machinery Co., Ltd	438,000	1,299	Until M&A be made
Kumho Industrial Co., Ltd.	962,048	21,838	Until M&A be made
Taihan Electric Wire Co., Ltd (Common stock)	4,280,900	2,115	Until December 31, 2015
Taihan Electric Wire Co., Ltd (Convertible preferred stock)	6,905,200	17,056	Until December 31, 2015
Samho International Co.,Ltd.	788,000	10,362	Until December 31, 2016
SAMT Co., Ltd.	8,769,429	14,470	Until February 28, 2015
Oriental Precision & Engineering Co., Ltd.	2,919,332	1,921	Until December 31, 2016
Jaeyoung Solutec Co., Ltd.	244,000	346	Until December 31, 2016
Cosmotech Co., Ltd.	2,126,000	478	Until December 31, 2016
Pantech Co., Ltd.	18,426,419	–	Until resolution of shareholders association
Hyundai Cement Co., Ltd.	1,095,900	11,562	Until December 31, 2016
Kohap Corp.	1,844,400	–	Until liquidation at the settlement meeting
YoungGwang Stainless Co., Ltd	101,400	143	Until December 31, 2016
		₩ 83,570	

13. Available–for–sale financial assets (cont'd)

Investments in partnerships (including investments in partnerships in foreign currencies) as of December 31, 2014 and 2013 consist of the following (Korean won in millions):

	Book value Before valuation (*)	Accumulated other comprehensive income	Fair value (Book value) December 31, 2014	Fair value (Book value) December 31, 2013
Investments in partnerships	₩ 130,044	₩ 7,660	₩ 137,704	₩ 151,810

(*) Book value prior to valuation is the amount computed after deducting impairment loss recognized for the years ended December 31, 2014 amounting to ₩18,060 million.

Investments in partnerships amounting to ₩27,392 million and ₩30,083 million as of December 31, 2014 and 2013, respectively, were stated at the acquisition cost as their fair value cannot be reasonably estimated.

Debt securities as of December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

	December 31, 2014			
	Par value	Acquisition cost	Amortized cost	Fair value (Book value)
Government and public bonds	₩ 8,901,800	₩ 9,284,393	₩ 9,229,925	₩ 9,412,323
Finance bonds	3,910,000	3,897,426	3,905,609	3,921,830
Corporate bonds and others	3,460,000	3,513,293	3,486,703	3,549,823
Bonds denominated in foreign currencies	1,066,708	1,090,825	1,089,132	1,116,086
	₩ 17,338,508	₩ 17,785,937	₩ 17,711,369	₩ 18,000,062

	December 31, 2013			
	Par value	Acquisition cost	Amortized cost	Fair value (Book value)
Government and public bonds	₩ 6,268,131	₩ 6,409,397	₩ 6,395,273	₩ 6,377,370
Finance bonds	4,635,000	4,629,172	4,629,428	4,632,292
Corporate bonds and others	4,476,000	4,533,243	4,509,098	4,534,804
Bonds denominated in foreign currencies	992,358	1,007,335	1,005,672	1,021,490
	₩ 16,371,489	₩ 16,579,147	₩ 16,539,471	₩ 16,565,956

The fair value of debt securities is measured based on the average of the valuation provided by KIS Pricing Inc., the Korea Asset Pricing Co. NICE Pricing Service, Inc. and Fn Pricing Inc.

Beneficiary certificates securities as of December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

	December 31, 2014			
	Acquisition cost	Book value before valuation	Accumulated other comprehensive income	Book value
Beneficiary certificates	₩ 550,000	₩ 550,000	₩ 5,897	₩ 555,897
Securities certificates	40,026	40,019	638	40,657
Alternative certificates	164,590	167,005	(449)	166,556
Hybrid certificates	224,341	224,341	2,019	226,360
	₩ 978,957	₩ 981,365	₩ 8,105	₩ 989,470

13. Available–for–sale financial assets (cont'd)

	December 31, 2013			
	Acquisition cost	Book value before valuation	Accumulated other comprehensive income	Book value
Beneficiary certificates	₩ 330,000	₩ 330,000	₩ 2,340	₩ 332,340
Securities certificates	26	26	7	33
Alternative certificates	134,400	136,028	2,357	138,385
Hybrid certificates	120,000	120,000	1,593	121,593
	₩ 584,426	₩ 586,054	₩ 6,297	₩ 592,351

Changes in the unrealized gain (loss) for available-for-sale financial assets for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014				
	Beginning balance	Unrealized gain (loss)	Realized gain (loss)	Tax effect	Ending Balance
Equity securities	₩ 167,427	₩ 60,064	₩ (82,417)	₩ 5,410	₩ 150,484
Investments in partnerships and beneficiary certificate	1,490	36,263	(22,884)	(3,238)	11,631
Government and public bonds	(13,529)	217,874	(17,573)	(47,916)	138,856
Finance bonds	2,298	15,318	(1,961)	(3,173)	12,482
Corporate bonds and others	19,460	57,612	(20,198)	(9,005)	47,869
Securities denominated in foreign currencies	22,994	15,487	(12,747)	(496)	25,238
	₩ 200,140	₩ 402,618	₩ (157,780)	₩ (58,418)	₩ 386,560

	2013				
	Beginning balance	Unrealized gain (loss)	Realized gain (loss)	Tax effect	Ending balance
Equity securities	₩ 119,023	₩ 80,636	₩ (16,779)	₩ (15,453)	₩ 167,427
Investments in partnerships and beneficiary certificate	4,006	2,096	(5,416)	804	1,490
Government and public bonds	99,401	(56,870)	(88,714)	34,757	(13,529)
Finance bonds	8,132	(1,339)	(6,059)	1,851	2,298
Corporate bonds and others	53,017	(30,598)	(16,793)	11,444	19,460
Securities denominated in foreign currencies	51,076	(13,314)	(23,536)	8,769	22,994
	₩ 334,655	₩ (19,389)	₩ (157,297)	₩ 42,172	₩ 200,140

13. Available–for–sale financial assets (cont'd)

Realized gains and losses from disposal of available–for–sale financial assets for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014		2013	
	Gain	Loss	Gain	Loss
Equity securities	₩ 166,109	₩ 16,822	₩ 53,012	₩ 26,315
Investments in partnerships and beneficiary certificate	27,537	10,797	11,033	1,452
Government and public bonds	77,403	519	97,041	9,953
Finance bonds	14,585	69	4,617	503
Corporate bonds and others	17,573	1	12,988	76
Securities denominated in foreign currencies	26,332	1,493	17,682	1,156
	₩ 329,539	₩ 29,701	₩ 196,373	₩ 39,455

Dividend gain on available–for–sale financial assets for the years ended December 31, 2014 and 2013 is as follows (Korean won in millions):

	2014	2013
Equity securities	₩ 18,687	17,486
Investments in partnerships and beneficiary certificate	7,152	3,244
Securities denominated in foreign currencies	1,149	3,753
	₩ 26,988	24,483

13. Available–for–sale financial assets (cont'd)

Transferred financial assets that are not fully derecognized as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014	
	Book value	Fair value
Property for transfer		
Available–for–sale financial assets(*)	₩ 822,100	₩ 822,100
Held–to–maturity financial assets	85,000	93,075
	907,100	915,175
Relevant liabilities		
Bonds sold under repurchase agreements in Korean won	45,680	45,739
Bonds sold under repurchase agreements in foreign currency	414,201	415,520
	459,881	461,259
Net position	₩ 447,219	₩ 453,916

(*) Lent available–for–sale securities with no associated liabilities recognized amounting to ₩ 309,354 million have been included.

	December 31, 2013	
	Book value	Fair value
Property for transfer		
Available–for–sale financial assets(*)	₩ 962,446	₩ 962,446
Held–to–maturity financial assets	181,700	187,667
	1,144,146	1,150,113
Relevant liabilities		
Bonds sold under repurchase agreements in Korean won	91,917	91,897
Bonds sold under repurchase agreements in foreign currency	562,068	563,652
	653,985	655,549
Net position	₩ 490,161	₩ 494,564

(*) Lent available–for–sale securities with no associated liabilities recognized amounting to ₩ 181,669 million have been included.

14. Held–to–maturity financial assets

Held–to–maturity financial assets as of December 31, 2014 and 2013 consist of the following (Korean won in millions):

	Category	Annual Interest rate (%)	Book value December 31, 2014	Book value December 31, 2013
Government and public bonds	Treasury bonds	3.8~5.8	₩ 331,805	₩ 332,962
	Housing bonds	2.3~3.0	445,933	262,398
			777,738	595,360
Finance bonds	Commercial bank bonds	4.4~7.1	280,000	430,000
	Small and medium industry finance bonds	4.4	70,000	70,000
			350,000	500,000
Corporate bonds	State owned entity bonds	3.0~6.5	773,909	736,194
	Corporate bonds	3.4~5.3	209,936	309,841
			983,845	1,046,035
Bonds denominated in foreign currencies	Bonds In foreign currencies	–	–	19,595
			₩ 2,111,583	₩ 2,160,990

Details of held–to–maturity financial assets as of December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

	December 31, 2014			
	Par value	Acquisition cost	Amortized cost	Book value
Government and public bonds	₩ 824,856	₩ 762,459	₩ 777,738	₩ 777,738
Finance bonds	350,000	350,000	350,000	350,000
Corporate bonds	975,400	986,504	983,845	983,845
	₩ 2,150,256	₩ 2,098,963	₩ 2,111,583	₩ 2,111,583

	December 31, 2013			
	Par value	Acquisition cost	Amortized cost	Book value
Government and public bonds	₩ 634,911	₩ 581,029	₩ 595,360	₩ 595,360
Finance bonds	500,000	500,000	500,000	500,000
Corporate bonds	1,040,500	1,046,933	1,046,035	1,046,035
Bonds denominated in foreign currencies	20,094	20,086	19,595	19,595
	₩ 2,195,505	₩ 2,148,048	₩ 2,160,990	₩ 2,160,990

15. Pledged assets

Pledged assets as of December 31, 2014 and 2013 consist of the following (Korean won in millions):

		Book value			
	Category		December 31, 2014		December 31, 2013
Available–for–sale financial assets	Intraday overdraft	₩	135,934	₩	111,601
	Foreign currency borrowing		512,746		656,894
	Pledged securities		284,100		179,859
	Borrowings		596,664		493,086
	BOK payment		2,125,712		1,248,722
	Future		22,900		6,900
	Others		117,575		32,294
			3,795,631		2,729,356
Held–to–maturity financial assets	Future		164,283		160,928
	BOK payment		532,512		138,876
	Intraday overdraft		–		19,876
	Borrowings		152,659		171,476
	Client RP		85,000		181,700
	Others		236,857		113,782
			1,171,311		786,638
Loans	Borrowings		87,480		101,270
		₩	5,054,422	₩	3,617,264

The fair value of collateral permitted to be resold or repledged in the absence of default by the holder of such pledged assets, as of December 31, 2014 and 2013 is as follows (Korea won in millions):

	Fair value (*)			
	December 31, 2014		December 31, 2013	
Securities	₩	975,129	₩	1,357,676

(*) There were no pledged assets that were resold or repledged as of December 31, 2014 and 2013.

