http://www.oblible.com

BASE PROSPECTUS DATED JUNE 12, 2015

KB Kookmin Bank

(incorporated with limited liability under the laws of the Republic of Korea)
(acting through its principal office in Korea)

U.S.$8,000,000,000
Global Covered Bond Programme

Under this U.S.$8,000,000,000 Global Covered Bond Programme (the "**Programme**"), Kookmin Bank (the "**Issuer**" or the "**Bank**") may from time to time issue covered bonds in accordance with the Korean Covered Bond Laws (as defined in "*Overview of the Programme*") ("**Covered Bonds**") denominated in any currency agreed between the Issuer, the Arranger and the relevant Dealer (as defined below). The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed U.S.$8,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement described herein), subject to increase as described herein.

The Covered Bonds have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or any state securities laws and, subject to certain exceptions, may not be offered or sold directly or indirectly 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 ("**Regulation S**"). The Covered Bonds may be offered for sale only (i) in the United States, to qualified institutional buyers ("**QIBs**") within the meaning of, and in reliance on, Rule 144A under the Securities Act ("**Rule 144A**") or another available exemption from, or in a transaction not subject to, the registration requirements of the Securities Act ("**Restricted Covered Bonds**"); or (ii) outside the United States to non-U.S. persons in reliance on, and in accordance with, Regulation S ("**Unrestricted Covered Bonds**"), in each case, in compliance with applicable laws, regulations and directives. Prospective purchasers are hereby notified that sellers of the Covered Bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. See "*Subscription and Sale and Transfer and Selling Restrictions.*"

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

Application has been made to the Commission de Surveillance du Secteur Financier (the "**CSSF**") in its capacity as competent authority under the Luxembourg Act dated July 10, 2005 relating to prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) for the approval of this document as a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "**Prospectus Directive**"). Application has also been made to the Luxembourg Stock Exchange for Covered Bonds issued under the Programme during the period of 12 months from the date of the approval by the CSSF to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. References in this Base Prospectus to Covered Bonds being "listed" (and all related references) shall mean that such Covered Bonds are intended to be admitted to trading on the Luxembourg Stock Exchange's regulated market and are intended to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of Directive 93/22/EEC (the "**Investment Services Directive**").

Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and any other terms and conditions not contained herein which are applicable to each Tranche of Covered Bonds will be set out in the final terms (the "**Final Terms**") which, with respect to Covered Bonds to be listed on the Luxembourg Stock Exchange will be delivered to the Luxembourg Stock Exchange.

The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer, the Arranger and the relevant Dealer. The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market.

Covered Bonds issued under the Programme are expected on issue to be assigned a rating of "Aa1" by Moody's Investors Service Limited ("**Moody's**") and a rating of "AA+" by Fitch Ratings Limited ("**Fitch**"). The rating of the Covered Bonds will be specified in the applicable Final Terms. Moody's and Fitch are established in the European Union and are registered under Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**"). As such, each of Moody's and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority (the "**ESMA**") on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating organisation.

The Issuer may agree with the Arranger and any Dealer that Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds herein, in which event a Base Prospectus supplement, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds.

THE "RISK FACTORS" SECTION CONTAINS DETAILS OF CERTAIN RISKS AND OTHER FACTORS THAT SHOULD BE GIVEN PARTICULAR CONSIDERATION BEFORE INVESTING IN THE COVERED BONDS. PROSPECTIVE INVESTORS SHOULD BE AWARE OF THE ISSUES SUMMARISED IN THAT SECTION.