16. Loans and receivables

Total loans and receivables as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014		December 31, 2013	
Loans in Korean won	₩	109,590,016	₩	105,153,656
Loans in foreign currencies		9,560,214		7,361,008
Domestic import usance		2,720,199		2,374,589
Call loans		1,518,064		1,711,464
Bills purchased in Korean won		329,819		447,088
Bills purchased in foreign currencies		1,904,931		1,451,242
Advance payments on acceptances and guarantees		21,338		37,966
Bonds purchased under resale agreement		1,237,457		1,512,800
Privately–placed corporate bonds		475,243		801,624
Others		911,082		1,440,381
		128,268,363		122,291,818
Deferred loan fees, net of expenses		124,678		105,406
Allowance for possible loan losses		(1,051,682)		(1,081,335)
	₩	127,341,359	₩	121,315,889

Allocations of loans in Korean won and in foreign currencies by customer as of December 31, 2014 and 2013 are listed as follows (Korean won in millions):

	December 31, 2014					
	Korean won		Foreign Currencies		Total	
Corporate loans						
Large–sized businesses	₩	16,360,142	₩	10,556,358	₩	26,916,500
Small and medium–sized businesses		35,773,964		3,752,614		39,526,578
Public sector and others		2,277,413		1,799,742		4,077,155
		54,411,519		16,108,714		70,520,233
Household loans		57,708,837		39,293		57,748,130
		112,120,356		16,148,007		128,268,363
Deferred loan fees, net of expenses		124,576		102		124,678
Allowance for possible loan losses		(947,304)		(104,378)		(1,051,682)
	₩	111,297,628	₩	16,043,731	₩	127,341,359

16. Loans and receivables (cont'd)

	December 31, 2013		
	Korean won	Foreign Currencies	Total
Corporate loans			
Large–sized businesses	₩ 19,337,557	₩ 8,025,902	₩ 27,363,459
Small and medium–sized businesses	32,869,694	3,485,945	36,355,639
Public sector and others	2,417,777	1,393,762	3,811,539
	54,625,028	12,905,609	67,530,637
Household loans	54,720,797	40,384	54,761,181
	109,345,825	12,945,993	122,291,818
Deferred loan fees, net of expenses	107,518	(2,112)	105,406
Allowance for possible loan losses	(983,101)	(98,234)	(1,081,335)
	₩ 108,470,242	₩ 12,845,647	₩ 121,315,889

Changes in deferred loan fees, net of expenses, for the years ended December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

	2014			
	Beginning balance	Increase	Decrease	Ending balance
Deferred loan fees, net of expenses	₩ 105,406	₩ 86,230	₩ (66,958)	₩ 124,678

	2013			
	Beginning balance	Increase	Decrease	Ending balance
Deferred loan fees, net of expenses	₩ 98,962	₩ 70,528	₩ (64,084)	₩ 105,406

Changes in allowance for possible loan losses for the years ended December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

	2014					
	Loans in Korean won	Loans in foreign currencies	Advance payments on acceptances and guarantees	Bills purchased in foreign currencies	Privately –placed corporate bonds	Total
As of January 1, 2014	₩ 953,106	₩ 92,805	₩ 21,280	₩ 4,594	₩ 9,550	₩ 1,081,335
Disposal of non–performing loans	(42,734)	(24)	(22,137)	–	–	(64,895)
Write–offs	(378,548)	(12,776)	(3,488)	(213)	(2,000)	(397,025)
Collection of loans written–off in prior periods	49,280	–	–	–	–	49,280
Debt–to–equity swap	(2,098)	–	–	–	–	(2,098)
Currency fluctuation and others	106	1,863	–	(218)	62	1,813
Changes in scope of consolidation	–	9,074	–	–	–	9,074
Provisions (reverse) of allowance of possible loan losses, net	390,943	7,983	5,600	1,122	(420)	405,228
Interest income from impaired loans	(30,077)	(665)	(411)	(67)	190	(31,030)
As of December 31, 2014	₩ 939,978	₩ 98,260	₩ 844	₩ 5,218	₩ 7,382	₩ 1,051,682

16. Loans and receivables (cont'd)

	2013					
	Loans in Korean won	Loans in foreign currencies	Advance payments on acceptances and guarantees	Bills purchased in foreign currencies	Privately –placed corporate bonds	Total
As of January 1, 2013	₩ 956,619	₩ 87,649	₩ 27,582	₩ 15,076	₩ 19,900	₩ 1,106,826
Disposal of non–performing loans	(30,164)	–	–	–	–	(30,164)
Write–offs	(535,099)	(31,268)	(10,987)	(27,166)	–	(610,217)
Collection of loans written–off in prior periods	171,978	–	–	–	–	171,978
Debt–to–equity swap	(4,601)	–	–	–	–	(4,601)
Currency fluctuation and others	6	3,669	–	7,580	(22)	11,233
Provisions (reverse) of allowance of possible loan losses, net	406,731	34,257	11,361	8,843	(10,837)	450,355
Interest income from impaired loans	(12,364)	(1,038)	(979)	(203)	509	(14,075)
As of December 31, 2013	₩ 953,106	₩ 93,269	₩ 21,280	₩ 4,130	₩ 9,550	₩ 1,081,335

17. Derivative instruments

Unsettled derivative contracts held–for–trading as of December 31, 2014 and 2013 and net valuation gain and loss for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014	2014		December 31, 2014	
	Unsettled contract amounts	Net valuation gain	Net valuation loss	Assets	Liabilities
Currency:					
Forward	₩ 99,601,280	₩ 1,459,844	₩ 1,477,006	₩ 1,451,049	₩ 1,517,663
Swap	28,271,783	478,881	497,850	510,913	483,438
Option	2,345,002	7,102	4,523	10,711	11,540
Futures	74,397	–	–	–	–
	130,292,462	1,945,827	1,979,379	1,972,673	2,012,641
Interest:					
Swap	67,242,572	491,875	451,467	603,967	543,355
Option	4,093,500	9,410	33,364	12,138	74,595
Futures	27,474	–	–	–	–
	71,363,546	501,285	484,831	616,105	617,950
Stock and Stock index:					
Option	367,195	2,008	1,125	870	6,677
Futures	10,128	–	–	–	–
	377,323	2,008	1,125	870	6,677
Others:					
Option	1,002,866	49,509	49,943	48,850	49,887
	₩ 203,036,197	₩ 2,498,629	₩ 2,515,278	₩ 2,638,498	₩ 2,687,155

17. Derivative instruments (cont'd)

	December 31, 2013	2013		December 31, 2013	
	Unsettled contract amounts	Net valuation gain	Net valuation loss	Assets	Liabilities
Currency:					
Forward	₩ 77,991,164	₩ 1,025,315	₩ 938,781	₩ 1,095,532	₩ 1,050,223
Swap	19,081,468	242,748	271,191	471,786	435,831
Option	441,406	1,429	4,211	1,465	4,513
Futures	166,014	–	–	–	–
	97,680,052	1,269,492	1,214,183	1,568,783	1,490,567
Interest:					
Swap	39,924,674	175,027	206,172	309,514	287,754
Option	3,888,500	9,192	2,278	8,262	48,960
Futures	148,737	–	–	–	–
	43,961,911	184,219	208,450	317,776	336,714
Stock and Stock index:					
Option	1,129,560	7,745	2,167	5,315	20,142
Futures	13,283	–	–	–	–
	1,142,843	7,745	2,167	5,315	20,142
Others:					
Option	675,967	4,723	5,068	4,590	8,714
	₩ 143,460,773	₩ 1,466,179	₩ 1,429,868	₩ 1,896,464	₩ 1,856,137

Unsettled derivative contracts held for hedging as of December 31, 2014 and 2013 and net valuation gain and loss for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014	2014		December 31, 2014	
	Unsettled contract amounts	Net valuation gain	Net valuation loss	Assets	Liabilities
Currency swaps	₩ 334,400	₩ 3,085	₩ –	₩ –	₩ 24,439
Interest rate swaps	4,307,442	62,838	28,617	51,149	14,723
	₩ 4,641,842	₩ 65,923	₩ 28,617	₩ 51,149	₩ 39,162

	December 31, 2013	2013		December 31, 2013	
	Unsettled contract amounts	Net valuation gain	Net valuation loss	Assets	Liabilities
Currency swaps	₩ 578,520	₩ –	₩ 35,109	₩ –	₩ 45,281
Interest rate swaps	3,814,849	1,303	134,040	72,162	79,861
	₩ 4,393,369	₩ 1,303	₩ 169,149	₩ 72,162	₩ 125,142

For a derivative transaction involving both Korean won and foreign currencies, the fair value of the unsettled amount for such transaction is presented using the weighted average foreign exchange rate of the contract amount denominated in foreign currencies. For a derivative transaction involving only foreign currencies, the fair value of the unsettled amount is presented by using the weighted average foreign exchange rate of the foreign currency purchased at the reporting date.

17. Derivative instruments (cont'd)

The Company has recorded a provision for liquidity adjustment and a provision for credit valuation adjustment for derivative instruments amounting to ₩11,448 million and ₩6,968 million on December 31, 2014, respectively and ₩9,451 million and ₩10,036 million on December 31, 2013, respectively.

18. Investments in associates

Details of investments in associates as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014					
	Country	Reporting date	Industry	Number of shares	Ownership (%)	Book value(*4)
PT Bank KEB Hana (*1)	Indonesia	December 31	Bank	428,629,495	38.0	₩ 222,721
Bank of Jilin (*2)	China	December 31	Bank	1,200,000,000	17.0	548,499
UAM CO., Ltd. (*2)	Korea	December 31	Other financial	85,050	17.5	114,240
Hana First Private Equity Fund (*3)	Korea	December 31	Other financial	–	30.0	67,940
Korea Credit Bureau (*2)	Korea	December 31	Credit investigation and Collection agency	108,000	5.4	2,533
Darby Hana Infrastructure Fund Management ("DHIF") (*2)	Korea	December 31	Asset Management Company	79,200	9.9	796
Korea Travels Co. Ltd (*4)	Korea	December 31	Service	54,000	14.9	–
						₩ 956,729

	December 31, 2013					
	Country	Reporting date	Industry	Number of shares	Ownership (%)	Book value
Bank of Jilin (*2)	China	December 31	Bank	1,200,000,000	17.0	₩ 485,900
Taesan LCD Co., Ltd.	Korea	December 31	Manufacturing	13,113,448	61.3	–
UAM CO., Ltd. (*2)	Korea	December 31	Other financial	85,050	17.5	139,286
Hana First Private Equity Fund (*3)	Korea	December 31	Other financial	–	30.0	74,997
Korea Credit Bureau (*2)	Korea	December 31	Credit investigation and Collection agency	108,000	5.4	2,511
HCS Private Equity Fund (*2,3)	Korea	December 31	Asset Management Company	–	15.0	1,168
Darby Hana Infrastructure Fund Management ("DHIF") (*2)	Korea	December 31	Asset Management Company	79,200	9.9	707
Korea Travels Co. Ltd (*4)	Korea	December 31	Service	54,000	14.9	–
						₩ 704,569

(*1) In the current year, followed by the merger between PT Bank Hana and PT Bank KEB, the name changed to PT Bank KEB Hana. Therefore, it lost control over the bank, and was reclassified from investment in subsidiaries to investment in associates.
(*2) These companies are included in investment in associates as the Company exercises a significant influence on the investee's Board of Directors.

18. Investments in associates (cont'd)

(*3) Hana First Private Equity Fund and HCS Private Equity Fund are established on a fund basis and therefore, there are no shares issued.