Arranger

BNP PARIBAS

Dealers

BNP PARIBAS

BARCLAYS **CITIGROUP** **COMMERZBANK**

J.P. MORGAN **SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING** **STANDARD CHARTERED BANK**

http://www.oblible.com

The Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms (as defined herein) for each Tranche (as defined herein) of Covered Bonds issued under the Programme. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus and the Final Terms is in accordance with the facts and does not omit anything likely to affect the import of such information. Certain information relating to exchange rates, the Korean financial industry, the Korean stock markets and the Korean residential mortgage industry has been extracted from public sources such as the Financial Supervisory Service (the "**FSS**"), the Bank of Korea (the "**BOK**"), the KRX KOSPI Market of the Korea Exchange ("**KRX KOSPI Market**"), the Ministry of Land, Infrastructure and Transport and the World Bank, and has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by such public sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Copies of Final Terms relating to Covered Bonds which are admitted to trading on the Luxembourg Stock Exchange's regulated market will be available on the website of the Luxembourg Stock Exchange at www.bourse.lu and from the registered office of the Issuer and the specified office of The Bank of New York Mellon, London Branch (the "**Issuing and Paying Agent**") for the time being in London and Luxembourg.

No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by BNP Paribas (the "**Arranger**"), the Dealers, the Trustee or the Agents as to the authenticity, origin, validity, accuracy or completeness of, or any errors in or omissions from, the information or statements contained or incorporated in this Base Prospectus or any supplement hereto or any other information provided by the Issuer in connection with the Programme. None of the Arranger, the Dealers, the Trustee or the Agents accepts any liability in relation to the information provided by the Issuer in connection with the Programme.

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 Base Prospectus or any other information supplied in connection with the Programme or the Covered Bonds 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 Arranger, the Dealers, the Trustee or the Agents.

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

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Covered Bonds 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 Arranger, the Dealers, the Trustee or the Agents 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 Covered Bonds of any information coming to their attention.

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

This Base Prospectus has been prepared on the basis that any offer of Covered Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly, any person making or intending to make any offer within the European Economic Area of Covered Bonds which are the subject of the offering contemplated in this Base Prospectus may only do so (i) in circumstances in which no obligation arises for the Issuer, the Arranger, the Dealers, the Trustee or the Agents to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer 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 and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State and such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable, and the Issuer has consented in writing to its use for the purpose of such offer. Except to the extent sub-paragraph (ii) above may apply, none of the Issuer, the Arranger or any Dealer has authorised, nor do they authorise, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Issuer, the Arranger or any Dealer to publish or supplement a prospectus for such offer. For the purposes of this provision, 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.

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

None of the Arranger, the Dealers, the Trustee, the Agents or the Issuer makes any representation to any investor in the Covered Bonds regarding the legality of its investment under any applicable laws. The contents of this Base Prospectus should not be construed as providing legal, business or tax advice. Any investor in the Covered Bonds should be able to bear the economic risk of an investment in the Covered Bonds for an indefinite period of time.

U.S. Information

This Base Prospectus may be submitted on a confidential basis in the United States to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of the Covered Bonds 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.

The Covered Bonds have not been, and will not be, registered under the Securities Act or any state securities laws. Unless otherwise specified in any supplement to this Base Prospectus, each Series of Covered Bonds is initially being privately placed exclusively to persons reasonably believed by the Arranger or the Dealers to be QIBs within the meaning of Rule 144A or in other transactions exempt from registration in accordance with Regulation S. Restricted Covered Bonds will be represented on issue by one or more global Covered Bonds (the "**Restricted Global Certificates**") and Unrestricted Covered Bonds will be represented on issue by one or more global Covered Bonds (being either "**Unrestricted Global Certificates**" (together with Restricted Global Certificates, the "**Global Certificates**") if in registered form, or "**Global Covered Bonds**" if in bearer form (together with the Global Certificates, the "**Global Covered Bonds and Certificates**")). After their initial private placement, the Covered Bonds represented by Restricted Global Certificates may be resold to QIBs in transactions satisfying the requirements of Rule 144A or in transactions exempt from registration in accordance with Regulation S. Global Covered Bonds and Certificates will be exchangeable for Covered Bonds in definitive form (each, a "**Definitive Covered Bond**") in certain limited circumstances, as described in "*Summary of Provisions Relating to the Covered Bonds While in Global Form*". On the relevant Issue Date, Global Covered Bonds and Certificates of each Series will be (1) in the case of Restricted Global Certificates, registered in the name of Cede & Co. as nominee for, and deposited with a custodian for, The Depository Trust Company ("**DTC**") or (2) in the case of Unrestricted Global Certificates, (i) registered in the name of Cede & Co. as nominee for, and deposited with a custodian for, DTC, (ii) registered in the name of a nominee, and deposited with, a common depositary on behalf of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") or (3) in the case of Global Covered Bonds, deposited with a common depositary on behalf of Euroclear and Clearstream, Luxembourg (the "**Common Depositary**"), as specified in the relevant Final Terms. For a description of certain restrictions on resale or transfer of the Covered Bonds, see "*Subscription and Sale and Transfer and Selling Restrictions.*"