(*4) The fair value remeasurement is no longer appropriate because current balance for investment is below "0"

Condensed financial statements as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014						
	Assets	Liabilities	Equity (accumulated deficit)	Revenue	Net income (loss)	Other comprehensive income(loss)	Comprehensive income (loss)
PT Bank KEB Hana	₩1,942,998	₩1,690,141	₩ 252,857	₩ 61,676	₩26,624	₩ 5,076	₩ 31,700
Bank of Jilin	48,878,619	45,739,128	3,139,491	5,264,651	451,217	–	451,217
UAMCO., Ltd.	4,357,490	3,688,589	668,901	548,990	57,541	–	57,541
Hana First Private Equity Fund	254,290	27,588	226,702	30	3,672	–	3,672
Korea Credit Bureau	54,716	7,806	46,910	46,111	114	–	114
Darby Hana Infrastructure Fund Management ("DHIF")	9,520	1,475	8,045	3,754	1,248	–	1,248
Korea Travels Co. Ltd	18,545	30,685	(12,140)	2,132	(836)	–	(836)
	₩55,516,178	₩51,185,412	₩ 4,330,766	₩5,927,344	₩539,580	₩ 5,076	₩ 544,656

	December 31, 2013						
	Assets	Liabilities	Equity (accumulated deficit)	Revenue	Net income (loss)	Other comprehensive income(loss)	Comprehensive income (loss)
Bank of Jilin	₩44,511,256	₩41,837,236	₩ 2,674,020	₩1,271,384	₩428,132	₩ –	₩ 428,132
Taesan LCD Co., Ltd.	161,546	192,788	(31,242)	40,994	(62,095)	1,498	(60,597)
UAMCo., Ltd.	4,365,097	3,567,972	797,125	708,035	105,085	–	105,085
Hana First Private Equity Fund	285,357	35,107	250,250	1,296	8,768	–	8,768
Korea Credit Bureau	63,043	16,542	46,501	51,571	4,909	–	4,909
HCS Private Equity Fund	9,827	2,065	7,762	15,042	12,842	–	12,842
Darby Hana Infrastructure Fund Management ("DHIF")	8,337	1,200	7,137	3,875	1,142	–	1,142
Korea Travels Co., Ltd	13,424	24,644	(11,220)	2,168	196	–	196
	₩49,417,887	₩45,677,554	₩ 3,740,333	₩2,094,365	₩498,979	₩ 1,498	₩ 500,477

18. Investments in associates (cont'd)

Changes in the investment in an associate for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

2014

						Equity method valuation					
	Ownership (%)	Beginning balance	Acquisition	Dividends	Book value before valuation	Earnings (loss)	Other comprehensive income	Disposal	Book value	Goodwill and etc.	Proportionate net asset value
PT Bank KEB Hana	38.0	₩ –	₩ 225,945	₩ –	₩ 225,945	₩ 4,520	₩ (7,744)	₩ –	₩ 222,721	₩ (126,567)	₩ 96,154
Bank of Jilin	17.0	485,900	–	(15,758)	470,142	76,618	1,739	–	548,499	(15,413)	533,086
UAMCO., Ltd.	17.5	139,286	–	(35,041)	104,245	10,052	(57)	–	114,240	2,818	117,058
Hana First Private Equity Fund	30.0	74,996	–	(813)	74,183	1,102	(3,479)	(3,866)	67,940	–	67,940
Korea Credit Bureau	5.4	2,511	–	–	2,511	22	–	–	2,347	–	2,347
HCS Private Equity Fund	–	1,169	–	(1,012)	157	(157)	–	–	–	–	–
Darby Hana Infrastructure Fund Management ("DHIF")	9.9	707	–	(40)	667	129	–	–	796	–	796
		₩ 704,569	₩ 225,945	₩ (52,664)	₩ 877,850	₩ 92,286	₩ (9,541)	₩ 3,866	₩ 956,729	₩ (139,162)	₩ 817,567

2013

						Equity method valuation						
	Ownership (%)	Beginning balance	Acquisition	Dividends	Book value before valuation	Earnings (loss)	Other comprehensive income	Disposal	Impariment loss	Book value	Goodwill and etc.	Proportionate net asset value
Bank of Jilin	17.0	₩ 433,829	₩ –	₩ (17,680)	₩ 416,149	₩ 72,392	₩ (2,641)	₩ –	₩ –	₩ 485,900	₩ (31,851)	₩ 454,049
Taesan LCD Co., Ltd.	61.3	19,748	–	–	19,748	(19,072)	(246)	–	(430)	–	–	–
UAMCO., Ltd.	17.5	120,916	–	–	120,916	18,388	(18)	–	–	139,286	211	139,497
Hana First Private Equity Fund	30.0	68,728	32,490	(8,666)	92,552	2,629	(491)	(19,693)	–	74,997	3	75,000
Korea Credit Bureau	5.4	2,250	–	–	2,250	65	–	–	–	2,315	–	2,315
HCS Private Equity Fund	15.0	2,982	–	(557)	2,425	261	–	(2,585)	–	2,511	(8)	1,160
Darby Hana Infrastructure Fund Management ("DHIF")	9.9	644	–	–	565	1,328	–	–	–	707	–	709
		₩ 649,097	₩ 32,490	₩ (26,982)	₩ 654,605	₩ 76,068	₩ (3,396)	₩ (22,278)	₩ (430)	₩ 704,569	₩ (31,645)	₩ 672,924

19. Property and equipment

Changes in property and equipment for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	January 1, 2014	Consolidation scope fluctuation	Additions	Disposals	Transfer in (out)	Others	December 31, 2014
Acquisition cost							
Land	₩ 753,215	₩ (40)	₩ –	₩ (13,051)	₩ 40,553	₩ 2	₩ 780,679
Buildings (*)	457,657	5,010	11,653	(35,989)	9,256	151	447,738
Leasehold improvements	176,578	6,106	15,635	(3,781)	2,652	(719)	196,471
Vehicles, furniture and fixtures	549,608	3,005	38,003	(50,192)	5,146	2,227	547,797
Construction in progress	10,777	–	20,203	–	(12,648)	–	18,332
Other	77,952	–	17	(17)	–	–	77,952
	2,025,787	14,081	85,511	(103,030)	44,959	1,661	2,068,969
Accumulated depreciation							
Buildings	58,001	1,901	17,732	(5,788)	1,029	59	72,934
Leasehold improvements	152,271	4,089	13,536	(3,654)	–	(858)	165,384
Vehicles, furniture and fixtures	460,197	4,789	40,963	(49,806)	–	843	456,986
	670,469	10,779	72,231	(59,248)	1,029	44	695,304
	₩ 1,355,318	₩ 3,302	₩ 13,280	₩ (43,782)	₩ 43,930	₩ 1,617	₩ 1,373,665

(*) The Bank started to demolish an existing building to build its head office after receiving an approval of the competent authorities in 2014. The net book value of the existing head office is ₩22,169 million, which is recognized as an impairment loss of a tangible asset (other non-operating expense).

	January 1, 2013	Additions	Disposals	Transfer in (out)	Others	December 31, 2013
Acquisition cost						
Land	₩ 750,489	₩ 167	₩ (136)	₩ 2,706	₩ (11)	₩ 753,215
Buildings	446,741	8,155	(616)	3,386	(9)	457,657
Leasehold improvements	172,677	14,959	(11,897)	1,003	(164)	176,578
Vehicles, furniture and fixtures	541,803	45,026	(36,002)	395	(1,614)	549,608
Construction in progress	9,488	7,202	–	(5,913)	–	10,777
Other	78,233	–	(281)	–	–	77,952
	1,999,431	75,509	(48,932)	1,577	(1,798)	2,025,787
Accumulated depreciation						
Buildings	41,425	16,504	(194)	286	(20)	58,001
Leasehold improvements	150,536	13,084	(10,762)	(373)	(214)	152,271
Vehicles, furniture and fixtures	450,146	46,513	(35,220)	75	(1,317)	460,197
	642,107	76,101	(46,176)	(12)	(1,551)	670,469
	₩ 1,357,324	₩ (592)	₩ (2,756)	₩ 1,589	₩ 247	₩ 1,355,318

20. Investment properties

Changes in the net carrying amount of investment properties for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	January 1, 2014	Additions	Reclassification	December 31, 2014
Acquisition cost:				
Land	₩ 233,351	₩ –	₩ (40,343)	₩ 193,008
Buildings and structures	60,791	–	(4,616)	56,175
	294,142	–	(44,959)	249,183
Accumulated depreciation				
Buildings and structures	8,768	2,924	(1,029)	10,663
	₩ 285,374	₩ (2,924)	₩ (43,930)	₩ 238,520

	January 1, 2013	Additions	Reclassification	December 31, 2013
Acquisition cost:				
Land	₩ 236,018	₩ –	₩ (2,667)	₩ 233,351
Buildings and structures	59,701	–	1,090	60,791
	295,719	–	(1,577)	294,142
Accumulated depreciation				
Buildings and structures	6,101	2,655	12	7,444
	₩ 289,618	₩ (2,655)	₩ (1,589)	₩ 285,374

The fair values of the investment properties provided by an independent valuer amount to ₩241,297 million and ₩276,585 million as of December 31, 2014 and 2013, respectively, based on an evaluation. And they fall under the level 3 in the fair value hierarchy.

Rental income and operating expenses arising from the Company's investment properties for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Rental income	₩ 7,992	₩ 8,636
Operating expenses	3,226	2,993

21. Intangible assets

Intangible assets as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014			
	Acquisition Cost	Accumulated amortization	Impairment loss	Book value
Industrial proprietary rights	₩ 382	₩ (231)	₩ –	₩ 151
Software	107,098	(79,315)	–	27,783
Systems development costs	290,939	(257,581)	–	33,358
Memberships	21,746	(301)	(5,204)	16,241
Others	60,640	(46,333)	–	14,307
	₩ 480,805	₩ (383,761)	₩ (5,204)	₩ 91,840

21. Intangible assets (cont'd)

	December 31, 2013			
	Acquisition Cost	Accumulated amortization	Impairment loss	Book value
Goodwill	₩ 989	₩ –	₩ –	₩ 989
Industrial proprietary rights	348	(179)	–	169
Software	92,162	(68,480)	–	23,682
Systems development costs	280,521	(227,945)	–	52,576
Memberships	30,977	(261)	(10,385)	20,331
Others	45,395	(40,899)	–	4,496
	₩ 450,392	₩ (337,764)	₩ (10,385)	₩ 102,243

Changes in the carrying amount of intangible assets for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	January 1, 2014	Consolidation scope fluctuation	Additions	Disposal	Amortization	Impairment loss	Others	December 31, 2014
Goodwill	₩ 989	₩ –	₩ –	₩ –	₩ –	₩ –	₩ (989)	₩ –
Industrial proprietary rights	169	–	33	–	(51)	–	–	151
Software	23,682	4,304	8,694	–	(8,228)	–	(669)	27,783
Systems development costs	52,576	–	10,419	–	(29,637)	–	–	33,358
Memberships	20,331	–	269	(4,513)	(34)	(620)	808	16,241
Others	4,496	–	15,265	(20)	(5,434)	–	–	14,307
	₩102,243	₩ 4,304	₩34,680	₩ (4,533)	₩ (43,384)	₩ (620)	₩ (850)	₩ 91,840

	January 1, 2013	Additions	Disposal	Amortization	Impairment loss	Others	December 31, 2013
Goodwill	₩ 1,179	₩ –	₩ –	₩ –	₩ –	₩ (190)	₩ 989
Industrial proprietary rights	94	114	–	(39)	–	–	169
Software	24,853	9,828	(19)	(10,779)	–	(201)	23,682
Systems development Costs	85,359	12,238	–	(45,021)	–	–	52,576
Memberships	20,210	1,676	(1,155)	(48)	(375)	23	20,331
Others	14,123	4,085	–	(13,712)	–	–	4,496
	₩145,818	₩ 27,941	₩ (1,174)	₩ (69,599)	₩ (375)	₩ (368)	₩ 102,243

22. Other assets

Other assets as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014	December 31, 2013
Guarantee deposits	₩ 723,483	₩ 755,385
Other accounts receivable	2,706,348	2,189,651
Accrued income	556,904	516,117
Prepaid expenses	84,930	90,148
Receivables from spot exchange	862,215	1,163,535
Others	33,419	368,842
Allowance for possible losses	(7,381)	(4,674)
	₩ 4,959,918	₩ 5,079,004

22. Other assets (cont'd)

Changes in allowance for possible losses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014		2013	
Beginning	₩	4,674	₩	71,385
Bad debt write–offs		(12,132)		(65,942)
Collection of loans written–off in prior periods		–		(159)
Disposal of non–performing loans		(36)		–
Provision of allowance for possible losses, net		14,916		(532)
Interest income from impaired assets		(22)		(35)
Others		(19)		(43)
	₩	7,381	₩	4,674

23. Financial liabilities at fair value through profit or loss

Details of financial liabilities at fair value through profit or loss as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014		December 31, 2013	
Financial liabilities held–for–trading				
Securities sold	₩	133,452	₩	31,825
Derivative instruments held-for-trading (*1)		2,687,155		1,856,137
		2,820,607		1,887,962
Financial liabilities designated at fair value through profit or loss (*2)		250,033		–
	₩	3,070,640	₩	1,887,962

(*1) Refer to Note 17.

(*2) In order to eliminate or significantly reduce the inconsistencies between the recognized and measured amounts, the financial liabilities designated at fair value through profit or loss have been categorized accordingly.

Differences between the book value and maturity amount of the financial liabilities designated at fair value through profit or loss as of December 31, 2014 are as follows (Korean won in millions)::

	December 31, 2014	
Book value	₩	250,033
Maturity amount		250,000
Difference	₩	33

24. Deposits

Deposit liabilities as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014	December 31, 2013
Demand deposits		
Demand deposits in Korean won		
Checking deposits	₩ 459,851	₩ 104,455
Household checking deposits	9,260	10,130
Temporary deposits	1,592,878	1,467,958
Passbook deposits	1,904,368	1,832,352
Public fund deposits	108,836	188,169
Treasury deposits	239	89
Non–resident deposits in Korean won	3,427	6,170
Non–resident deposits in free–won	1,647	1,026
Other demand deposits	2,868	3,575
	4,083,374	3,613,924
Demand deposits in foreign currency		
Checking deposits	132,795	163,255
Passbook deposits	3,264,202	2,641,782
Deposits at notice	4,607	7
Temporary deposits	1,019	2,344
	3,402,623	2,807,388
Time and savings deposits		
Time and savings deposits in Korean won		
Household savings deposits	14,490,693	12,752,463
Individual savings deposits	526,703	477,659
Corporate savings deposits	18,660,591	14,957,884
Time deposits	69,975,863	69,040,854
Housing–application deposits	311,756	323,352
Installment saving deposits	149,212	184,457
Non–resident deposits in Korean won	47,393	22,518
Non–resident deposits in free–won	49,884	59,719
Long–term housing savings deposits	356,984	354,416
Workers' preferential savings deposits	320	333
Mutual installments deposits	5,866,169	4,748,159
Mutual installments deposits for housing	24,995	29,715
Property formation savings deposits	203,259	103,962
Trust accounts	528,123	519,970
Others	47	48
	111,191,992	103,575,509
Time and saving deposits in foreign currency		
Time deposits	7,464,978	5,534,157
Certificate of deposits	760,745	544,032
	₩ 126,903,712	₩ 116,075,010

Classification of deposits by customers as of December 31, 2014 and 2013 is listed as follows (Korean won in millions):

24. Deposits (cont'd)

	December 31, 2014	December 31, 2013
Individuals	₩ 48,219,985	₩ 45,669,401
Corporations	31,192,057	30,705,049
Other banks	7,282,612	5,495,158
Public institutions	3,058,633	2,672,579
Other financial institutions	23,189,916	17,415,150
Government	5,399,617	4,722,054
Non–profit corporations	7,399,896	8,244,788
Foreign corporations	499,483	438,536
Others	661,513	712,295
	₩ 126,903,712	₩ 116,075,010

25. Borrowings

Borrowings as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Lender	Annual interest rate(%)	December 31, 2014	December 31, 2013
Borrowings in Korean won:				
BOK borrowings	BOK	0.5~1.0	₩ 716,862	₩ 481,091
Government borrowings	Korea Finance Corporation and others	0.8~3.0	1,880,829	2,066,207
Other borrowings	Korea Energy Management Corporation and others	0.0~5.1	947,343	1,185,356
			3,545,034	3,732,654
Borrowings in foreign currencies:				
Bank overdrafts	Foreign Banks	–	25,480	29,983
Other borrowings	Mizuho bank and others	0.4~0.8	4,642,982	3,708,576
			4,668,462	3,738,559
Call money:				
Call money in Korean won	ING Investment Management and others	–	–	1,662,400
Call money in foreign currencies	Korea Development Bank, Tokyo	0.2~0.7	34,746	223,148
			34,746	1,885,548
Bonds sold under repurchase agreements:				
Bonds sold under repurchase agreements in Korean Won	Korea Defense Industry Association and others	2.9~3.0	45,680	91,917
Bonds sold under repurchase agreements in foreign currencies	Nomura International London and others	0.8~3.3	414,201	562,068
			459,881	653,985
Bills sold	Postal Service Headquarters and others	2.3~2.7	229,822	97,224
			₩ 8,937,945	₩ 10,107,970

26. Debentures

Debentures as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Annual interest rate (%)	December 31, 2014	December 31, 2013
Debentures in Korean won:			
Debentures	2.1~3.2	₩ 4,710,000	₩ 5,900,000
Subordinated bonds	3.4~8.0	3,682,665	4,425,182
Net loss on fair value hedges (current period)		(3,539)	412
Net loss on fair value hedges (previous periods)		9,044	9,216
(Less present value discount)		(25,196)	(19,619)
		8,372,974	10,315,191
Debentures in foreign currencies:			
Debentures	0.5~4.5	3,616,252	3,984,639
Subordinated bonds	4.4	329,760	–
Net loss on fair value hedges (current period)		(14,117)	(40,833)
Net loss on fair value hedges (previous period)		62,771	107,857
(Less present value discount)		(10,973)	(11,113)
		3,983,693	4,040,549
		₩ 12,356,667	₩ 14,355,740

27. Net defined benefit liability

Details of net defined benefit liability as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014	December 31, 2013
Present value of defined benefit obligation	₩ 686,141	₩ 527,701
Fair value of plan assets	(595,846)	(426,076)
Pension benefits, net	₩ 90,295	₩ 101,625

Changes in present value of defined benefit obligation for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Beginning balance	₩ 527,701	₩ 414,912
Current service cost	65,412	58,805
Past service cost	37,714	11,091
Interest cost	21,457	15,276
Remeasurements of the net defined benefit liability	53,565	41,768
Benefit provided	(17,921)	(12,772)
Changes due to transference between affiliates	(196)	(989)
Effect of changes in foreign exchange rates	(60)	(390)
Changes in scope of consolidation	(1,531)	–
	₩ 686,141	₩ 527,701

27. Net defined benefit liability (cont'd)

Total costs occurred in operating defined benefit pension plan for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Current service cost	₩ 65,412	₩ 58,805
Past service cost	37,714	11,091
Interest cost	21,457	15,276
Interest income on plan assets	(17,086)	(11,502)
	₩ 107,497	₩ 73,670

The weighted average duration of the defined benefit obligation is 10.2 year as of December 31, 2014.(10.6 year as of December 31, 2013).

Principal assumptions for actuarial valuation method as of December 31, 2014 and 2013 are as follows

	2014	
	Rate (%)	Content
Demographic assumptions		
Death rate	2.40	Korea Insurance Development Institute
Retirement rate	2.56 ~ 43.14	Table by age
Financial assumptions		
Wage growth rate	4.83 ~ 9.83	
Discounting rate	2.86	

	2013	
	Rate (%)	Content
Demographic assumptions		
Death rate	2.40	Korea Insurance Development Institute
Retirement rate	3.86 ~ 33.11	
Financial assumptions		
Wage growth rate	6.1 ~ 7.21	
Discounting rate	3.83	

Changes in the present values of defined benefit liability due to changes in the principal actuarial assumptions as of December 31, 2014 are as follows (Korean won in millions):

1) Discounting rate

	December 31, 2014	1%p Increase	1%p Decrease
Present value of defined benefit liability	₩ 686,141	₩ 619,096	₩ 758,765

2) Wage growth rate

	December 31, 2014	1%p Increase	1%p Decrease
Present value of defined benefit liability	₩ 686,141	₩ 755,985	₩ 620,029

27. Net defined benefit liability (cont'd)

Changes in the fair value of plan assets for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

		2014		2013
Beginning balance	₩	426,076	₩	340,492
Employer contributions		175,000		94,366
Interest income on plan assets		17,086		11,502
Remeasurements of the net defined benefit liability		(4,410)		615
Benefit provided		(17,906)		(20,899)
	₩	595,846	₩	426,076

Details of plan assets as of December 31, 2014 and 2013 are as follows (Korean won in millions):

		December 31, 2014		December 31, 2013
Time deposits	₩	556,449	₩	396,363
Others		39,397		29,713
	₩	595,846	₩	426,076

The Company expects to contribute ₩80,878 million in 2014, in relation to the defined benefit plan

Remeasurements of the net defined benefit liability as of December 31, 2014 and 2013 are as follows (Korean won in millions):

		2014		2013
Actuarial gains and losses				
Effects on changing financial assumptions	₩	(59,638)	₩	(5,209)
Effects on changing demographic assumptions		374		(4,452)
Empirical adjustments		5,699		(32,107)
		(53,565)		(41,768)
The return on plan assets				
The actual return on plan assets		12,676		12,117
The amount included in net interest of net defined benefit liability		(17,086)		(11,502)
		(4,410)		615
	₩	(57,975)	₩	(41,153)

28. Contingent liabilities, Agreements, and Provisions

Details of provisions as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014	December 31, 2013
Allowance for possible losses on acceptances and guarantees		
Financial acceptances and guarantees	₩ 817	₩ 2,941
Non–financial acceptances and guarantees	29,541	24,081
Bills endorsed	40	–
	30,398	27,022
Allowances for unused commitments	32,945	33,388
Other allowance		
Allowances for asset retirement obligation	20,262	18,336
Allowance for lawsuits	12,457	18,755
Allowance for liquidity adjustment	11,448	9,451
Allowance for credit valuation adjustment	6,968	10,036
Others	3,630	4,308
	54,765	60,886
	₩ 118,108	₩ 121,296