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 CHAPTER 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.

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 (each such person being referred to as a "relevant person"). The Covered Bonds are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Covered Bonds 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.

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 outside Korea upon the Issuer or such persons, or to enforce judgments against them obtained in courts outside Korea predicated upon civil liabilities of the Issuer or such directors and officers under laws other than Korean law, including any judgment predicated upon United States federal securities laws. The Issuer has been advised by Kim & Chang, its counsel, that there is doubt as to the enforceability in Korea in original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

Stabilisation

In connection with the issue of any Tranche of Covered Bonds, the Arranger or any of the Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds 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. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Covered Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date of the relevant Tranche of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of Stabilising Manager(s)) in accordance with all applicable laws and rules.

THE COVERED BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKET ACT OF KOREA. ACCORDINGLY, THE COVERED BONDS MAY NOT BE OFFERED, SOLD OR DELIVERED IN KOREA OR TO ANY RESIDENT OF KOREA (AS DEFINED UNDER THE FOREIGN EXCHANGE TRANSACTION LAW OF KOREA AND ITS ENFORCEMENT DECREE) OR TO ANY OTHER PERSON FOR OFFER, RESALE OR RE-DELIVERY DIRECTLY OR INDIRECTLY IN KOREA OR TO ANY RESIDENT OF KOREA, EXCEPT AS OTHERWISE PERMITTED BY APPLICABLE KOREAN LAWS AND REGULATIONS.

Presentation of Financial and Other Information

The Issuer maintains its financial books and records and prepares its financial statements in Won in accordance with International Financial Reporting Standards as adopted by Korea ("**Korean IFRS**"), which differ in certain important respects from generally accepted accounting principles in other countries, including the generally accepted accounting principles in the United States ("**U.S. GAAP**").

Unless otherwise stated, the financial data contained in this Base Prospectus as of and for the years ended December 31, 2012, 2013 and 2014 are derived from the Issuer's audited consolidated financial statements included herein which have been prepared in accordance with Korean IFRS, and the financial data contained in this Base Prospectus as of March 31, 2015 and for the three months ended March 31, 2014 and 2015 are derived from the Issuer's unaudited interim consolidated financial statements included herein which have been prepared in accordance with Korean IFRS 1034, *Interim Financial Reporting*.

Pursuant to an amendment to Korean IFRS 1019, *Employee Benefits*, which is effective beginning in 2013, the Issuer's consolidated financial statements as of and for the years ended December 31, 2013 and 2014 reflect changes in the methodology for recognition and measurement of actuarial gains and losses and expected returns and service costs relating to its employee pension plans. In addition, pursuant to the adoption of Korean IFRS 1110, *Consolidated Financial Statements*, which is effective beginning in 2013, the Issuer's consolidated financial statements as of and for the years ended December 31, 2013 and 2014 include trust accounts for which the Issuer guarantees only the repayment of principal, as well as certain other entities, which were not previously subject to consolidation, while excluding certain other entities that were previously consolidated. Corresponding amounts as of and for the year ended December 31, 2012 have been restated to reflect such changes in the Issuer's audited consolidated financial statements as of and for the years ended December 31, 2013 and 2012 included herein.