Changes in provisions for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	January 1, 2014	Consolidation scope fluctuation	Net expense of allowance (reversal of allowance)	Allowance used	Others	December 31, 2014
Allowance for possible losses on acceptances and guarantees	₩ 27,022	₩ 2,273	₩ 634	₩ –	₩ 469	₩ 30,398
Allowances for unused commitments	33,388	813	(1,297)	–	41	32,945
Other allowances						
Allowances for asset retirement obligation	18,336	–	449	(808)	2,285	20,262
Allowance for lawsuits	18,755	–	(4,306)	(1,992)	–	12,457
Liquidity adjustment	9,451	–	1,994	–	3	11,448
Credit valuation adjustment	10,036	–	(3,068)	–	–	6,968
Others	4,308	–	1,129	(1,807)	–	3,630
	60,886	–	(3,802)	(4,607)	2,288	54,765
	₩ 121,296	₩ 3,086	₩ (4,465)	₩ (4,607)	₩ 2,798	₩ 118,108

28. Contingent liabilities, Agreements, and Provisions (cont'd)

	January 1, 2013	Net expense of allowance (reversal of allowance)	Allowance used	Others	December 31, 2013
Allowance for possible losses on acceptances and guarantees	₩ 22,055	₩ 4,972	₩ –	₩ (5)	₩ 27,022
Allowances for unused commitments	34,926	(1,522)	–	(16)	33,388
Other allowances					
Allowances for asset retirement obligation	20,782	(1,113)	(1,321)	(12)	18,336
Allowance for lawsuits	38,283	347	(19,875)	–	18,755
Liquidity adjustment	11,623	(2,170)	–	(2)	9,451
Credit valuation adjustment	14,490	(4,454)	–	–	10,036
Others	6,607	(117)	(2,182)	–	4,308
	91,785	(7,507)	(23,378)	(14)	60,886
	₩ 148,766	₩ (4,057)	₩ (23,378)	₩ (35)	₩ 121,296

Details of guarantees as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014	December 31, 2013
Acceptances and guarantees		
Financial guarantees in Korean won:		
Collateral for loans	₩ 24,150	₩ 35,039
Purchasing loans	947,775	1,092,784
	971,925	1,127,823
Financial guarantees in foreign currencies	255,269	243,111
Confirmed acceptance and guarantees in Korean won	801,678	838,060
Confirmed acceptance and guarantees in foreign currencies:		
Acceptance on letter of credit	892,872	551,547
Acceptance on letter of guarantees	52,768	67,607
Others	5,036,801	4,624,494
	5,982,441	5,243,648
Contingent acceptance and guarantees		
Letters of credit	1,859,169	2,444,532
Others	610,521	1,228,703
	2,469,690	3,673,235
Bills endorsed	2,215	203
	₩ 10,483,218	₩ 11,126,080

28. Contingent liabilities, Agreements, and Provisions (cont'd)

Details of unused commitments as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014	December 31, 2013
Commitments on loans in Korean won	₩ 32,946,199	₩ 33,936,128
Commitments on loans in foreign currencies	18,780,597	15,770,338
Commitments on purchase of Asset–Backed Commercial Papers(*)	–	125
Commitments on credit lines on Asset–Backed Securities(*)	410,969	379,150
Commitments on purchase of securities	702,942	702,942
	₩ 52,840,707	₩ 50,788,683

(*) It is a credit line commitment to make up for insufficient fund in case there is not enough money to redeem the principal of bonds issued by Boryeong Terminal No.1. The credit line commitment amounts to ₩430,450 million as of December 31, 2014 and 2013, respectively. As of December 31, 2014, ₩19,481 million is used to purchase ABS by the commitment.

As of December 31, 2014, the Bank is involved in 473 lawsuits as a plaintiff and 130 lawsuits as a defendant. The aggregate amounts of claims as plaintiff and defendant are ₩337,658 million and ₩143,153 million, respectively. The Bank's major lawsuits in progress as a defendant are summarized as follows (Korean won in millions):

		Status of lawsuit		
Plaintiff	Amount	First trial	On appeal	Content
Shinhan Bank	31,701	Partially win	In-progress	Return of a prepayment
Dong-Ah Construction Industrial Co., Ltd.	15,169	In-progress	–	Return of investments (2nd lawsuit)
Individual	8,441	In-progress	–	Cancellation of right to collateral security (2nd lawsuit)
Dong-Ah Construction Industrial Co., Ltd.	7,620	Lost a (damage) suit	Won the case in the second trial / Overrulling the verdict of the second trial, the Supreme court ruled against the Bank	Return of deposit

The estimated damages arising from the lawsuits have been recorded as a provision for potential losses in-progress.

29. Other liabilities

Details of other liabilities as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014	December 31, 2013
Accounts payables	₩ 2,812,914	₩ 2,291,055
Accrued expense payables	1,329,458	1,256,909
Income in advance	47,080	49,979
Deposits for letter of guarantees and others	83,061	209,670
Present value discounts	(432)	(1,162)
Borrowing from trust accounts	1,705,951	2,541,746
Foreign exchanges settlement credits	174,341	171,750
Domestic exchange settlement credits	904,090	1,059,461
Taxes withheld	46,316	51,304
Security deposits received	5,400	3,177
Accounts for agency businesses	187,361	148,850
Liability incurred by agency relationship	649,724	621,968
Others	67,197	224,900
	₩ 8,012,461	₩ 8,629,607

30. Common stock and capital surplus

The Company is authorized to issue 2,000,000,000 ordinary shares and has 219,799,157 ordinary shares issued and outstanding amounting to ₩1,147,404 million as of December 31, 2014.

Capital surplus as of December 31, 2014 and 2013 consists of the following (Korean won in millions):

	December 31, 2014	December 31, 2013
Issued capital in excess of par value	₩ 2,447,370	₩ 2,447,370
Gain on disposal of treasury shares	170,841	170,841
Other capital surplus	256,635	145,787
	₩ 2,874,846	₩ 2,763,998

31. Retained earnings

Retained earnings as of December 31, 2014 and 2013 consist of the following (Korean won in millions):

	December 31, 2014	December 31, 2013
Legal reserve (*1)	₩ 1,035,100	₩ 969,500
Other reserve (*2)	51,084	43,457
Reserve for bad debt(*3)	1,212,038	1,142,323
Reserve for business rationalization	10,600	10,600
Reserve for financial structure improvement (*4)	84,200	84,200
Reserve for deemed cost	513,373	513,512
Other voluntary reserve	4,167,148	3,772,898
	7,073,543	6,536,490
Inappropriate retained earnings	1,042,365	894,178
	₩ 8,115,908	₩ 7,430,668

31. Retained earnings (cont'd)

(*1) Article 40 of the Banking Act requires the Company to appropriate a minimum of 10% of annual net income as a legal reserve when the Company distributes dividends from net earnings until the legal reserve equals the paid–in capital. This reserve is only available when transfering capital stock and reducing an accumulated deficit.

(*2) Other reserve is appropriated by the Tokyo Branch of the Company in accordance with the relevant banking laws and regulation of Japan and only available to reduce an accumulated deficit of the Tokyo Branch.

(*3) These amounts are calculated and appropriated in accordance with Article 29 of the Regulations for Supervision of Financial Supervisory Service.

(*4) Pursuant to the Financial Supervisory Service's recommendation, since 2002, the Company has appropriated a minimum of 10% of its net earnings (after offsetting any accumulated deficit) as a reserve for capital improvement until the capital adequacy ratio reaches 5.5%. This reserve may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to capital.

Dividends

Details of calculation on common stock dividends for the years ended December 31, 2014 and 2013 are as follows (in Korean won and shares in units):

		2014(*1)		2013
Number of shares		219,799,157		219,799,157
Par value per share	₩	5,000	₩	5,000
Dividend ratio		23.6%		15.5%
Dividend per share		1,178.00		777.24
Dividends	₩	258,924,241,025	₩	170,836,432,687
Net income(*2)	₩	856,076,212,211	₩	706,239,979,338
Dividend pay-out ratio based on net income		30.2%		24.2%
Adjusted income after deducting provisions for bad debt reserve(*2)	₩	862,185,586,919	₩	636,525,209,934
Dividends pay-out ratio based on adjusted income after deducting provisions for bad debt		30.0%		26.8%

(*1) The dividend for 2014 will be presented at the annual general meeting of shareholders, which is scheduled on March 26, 2015.

(*2) Net income before deducting provisions for bad debt and adjusted income after deducting provisions for bad debt is calculated on the basis of the controlling company's shares.

32. Accumulated other consolidated comprehensive income

Changes in other consolidated comprehensive income for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014				
	Remeasurements	Gain (loss) on valuation of available-for-sale securities	Gain (loss) on valuation of securities using the equity method	Currency translation differences in foreign operations	Total
Beginning balance	₩ (78,772)	₩ 200,140	₩ (4,134)	₩ (38,384)	₩ 78,850
Items that will not be reclassified to profit or loss					
Remeasurements of the net defined benefit liability					
Actuarial gains and losses	(53,565)	–	–	–	(53,565)
The return on plan assets	(4,410)	–	–	–	(4,410)
Income tax effect	14,029	–	–	–	14,029
Items that reclassified subsequently to profit or loss					
Changes in the unrealized gain of available–for–sale financial assets	–	402,618	–	–	402,618
Realized gain of available–for–sale financial assets (including disposal)	–	(157,780)	–	–	(157,780)
Realized gain of the equity method (including disposal)	–	–	(9,541)	–	(9,541)
Changes in currency translation differences in foreign operations	–	–	–	60,094	60,094
Income tax effect	–	(58,418)	2,309	(14,543)	(70,652)
	₩ (122,718)	₩ 386,560	₩ (11,366)	₩ 7,167	₩ 259,643

	2013				
	Remeasurements	Gain (loss) on valuation of available-for-sale securities	Gain (loss) on valuation of securities using the equity method	Currency translation differences in foreign operations	Total
Beginning balance	₩ (47,578)	₩ 334,654	₩ (1,558)	₩ (17,401)	₩ 268,117
Items that will not be reclassified to profit or loss					
Remeasurements of the net defined benefit liability					
Actuarial gains and losses	(41,768)	–	–	–	(41,768)
The return on plan assets	615	–	–	–	615
Income tax effect	9,959	–	–	–	9,959
Items that reclassified subsequently to profit or loss					
Changes in the unrealized gain of available–for–sale financial assets	–	(19,389)	–	–	(19,389)

32. Accumulated other consolidated comprehensive income (cont'd)

	2013				
	Remeasurements	Gain (loss) on valuation of available-for-sale securities	Gain (loss) on valuation of securities using the equity method	Currency translation differences in foreign operations	Total
Realized gain of available–for–sale financial assets (including disposal)	–	(157,297)	–	–	(157,297)
Realized gain of the equity method (including disposal)	–	–	(3,396)	–	(3,396)
Changes in currency translation differences in foreign operations	–	–	–	(27,682)	(27,682)
Income tax effect	–	42,172	820	6,699	49,691
	₩ (78,772)	₩ 200,140	₩ (4,134)	₩ (38,384)	₩ 78,850

33. Operating income and operating expenses

Operating income for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Interest income	₩ 5,843,083	₩ 6,146,254
Fees and commission income	438,500	453,435
Gains on financial instruments at fair value through profit or loss	6,949,786	5,079,091
Gains on fair value hedging derivative instruments	109,045	140,209
Other income on financial instruments	391,308	237,813
Gains on foreign currency translation and transactions	542,394	530,285
Reversal of impairment loss of financial assets	–	532
Other operating income	100,572	52,579
	₩ 14,374,688	₩ 12,640,198

33. Operating income and operating expenses (cont'd)

Operating expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

		2014		2013
Interest expense	₩	3,216,952	₩	3,528,352
Fees and commission expenses		100,352		100,715
Losses on financial instruments at fair value through profit or loss		6,824,669		4,934,078
Losses on fair value hedging derivative instruments		106,384		180,909
Other losses on financial instruments		29,861		49,995
Losses on foreign currency translation and transactions		568,467		554,659
Impairment loss of financial Instruments		604,412		567,766
General and administrative expenses		1,627,592		1,544,399
Other operating expenses		382,856		378,538
	₩	13,461,545	₩	11,839,411

34. Net interest income

Interest income for the years ended December 31, 2014 and 2013 is as follows (Korean won in millions):

		2014		2013
Interest income on due from banks	₩	63,407	₩	62,424
Interest income on financial assets at fair value through profit or loss		50,698		43,548
Interest income on available–for–sale financial assets		513,743		536,275
Interest income on held–to–maturity financial assets		99,301		99,211
Interest income on loans		5,077,872		5,361,640
Others		38,062		43,156
	₩	5,843,083	₩	6,146,254

Interest expense for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

		2014		2013
Interest expense on deposit liabilities	₩	2,556,909	₩	2,777,994
Interest expense on financial assets at fair value through profit or loss		2,670		–
Interest expense on borrowings		155,369		149,566
Interest expense of debentures		434,555		532,636
Others		67,449		68,156
	₩	3,216,952	₩	3,528,352

35. Net fees and commission income

Fees and commission income for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Commissions received from loans and others	₩ 347,065	₩ 358,997
Commissions received on credit card	58	48
Commissions received on guarantee	25,969	26,697
Commissions received from redemption before maturity	5,781	5,750
Rental fees on securities	634	1,041
Commissions related foreign exchange	58,993	60,902
	₩ 438,500	₩ 453,435

Fees and commission expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Commissions paid	₩ 89,021	₩ 91,064
Credit card commissions	1	1
Trust commissions	61	68
Rental fees on securities	267	46
Commissions related foreign exchange	11,002	9,536
Interest income on financial assets at fair value through profit or loss	₩ 100,352	₩ 100,715

36. Net gains from financial instruments at fair value through profit or loss

Net gains on financial instruments at fair value through profit or loss for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Gains from financial instruments at fair value through profit or loss		
Gains from financial assets and liabilities held–for–trading		
Securities		
Gain on valuation	₩ 6,807	₩ 875
Gain on disposal	44,920	17,431
Dividend income	191	91
	51,918	18,397
Securities sold		
Gain on valuation	₩ 113	₩ 11
Gain on disposal	2,597	1,350
	2,710	1,361
Trading derivatives instruments		
Currency related derivatives	₩ 6,049,184	₩ 4,642,808
Interest related derivatives	766,676	372,706

36. Net gains from financial instruments at fair value through profit or loss (cont'd)

	2014	2013
Stock related derivatives	19,944	32,255
Credit related derivatives	–	705
Others	57,672	10,859
	6,893,476	5,059,333
Financial liabilities designated fair value through profit or loss		
Gain on valuation	₩ 1,656	₩ –
Gain on disposal	26	–
	1,682	–
	6,949,786	5,079,091
Lossed from financial instruments at fair value through profit or loss		
Losses from financial assets and liabilities held–for–trading		
Securities		
Loss on valuation	₩ 551	₩ 634
Loss on disposal	16,033	19,706
Others	226	169
	16,810	20,509
Securities sold		
Loss on valuation	₩ 1,103	₩ 196
Loss on disposal	21,204	1,295
	22,307	1,491
Trading derivatives instruments		
Currency related derivatives	₩ 5,968,472	₩ 4,488,895
Interest related derivatives	741,924	384,476
Stock related derivatives	18,993	26,621
Credit related derivatives	–	889
Others	54,448	11,197
	6,783,837	4,912,078
	6,822,954	4,934,078
Financial liabilities designated fair value through profit or loss		
Loss on disposal	₩ 1,715	₩ –
	1,715	–
	6,824,669	4,934,078
	₩ 125,117	₩ 145,013

37. Gains or losses from derivative financial instruments used for hedging

Gains (losses) from derivative instruments used for hedging for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Gains on derivative instruments used for hedging		
Hedged item		
Gain on redemption of debentures	₩ 4,253	₩ 2,109
Gain on valuation of debentures	25,714	48,355
Gain on disposal of deposits	–	1,579
Gain on valuation of deposits	3,252	86,863
	33,219	138,906
Derivative instruments used for hedging		
Gain on disposal of interest related derivatives	9,903	–
Gain on valuation of interest related derivatives	62,838	1,303
Gain on valuation of currency related derivatives	3,085	–
	75,826	1,303
	109,045	140,209
Losses on derivative instruments used for hedging		
Hedged item		
Loss on valuation of debentures	8,058	7,933
Loss on disposal of deposits	10,138	–
Loss on valuation of deposits	59,571	140
	77,766	8,073
Derivative instruments used for hedging		
Loss on disposal of interest related derivatives	–	3,688
Loss on valuation of interest related derivatives	28,617	134,040
Loss on valuation of currency related derivatives	–	35,108
	28,617	172,836
	106,384	180,909
	₩ 2,661	₩ (40,700)

38. Net Income on other financial instruments

Net income on other financial instruments for the years ended December 31, 2014 and 2013 is as follows (Korean won in millions):

	2014	2013
Other income on financial instruments		
Gain on disposal of available–for sale financial assets	₩ 329,539	₩ 196,373
Dividend income on available–for–sale financial assets	26,988	24,483
Gain on disposal of held–to–maturity financial assets	–	345
Gain on disposal of loans	34,781	13,036
Gain on conversion of loan into equity	–	3,576
	391,308	237,813
Other losses on financial instruments		
Loss on disposal of available–for–sale financial assets	₩ 29,701	₩ 39,455
Loss on disposal of loans	160	10,419
Loss on redemption of debentures	–	121
	29,861	49,995
	₩ 361,447	₩ 187,818

39. Impairment loss on financial assets

Impairment loss on financial assets for the years ended December 31, 2014 and 2013 is as follows (Korean won in millions):

	2014	2013
Impairment loss of available–for–sale financial assets	₩ 184,268	₩ 117,411
Provision for possible loan losses	405,228	450,355
Provision for possible other asset losses	14,916	(532)
	₩ 604,412	₩ 567,234

40. General and administrative expenses

General and administrative expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

		2014		2013
Employee benefits				
Long-tern and short-term employee benefits -salaries	₩	754,885	₩	701,467
Long-term and short-term employee benefits -employee welfare benefits		33,545		37,896
Post-employment benefits		107,497		73,670
Termination benefits		35,887		17,987
		931,814		831,020
Depreciation and amortization				
Depreciation		75,155		78,701
Amortization		43,384		69,599
		118,539		148,300
Other general and administrative expenses				
Employee welfare benefits		37,781		32,832
Rental expense		128,525		126,367
Entertainment expenses		18,699		18,809
Taxes and dues		72,254		66,151
Advertising expense		65,219		64,012
Servicing expenses		97,480		97,704
Supplies expenses		8,040		8,679
Others		149,241		150,525
		577,239		565,079
	₩	1,627,592	₩	1,544,399

41. Other operating income

Other operating income for the years ended December 31, 2014 and 2013 is as follows (Korean won in millions):

		2014		2013
Reversal of allowances for acceptances and guarantees	₩	1,297	₩	1,522
Reversal of allowances for unused commitments		–		1,113
Reversal of allowance for lawsuits		4,306		–
Profit of liquidity adjustment		–		2,170
Profit of credit valuation adjustment		3,068		4,454
Reversal of other allowance		–		116
Trust commissions		75,138		32,530
Others		16,763		10,674
	₩	100,572	₩	52,579

42. Other operating expenses

Other operating expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Provision of allowances for acceptance and guarantees	₩ 634	₩ 4,972
Provision of allowances for asset retirement obligation	449	–
Provision of allowance for lawsuits	–	347
Loss of liquidity adjustment	1,994	–
Provision of other allowance	1,129	–
Contribution to guarantee fund	156,320	164,852
Contribution to Korea Credit Guarantee Fund	47,971	43,217
Insurance fee on deposit	166,223	157,690
Others	8,136	7,460
	₩ 382,856	₩ 378,538

43. Other non-operating income

Other non–operating income for the years ended December 31, 2014 and 2013 is as follows (Korean won in millions):

	2014	2013
Gain on obsolescence	₩ 224	₩ 540
Rental fee income	7,992	8,636
Gain on disposal of property and equipment	1,348	181
Gain on disposal of intangible asset	1,706	1,050
Gain on disposal of investments in subsidiaries	113,011	–
Others	37,937	40,597
	₩ 162,218	₩ 51,004

44. Other non-operating expenses

Other non–operating expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014		2013	
Loss on obsolescence	₩	342	₩	575
Loss on disposal of property and equipment		5,726		313
Loss on disposal of intangible asset		909		3
Impairment loss of property and equipment		22,236		–
Impairment loss of intangible assets		620		375
Loss on disposal of investment in associates		–		4
Impairment loss of investments in associates		–		430
Comtribution		25,970		34,785
Others		18,836		16,459
	₩	74,639	₩	52,944

45. Income tax expense

The components of income tax expense for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014		2013	
Current income taxes				
Income taxes	₩	142,297	₩	201,715
Additional refund of prior year's income tax		(13,804)		(17,242)
Changes in deferred income tax liabilities		170,812		(16,552)
Current and deferred income taxes recognized directly to equity		(43,480)		44,348
Tax effect of consolidated tax returns		(19,236)		(46,094)
Income tax expense	₩	236,589	₩	166,175

Reconciliations of income tax expense applicable to the net income before income tax expense at the Korea statutory tax rate to income tax expense at the effective income tax rate of the Company for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014		2013	
Net income before income tax expense	₩	1,093,008	₩	874,915
Tax at domestic statutory income tax rate of 24.2%		264,508		211,729
Non-taxable income		(3,799)		(1,404)
Expenses not deductible for tax purposes		6,156		4,282
Tax credit		(12,003)		–
Additional refund of prior year's income tax		(13,804)		(17,242)
Income tax expense of foreign branches and subsidiaries		11,230		17,681
Tax effect of consolidated tax return		(19,236)		(46,094)
Effect of tax rates change and others		–		(2,777)
Others		3,537		–
Income tax expense	₩	236,589	₩	166,175
Effective income tax rate (%)		21.7		19.0

45. Income tax expense (cont'd)

Temporary differences and deferred income tax assets (liabilities) as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014	
	Deductible (taxable) temporary differences	Deferred income tax assets (liabilities)
Gain or loss on valuation of trading securities	₩ 74,529	₩ 18,036
Impairment loss on investments	464,469	112,402
Investment in associates and subsidiaries	(320,110)	(77,467)
Gain on valuation of derivatives	38,009	9,198
Deemed dividends	10,093	2,443
Deferred loan fees, net of expenses	(124,678)	(30,172)
Accrued interest income	(210,757)	(51,003)
Accrued expenses	39,490	9,557
Allowance for possible losses on acceptance and guarantees	20,346	4,924
Deposit for severance and retirement benefits	(506,146)	(122,487)
Provision for severance and retirement benefits	566,448	137,080
Allowance for other losses	66,436	16,077
Loans written–off	361,895	87,579
Depreciation	35,255	8,532
Fair value valuation resulting from merger	(14,870)	(3,598)
Dormant deposits	6,814	1,649
Advanced depreciation provision	(117,849)	(28,519)
Deemed cost for property and equipment	(595,773)	(144,177)
Available–for–sale financial assets	(520,794)	(126,032)
Others	56,022	13,555
Deduction for foreign tax paid	–	5,277
	₩ (671,171)	₩ (157,146)
Domestic deferred income tax assets		(157,146)
Foreign deferred income tax assets (*)		18,448
		₩ (138,698)

45. Income tax expense (cont'd)

	December 31, 2013			
	Deductible (taxable) temporary differences		Deferred income tax assets (liabilities)	
Gain or loss on valuation of trading securities	₩	29,546	₩	7,150
Impairment loss on investments		508,749		123,117
Investment in associates and subsidiaries		(167,488)		(40,532)
Gain on valuation of derivatives		(45,688)		(11,057)
Deemed dividends		3,921		949
Deferred loan fees, net of expenses		(105,406)		(25,508)
Accrued interest income		(209,984)		(50,816)
Allowance for temporary depreciation		420		102
Accrued expenses		49,740		12,037
Allowance for possible losses on acceptance and guarantees		27,435		6,639
Deposit for severance and retirement benefits		(425,898)		(103,067)
Provision for severance and retirement benefits		457,372		110,684
Allowance for other losses		76,416		18,492
Loans written–off		653,547		158,158
Depreciation		30,639		7,415
Fair value valuation resulting from merger		(11,358)		(2,749)
Dormant deposits		4,909		1,188
Advanced depreciation provision		(117,849)		(28,519)
Deemed cost for property and equipment		(597,318)		(144,551)
Available–for–sale financial assets		(264,213)		(63,943)
Others		16,634		4,029
Deduction for foreign tax paid		–		16,732
	₩	(85,874)	₩	(4,050)
Domestic deferred income tax assets				(4,050)
Foreign deferred income tax assets (*)				5,772
			₩	1,722

(*) Deferred income tax assets of foreign branches are not offset against the deferred income tax liabilities due to the differences in tax jurisdictions.