For the periods prior to the year ended December 31, 2014, pursuant to Korean IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*, if an uncertain tax position satisfied the criteria for provisions, the Issuer measured the best estimate of expenditure for such uncertain tax position. The Issuer's claims for refund of the amounts levied by the tax authority were then treated as contingent assets. However, in 2014, the Issuer retroactively applied the accounting policy in accordance with Korean IFRS 1012, *Income Taxes*, which allows recognition of tax payments as income tax assets when it is probable that the Issuer will receive a tax refund. The Issuer's consolidated financial statements as of and for the year ended December 31, 2013 and for the three months ended March 31, 2014 have been restated to retroactively apply this change while no such restatements have been made in the Issuer's consolidated financial statements as of and for the year ended December 31, 2012 as originally issued.

Consolidated financial information included in this Base Prospectus as of and for the year ended December 31, 2012, unless otherwise indicated, is derived from the Issuer's audited consolidated financial statements as of and for the years ended December 31, 2013 and 2012 included herein.

All references in this document to "KRW," "Won" and "₩" refer to the currency of the Republic of Korea ("**Korea**"), those to "U.S. dollars," "U.S.$" and "$" refer to the currency of the United States of America, those to "S$" refer to the currency of Singapore, those to "Hong Kong dollar" and "HK$" refer to the currency of the Hong Kong Special Administrative Region of the People's Republic of China, those to "Tenge" refer to the currency of the Republic of Kazakhstan, those to "Sterling" and "£" refer to the currency of the United Kingdom and those to "€" and "euro" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the functioning of the European Union, as amended.

For convenience only, certain Won amounts in this Base Prospectus have been translated into U.S. dollars. The table below sets out, for the periods and dates indicated, information concerning the base rate under the market average exchange rate system, announced by the Seoul Money Brokerage Services, Ltd., between U.S. dollars and Won rounded to the nearest tenth of one Won (the "**Market Average Exchange Rate**"). Unless indicated otherwise, the translations of Won into U.S. dollars in this Base Prospectus have been made at the rate of ₩1,104.9 to U.S.$1.00 as of March 31, 2015. 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.

Years ended December 31	**Low**	**High**	**Average[(1)]**	**Period-end**
		(Won per U.S.$1.00)		
2010	1,104.0	1,261.5	1,156.3	1,134.8
2011	1,049.5	1,199.5	1,108.1	1,151.8
2012	1,071.1	1,181.8	1,126.9	1,070.6
2013	1,051.5	1,159.1	1,095.0	1,055.4
2014	1,008.9	1,118.3	1,053.2	1,099.3
September	1,014.3	1,050.6	1,033.2	1,055.2
October	1,047.0	1,072.3	1,060.3	1,068.5
November	1,058.8	1,113.1	1,095.1	1,107.9
December	1,088.1	1,118.3	1,104.3	1,099.3
2015 (through end of May)	1,068.1	1,133.9	1,096.1	1,108.2
January	1,077.3	1,108.7	1,088.9	1,093.5
February	1,088.3	1,109.8	1,098.4	1,098.4
March	1,096.5	1,133.9	1,112.6	1,104.9
April	1,068.1	1,109.4	1,088.7	1,072.4
May	1,069.5	1,108.0	1,091.3	1,108.2

Note:

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

Source: Seoul Money Brokerage Services, Ltd.