The effective income tax rate of 24.2% as of December 31, 2014, is applied when calculating deferred income tax assets or liabilities. Also, deferred income tax assets are recognized when it is foreseeable that future taxable income will be incurred and that future tax credits will be realized.

Details of deferred income taxes charged (credited) directly to equity as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	December 31, 2014			
	Before tax amounts		Deferred income tax assets (liabilities)	
Gain (loss) on valuation of available–for–sale financial assets	₩	510,668	₩	(124,108)
Gain (loss) on valuation of equity method investments		(14,994)		3,628
Exchange differences on translation of foreign operations		9,455		(2,288)
	₩	505,129	₩	(122,768)

45. Income tax expense (cont'd)

	December 31, 2013			
	Before tax amounts		Deferred income tax assets (liabilities)	
Gain (loss) on valuation of available–for–sale financial assets	₩	264,213	₩	(63,943)
Gain (loss) on valuation of equity method investments		(5,100)		1,234
Gain (loss) on valuation of equity method investments		(353)		85
Exchange differences on translation of foreign operations		(14,199)		3,444
	₩	244,561	₩	(59,180)

46. Earnings per share

Basic earnings and diluted earnings per share for the years ended December 31, 2014 and 2013 are as follows:

Weighted average number of ordinary shares outstanding (shares and number of days in units):

Fixed date	Shares of common stock	Days	Accumulated shares	Weighted average number of common shares
December 31, 2014	219,799,157	365	80,226,692,305	219,799,157

(in Korean won and number of shares in units)

	2014		2013	
Net income for the period	₩	856,076,212,211	₩	706,239,979,338
Net income attributable to common stock		856,076,212,211		706,239,979,338
Weighted average number of common shares of outstanding		219,799,157		219,799,157
Basic and diluted earnings per share	₩	3,895	₩	3,213

47. Share–based payment transaction

HFG granted stock options to the Bank's employees and directors. Accordingly, the Bank has accounted for the expected compensation costs for stock options as a liability in accrued expenses.

Details of stock options granted by HFG as of December 31, 2014 are summarized as follows:

	Third grant	Fourth grant	Fifth grant
Date	January 1, 2012	January 1, 2013	January 1, 2014
Settlement method	(*1)	(*1)	(*1)
Settlement period (appraisal period)	From January 1, 2012 To December 31, 2014	From January 1, 2013 To December 31, 2015	From January 1, 2014 To December 31, 2016
Payment date	December 31, 2014	December 31, 2015	December 31, 2016
Estimated vested shares as of December 31, 2014(*2)	66,007	78,174	58,486

(*1) HFG chooses one of the following at its discretion: Treasury stock grant or cash settlement.

47. Share–based payment transaction (cont'd)

(*2) The maximum number of shares to be compensated is pre–determined before the grant date, and vested shares are determined by performance measures. The performance assessment consists of the group performance assessment (relative shareholder return) constituting 40% and the business unit performance assessment (unit ROE, ROIC) constituting 60% of the total performance scorecard.

Details of stock options granted by the Bank as of December 31, 2014 are summarized as follows:

1) Calculation of stock granted
Stock options granted by the Bank are calculated to reflect the performance of the current year (30%), previous year (30%) and the year before last (40%). If the performance of the current year is negative (–), the amount will be deducted from the current year's stock options granted.

2) Payment of stock granted
Stock options granted are paid in cash (50%) and stock (50%) under the condition that a pre-determined quantity of shares for stock options granted are to be paid at the actual stock price on the grant date.

The compensation costs resulting from stock grant recognized during the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014		2013	
Stock options granted by HFG	₩	3,228	₩	4,433
Stock options granted by the Bank		133		133

The stock grant liability recorded in accrued expenses amounts to ₩7,071 million and ₩10,962 million as of December 31, 2014 and 2013, respectively.

48. Cash flow information

Cash on hand as of December 31, 2014 and 2013 is summarized as follows (Korean won in millions):

	2014	2013
Cash	₩ 696,465	₩ 704,131
Checks and bills	632,271	1,117,993
Due from banks in BOK	5,331,254	3,614,469
Due from banks in other banks	4,208,397	4,204,090
	10,868,387	9,640,683
Restricted balances	(5,549,983)	(3,744,648)
Deposits which have a maturity period of three months or above	(980,328)	(927,226)
	(6,530,311)	(4,671,874)
	₩ 4,338,076	₩ 4,968,809

Significant non–cash transactions for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Written–off loans	₩ 397,025	₩ 610,217
Changes in the unrealized loss on valuation of available–for–sale financial assets	402,605	176,686
Decrease in allowance for possible loan losses due to sale of non–performing loans	64,895	30,164
Impairment loss on available-for-sale financial assets	184,268	117,411
Reclassification from investment in subsidiaries to investment in associates	225,946	–

Cash flows from the interest and dividend for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Interest receipts	₩ 5,828,661	₩ 6,232,140
Interest payments	3,177,902	3,629,327
Dividend receipts	79,843	51,556

49. Related parties

Equity interests among the Company and its affiliates as of December 31, 2014 and 2013 are summarized as follows (shares in units):

		Equity investment (%)	
Investor	Investee	December 31, 2014	December 31, 2013
HFG	Hana Bank	100.0	100.0
	Korea Exchange Bank	100.0	100.0
	Hana Daetoo Securities Co., Ltd.	100.0	100.0
	Hana Card, Co, Ltd (*1)	74.6	51.0
	Hana Capital, Co, Ltd	50.1	50.1
	Hana Asset Trust Co. Ltd	100.0	100.0
	Hana I&S	90.0	100.0
	Hana Institute of Finance	100.0	100.0
	Hana Life Insurance Co., Ltd.	100.0	100.0
	Hana Savings Bank	100.0	100.0
	Hana Bancorp	71.4	71.4
Hana Bank	Hana Bank (China) Co., Ltd.	59.7	100.0
	Hana Micro finance Ltd	100.0	–
	LS Leading Solution PEF Invest Trust 128 and Others	–	–
	Hana CSP Co., Ltd. and Others	–	–
	Trust Accounts	–	–
	PT BANK Hana (*2)	38.0	75.1

(*1) After KEB Card was spun off from KEB and incorporated in 2014, it merged with Hana SK Card and was renamed Hana Card.

(*2) In the current year, followed by the merger between PT Bank Hana and PT Bank KEB, the name changed to PT Bank KEB Hana. Therefore it lost control over the bank, and was reclassified from investment in subsidiaries to investment in associates.

Transactions with related parties for the years ended December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

		December 31 2014					
		Income			Expense		
Type	Related Parties	Interest income	Fees and commission income	Other income	Interest expense	Fees and Commission expense	Other expense
Controlling company	HFG	₩ –	₩ 1,190	₩ 1,742	₩ 62	₩ –	₩ –
		–	1,190	1,742	62	–	–
Investment in an associate	PT Bank KEB Hana	923	–	–	–	–	–
	Korea Travels Co., Ltd.	–	322	–	136	–	–
	Korea Credit Bureau	–	–	–	29	–	–
	Darby Hana Infrastructure Fund Management	–	–	1	194	–	–
	Taesan LCD Co., Ltd	–	–	–	39	–	–

49. Related parties (cont'd)

		December 31 2014					
		Income			Expense		
Type	Related Parties	Interest income	Fees and commission income	Other income	Interest expense	Fees and Commission expense	Other expense
		923	322	1	398	–	–
Other related parties	Korea Exchange Bank	–	155	189,666	–	–	118,929
	Hana Daetoo Securities Co., Ltd.	95	21	1,339	2,010	144	942
	Hana Card	42	31,907	1,350	2,077	304	343
	Hana Capital, Co, Ltd	1,089	257	32	180	–	–
	Hana Asset Trust Co., Ltd	–	–	–	455	–	–
	Hana Asset Management Co., Ltd.	–	–	–	157	–	–
	Hana I&S	–	–	365	66	–	32,045
	Hana Institute of Finance	–	–	7	25	–	3,476
	Hana Savings Bank	–	–	18	3	–	–
	Hana Life Insurance	–	12,303	138	56	–	–
	Radian 1 SPC Co., Ltd	567	–	–	–	–	–
	Saenggakdaero T 10th Securitization Specialty Co., Ltd.	–	14	–	886	–	–
	Saenggakdaero T 11th Securitization Specialty Co., Ltd.	–	46	–	1,917	–	–
	Saenggakdaero T 12th Securitization Specialty Co., Ltd.	–	29	–	1,256	–	–
	Saenggakdaero T 17th Securitization Specialty Co., Ltd.	–	82	–	2,426	–	–
	Odin2. LLC	1,809	5	–	–	–	–
	Doosan Capital Co., Ltd.	–	–	–	31	–	–
	Mirae Credit Information Services Corp	22	–	–	116	813	–
	UBS Hana Asset Management Co., Ltd.	–	–	–	101	–	–
	Midan City Development Co., Ltd	581	212	–	1	–	–
	Plakor Co., Ltd	497	–	12	351	–	–
	Najeon Co., Ltd	67	–	–	48	–	–
	LIG Nex1 Co., Ltd	3	64	–	–	–	–
	Sambo Motors Co., Ltd.	162	–	–	–	–	–
	Maltani Lighting Co.,Ltd	6					
	KEB Futures	–	–	3,634	–	–	7,342
		4,940	45,095	196,561	12,162	1,261	163,077
Key management personnel		45	2	1	98	–	–
		₩ 5,908	₩ 46,609	₩ 198,305	₩ 12,720	₩ 1,261	₩ 163,077