Forward-Looking Statements

The Issuer has included statements in this Base Prospectus which contain words and phrases such as "aim," "anticipate," "assume," "believe," "contemplate," "continue," "estimate," "expect," "future," "goal," "intend," "may," "objective," "plan," "predict," "positioned," "project," "risk," "seek to," "shall," "should," "will likely result," "will pursue," "plan" and words and terms of similar substance used in connection with any discussion of future operating or financial performance or the Issuer's expectations, plans, projections or business prospects identify forward-looking statements. In particular, the statements under the headings "*Risk Factors,*" "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Business*" regarding the Issuer's financial condition and other future events or prospects are forward-looking statements. All forward-looking statements are the Issuer's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

In addition to the risks related to the Issuer's business discussed under "*Risk Factors*", other factors could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to:

- the Issuer's ability to successfully implement its strategy;

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

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on the Issuer's income or results of operations could materially differ from those that have been estimated. For example, revenues could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realised.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this Base Prospectus could include, but are not limited to:

- general economic and political conditions in Korea or other countries that have an impact on the Issuer's business activities or investments;
- the monetary and interest rate policies of Korea;
- inflation or deflation;
- unanticipated volatility in interest rates;
- foreign exchange rates;
- prices and yields of equity and debt securities;
- the performance of the financial markets in Korea and globally;
- changes in domestic and foreign laws, regulations and taxes;
- changes in competition and the pricing environments in Korea; and
- regional or general changes in asset valuations.

Investors should not place undue reliance on the forward-looking statements, which speak only as of the date of this Base Prospectus. Except as required by law, the Issuer is not under any obligation, and expressly disclaims any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

All subsequent forward-looking statements attributable to the Issuer or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Base Prospectus.

Base Prospectus Supplement

If at any time the Issuer shall be required to prepare a base prospectus supplement pursuant to Article 13 of the Luxembourg Act dated July 10, 2005 relating to prospectuses for securities, the Issuer will prepare and make available an appropriate amendment or supplement to this Base Prospectus or a further Base Prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Luxembourg Stock Exchange's regulated market, shall constitute a prospectus supplement as required by Article 13 of the Luxembourg Act dated July 10, 2005 relating to prospectuses for securities.

The Issuer has given an undertaking to the Arranger that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Base Prospectus which is capable of affecting the assessment of any Notes and whose inclusion in or removal from this Base Prospectus is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, and the rights attaching to the Covered Bonds, the Issuer shall prepare an amendment or supplement to this Base Prospectus or publish a replacement Base Prospectus for use in connection with any subsequent offering of the Covered Bonds and shall supply to the Arranger and each Dealer and the Trustee such number of copies of such supplement hereto as the Arranger, such Dealer and the Trustee may reasonably request.

Available Information

To permit compliance with Rule 144A in connection with any resales or other transfers of Covered Bonds that are "restricted securities" within the meaning of the Securities Act, the Issuer has undertaken in the Trust Deed to furnish, upon the request of a holder of such Covered Bonds 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 Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

http://www.oblible.com

TABLE OF CONTENTS

	Page
GENERAL DESCRIPTION OF THE PROGRAMME	1
OVERVIEW OF THE PROGRAMME	7
RISK FACTORS	15
FORM OF FINAL TERMS	59
TERMS AND CONDITIONS OF THE COVERED BONDS	71
SUMMARY OF PROVISIONS RELATING TO THE COVERED BONDS WHILE IN GLOBAL FORM	103
USE OF PROCEEDS	110
CAPITALISATION	111
SELECTED FINANCIAL AND OPERATING DATA	112
SELECTED STATISTICAL DATA	117
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	120
BUSINESS	143
ASSETS AND LIABILITIES	173
RISK MANAGEMENT	194
MANAGEMENT	213
SUMMARY OF THE PRINCIPAL DOCUMENTS	217
CERTAIN INFORMATION REGARDING THE COVER POOL	251
SUMMARY OF KOREAN LEGISLATION REGARDING COVERED BONDS	263
OVERVIEW OF THE KOREAN FINANCIAL SECTOR	268
THE KOREAN RESIDENTIAL MORTGAGE INDUSTRY	276
REGULATION AND SUPERVISION	282
KOREAN LEGAL CONSIDERATIONS	292
TAXATION	307