49. Related parties (cont'd)

		December 31 2013		
Type	Related Parties	Income	Provision for (reversal of) allowances	Expense
Controlling company	HFG	₩ 1,850	₩ –	₩ 96
		1,850	–	96
Investment in an associate	UAMCO	15	(6)	–
	PT Bank KEB Hana	439	–	–
	Korea Travels Co., Ltd.	374	–	282
	Korea Credit Bureau	–	–	54
	Darby Hana Infrastructure Fund Management	–	–	180
	Taesan LCD Co., Ltd.	828	(7,972)	357
		1,656	(7,978)	873
Other related parties	Korea Exchange Bank	61,780	–	91,291
	Hana Daetoo Securities Co., Ltd.	916	–	3,302
	Hana SK Card	33,395	–	2,034
	Hana Capital, Co, Ltd	655	264	246
	Hana Asset Trust Co., Ltd	–	–	205
	Hana Asset Management Co., Ltd.	–	–	200
	Hana I&S	607	–	16,892
	Hana Institute of Finance	11	–	3,605
	Hana Savings Bank	37	–	18
	Hana Life Insurance	7,075	–	–
	Radian 1 SPC Co., Ltd	500	106	1
	Saenggakdaero T 5 Securitization Specialty Co., Ltd.	14	–	502
	Saenggakdaero T 6 Securitization Specialty Co., Ltd	20	–	1,634
	Saenggakdaero T 7 Securitization Specialty Co., Ltd	50	–	2,801
	Saenggakdaero T 8 Securitization Specialty Co., Ltd	123	–	4,433
	Saenggakdaero T 9 Securitization Specialty Co., Ltd	74	–	2,806
	Saenggakdaero T 10 Securitization Specialty Co., Ltd	102	–	3,032
	Saenggakdaero T 11 Securitization Specialty Co., Ltd	222	–	3,817
	Saenggakdaero T 12 Securitization Specialty Co., Ltd	113	–	1,867
	Saenggakdaero T 17 Securitization Specialty Co., Ltd	177	–	2,099
	Odin2. LLC	1,777	30	–

49. Related parties (cont'd)

Type	Related Parties	December 31 2013 Income	Provision for (reversal of) allowances	Expense
	Mirae Credit Information Services Corp.	13	1	1,319
	UBS Hana Asset Management Co., Ltd.	1,588	–	34
	Midan City Development Co., Ltd	1,314	130	–
	Plakor Co., Ltd	179	56	40
	Najeon Co., Ltd	93	9	64
	LIG Nex1 Co., Ltd	99	–	–
		110,934	596	142,242
		₩ 114,440	₩ (7,382)	₩ 143,211

In 2014, money transactions with related parties are as follows:

Type	Related Parties	Loan transaction	Borrowing transaction	Money investment
Investment in an associate	UAMCO	₩ –	₩ 1	₩ –
	PT Bank KEB Hana	109,920	–	–
	Korea Travels Co., Ltd.	–	(552)	–
	Korea Credit Bureau	–	(1,496)	–
	Darby Hana Infrastructure Fund Management	–	1,191	–
	Taesan LCD Co., Ltd.	(3,700)	(11,813)	–
		106,220	(12,669)	–
Other related parties	Odin2.LLC	23	–	–
	Mirae Credit Information Services Corp.	(1,000)	545	–
	UBS Hana Asset Management Co., Ltd.	–	4,415	–
	Midan City Development Co., Ltd	(19,723)	–	–
	Plakor Co., Ltd	(375)	16,427	–
	Najeon Co., Ltd	(400)	1,213	–
	Maltani Lighting Co.,Ltd	1,000	–	–
	Korea Finance Security	–	(10,000)	(807)
		(20,475)	12,600	(807)
Key management personnel		(1,212)	(13,743)	–
		₩ 84,533	₩ (13,812)	₩ (807)

Outstanding balances with related parties arising from the above transactions as of December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

		December 31, 2014				
		Bonds		Allowance for possible loan losses	Liabilities	
Type	Related Parties	Loans	Others		Deposit	Others
Controlling company	HFG	₩ –	₩ 14,747	₩ –	₩ 10,525	₩ 19,312
		–	14,747	–	10,525	19,312
Investment in an associate	UAMCO	–	–	–	5	–

49. Related parties (cont'd)

		December 31, 2014				
		Bonds		Allowance for possible loan losses	Liabilities	
Type	Related Parties	Loans	Others		Deposit	Others
	PT Bank KEB Hana	109,920	1,162	–	–	–
	Korea Travels Co., Ltd.	–	–	–	6,500	–
	Korea Credit Bureau	–	–	–	514	–
	Darby Hana Infrastructure Fund Management	–	–	–	7,317	–
	Taesan LCD Co., Ltd.	2,956	–	–	–	–
		112,876	1,162	–	14,336	–
Other related parties	Korea Exchange Bank	–	98,528	–	–	51,012
	Hana Daetoo Securities Co., Ltd.	–	5,336	–	134,489	6,389
	Hana Card	–	195	–	115,710	3,530
	Hana Capital, Co, Ltd	70,000	–	–	10,572	790
	Hana Asset Trust Co., Ltd	–	–	–	20,733	79
	Hana Asset Management Co., Ltd.	–	–	–	7,577	21
	Hana I&S	–	–	–	1,462	1,414
	Hana Institute of Finance	–	–	–	2,004	572
	Hana Savings Bank	–	–	–	–	915
	Hana Life Insurance	–	1,049	–	2	1,570
	Radian 1 SPC Co., Ltd	–	–	–	394	–
	Saenggakdaero T 12th Securitization Specialty Co., Ltd.	–	–	–	309	–
	Saenggakdaero T 17th Securitization Specialty Co., Ltd.	–	–	–	50,992	204
	Odin2.LLC	29,093	–	195	–	–
	Mirae Credit Information Services Corp	–	–	–	5,738	–
	UBS Hana Asset Management Co., Ltd.	–	–	–	6,705	–
	Plakor Co., Ltd	12,625	–	–	4,117	–
	Najeon Co., Ltd	1,300	–	–	9	–
	LIG Nex1 Co., Ltd	–	–	–	3	–
	Sambo Moters Co., Ltd	4,000	–	27	–	–
	Maltani Lighting Co.,Ltd	1,000	–	–	–	–
	KEB Futures	–	–	–	–	1
		118,018	105,108	222	360,816	66,497
Key management personnel		1,139	–	–	5,195	–
		₩ 232,033	₩ 121,017	₩ 222	₩ 390,872	₩ 85,809

49. Related parties (cont'd)

Type	Related Parties	December 31 2013 Bonds	Allowance for possible loan losses	Liabilities
Controlling company	HFG	₩ –	₩ –	₩ 42,085
		–	–	42,085
Investment in an associate	UAMCO	–	–	3
	PT Bank KEB Hana	50,082	–	–
	Korea Travels Co., Ltd.	–	–	7,052
	Korea Credit Bureau	–	–	2,010
	Darby Hana Infrastructure Fund Management	–	–	6,126
	Taesan LCD Co., Ltd. (*)	6,656	233	11,813
		56,738	233	27,004
Other related parties	Korea Exchange Bank	63,303	–	105,157
	Hana Daetoo Securities Co., Ltd.	5,366	–	47,590
	Hana SK Card	1,088	–	129,683
	Hana Capital, Co, Ltd	220,000	348	51,816
	Hana Asset Trust Co., Ltd	–	–	12,517
	Hana Asset Management Co., Ltd.	–	–	7,905
	Hana I&S	–	–	4,213
	Hana Institute of Finance	–	–	2,487
	Hana Savings Bank	–	–	888
	Hana Life Insurance	1,130	–	8,928
	Radian 1 SPC Co., Ltd	10,049	106	1
	Saenggakdaero T 10th Securitization Specialty Co., Ltd.	–	–	67,120
	Saenggakdaero T 11th Securitization Specialty Co., Ltd.	–	–	136,134
	Saenggakdaero T 12th Securitization Specialty Co., Ltd.	–	–	53,378
	Saenggakdaero T 17th Securitization Specialty Co., Ltd.	–	–	78,751
	Odin2.LLC	29,070	162	–
	Mirae Credit Information Services Corp	1,000	1	5,193
	UBS Hana Asset Management Co., Ltd.	–	–	2,290
	Midan City Development Co., Ltd	19,723	130	34
	Plakor Co., Ltd	13,000	56	10,314
	Najeon Co., Ltd	1,700	9	1,795
	LIG Nex1 Co., Ltd	–	–	3
	Sambo Moters Co., Ltd	4,000	22	–
		369,429	834	726,197
		₩ 426,167	₩ 1,067	₩ 795,286

49. Related parties (cont'd)

Guarantee and collateral provided by the Company as of December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

Related parties		December 31, 2014				
Type	Beneficiary	Transactions		Amounts	Maturity	Content
Other related parties	Hana Card	Guarantee for F/X	₩	4,177	December 31, 2015	Confirmed guarantee
		Guarantee for F/X		2,198	December 31, 2018	Confirmed guarantee
	Saenggakdaero T 17th Securitization Specialty Co.,Ltd.	Granting of credit		28,700	June 17, 2015	Credit–line for ABS

Related parties		December 31, 2013				
Type	Beneficiary	Transactions		Amounts	Maturity	Content
Other related parties	Hana SK Card	Guarantee for F/X	₩	6,121	December 31, 2018	Confirmed guarantee
	LIG Nex1 Co., Ltd.	Guarantee for F/X		24,640	September 11, 2014	Unconfirmed guarantee
	Saenggakdaero T 17th Securitization Specialty Co., Ltd.	Granting of credit		115,100	June 17, 2015	Credit–line for ABS

Guarantee and collateral provided by the related parties as of December 31, 2014 and 2013 are summarized as follows (Korean won in millions):

Related parties		December 31, 2014			
Type	Benefactor	Transactions		Amounts	Content
Member of the same group	Hana Capital, Co, Ltd	Collateral	₩	365,100	Lease receivables and others
	Hana Card	Collateral		8,700	Deposits

Related parties		December 31, 2013			
Type	Benefactor	Transactions		Amounts	Content
Member of the same group	Hana Capital, Co, Ltd	Collateral	₩	365,145	Lease receivables and others
	Hana SK Card	Collateral		8,700	Deposits

Details of compensation for standing directors and executive officers for the years ended December 31, 2014 and 2013 are summarized as follows (Korean won in millions of people in units):

	2014		2013	
Short–term employee payment	₩	7,784	₩	6,959
Severance payment		819		469
Stock options		1,578		1,863
	₩	10,181	₩	9,291

50. Transaction under the same governance

Upon a request from the Chinese financial supervisory authorities, Hana Bank (China) Co., Ltd., one of subsidiaries in China, acquired and merged with KEB China, one of affiliates in the Hana Financial Group, and established joint corporation, Hana Bank (China) Co., Ltd., on December 15, 2014.

The above M&A was an M&A between subsidiaries under the same governance, and the book value of the assets and liabilities of KEB China was succeeded. As of the acquisition date, the assets and liabilites to which Hana Bank (China) Co., Ltd. succeeded as a result of the acquisition are as follows (Korean won in millions):

Assets		
Cash and due from banks	₩	1,322,991
Loans and receivables		1,904,033
Property and equipment		11,531
Intangible assets		5,616
Other assets		50,050
		3,294,221
Liabilities		
Deposits	₩	2,506,885
Borrowings		227,295
Deferred income tax liabilities		535
Other liabilities		85,795
		2,820,510
Total transferred net assets	₩	473,711

51. Promotion of merger with Hana Bank and KEB

Hana Bank decided to merge with KEB at the Board of Director's meeting on October 29, 2014 and on February 4, 2015, the Seoul Central District Court ordered an injunction to hold-off on the merger until June 30, 2015.

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