Page

UNITED STATES ERISA CONSIDERATIONS 320

BOOK-ENTRY CLEARANCE SYSTEMS 322

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS 326

GENERAL INFORMATION 335

GLOSSARY 338

INDEX TO FINANCIAL STATEMENTS F-1

GENERAL DESCRIPTION OF THE PROGRAMME

The following description should be read as an introduction to, in conjunction with, and is qualified in its entirety by, the more detailed information that appears elsewhere in this Base Prospectus, including the Issuer's audited financial statements for the years December 31, 2012, 2013 and 2014, prepared in accordance with Korean IFRS and the financial data contained in this Base Prospectus as of March 31, 2015 and for the three months ended March 31, 2014 and 2015 are derived from the Issuer's unaudited interim consolidated financial statements included herein which have been prepared in accordance with Korean IFRS.

See "Risk Factors" for a discussion of certain factors that should be considered in connection with an investment in the Covered Bonds. Any decision to invest in the Covered Bonds should be based on the consideration of this Base Prospectus as a whole together with the relevant Final Terms. Words and expressions defined elsewhere in this Base Prospectus shall have the same meanings in this general description of the Programme.

Issuer Overview

The Issuer is the largest commercial bank in Korea in terms of total assets (including loans), according to the data compiled by the FSS. As of March 31, 2015, the Issuer had total assets of ₩282,130 billion and total deposits of ₩213,751 billion.

On the asset side, the Issuer provides credit and related financial services to individuals and small– and medium-sized enterprises ("**SMEs**") and, to a lesser extent, to large corporate customers. On the deposit side, the Issuer provides a full range of deposit products and related services to both individuals and corporations of all sizes.

By their nature, the Issuer's core consumer and SME operations place a high premium on customer access and convenience. The Issuer's network of 1,147 branches as of March 31, 2015, one of the most extensive in Korea, provides the Issuer with access to a large, stable and cost-effective funding source, enables the Issuer to provide its customers with convenient access and gives the Issuer the ability to provide the customer attention and service essential to conducting its business, particularly in an increasingly competitive environment. The Issuer's branch network is further enhanced by automated banking machines and fixed line, mobile telephone and Internet banking. As of March 31, 2015, the Issuer had a customer base of approximately 29 million retail customers, which represented approximately one-half of the Korean population.

The Issuer provides a full range of personal lending products and retail banking services to individual customers, including mortgage loans. The Issuer is the largest private sector mortgage lender in Korea.

Lending to SMEs is the single largest component of the Issuer's non-retail credit portfolio and represents a widely diversified exposure to a broad spectrum of the Korean corporate community, both by type of lending and type of customer, with one of the categories being collateralised loans to "small office/home office" customers ("**SOHOs**") that are among the smallest of the SMEs. The volume of the Issuer's loans to SMEs requires a customer-oriented approach that is facilitated by the Issuer's large and geographically diverse branch network.

With respect to large corporate customers, the Issuer continues to seek to maintain and expand quality relationships by providing them with an increasing range of fee-related services.

The legal name of the Issuer is Kookmin Bank. The Issuer is registered in Korea and incorporated with limited liability under the laws of Korea (registration number: 110111-2365321) and operates pursuant to the Bank Act and the Bank of Korea Act of 1950, as amended (the "**Bank of Korea Act**"), as well as regulations and supervision of the BOK, the BOK's Monetary Policy Committee (the "**MPC**"), Financial Services Commission (the "**FSC**") and its executive body, the FSS. The Issuer's registered office and corporate headquarters are located at 84, Namdaemoon-ro, Jung-gu, Seoul 100-703, Korea (telephone: +(822) 2073-7114).

Structure Overview

- *Programme:* Under the terms of the Programme, the Issuer will issue Covered Bonds on each Issue Date. The Covered Bonds will constitute unsubordinated obligations of the Issuer and rank *pari passu* among themselves. It is the Issuer's intention to use the Programme as a funding platform to issue Covered Bonds pursuant to and in reliance on Rule 144A and Regulation S of the Securities Act.

- *Priority of claims:* By virtue of the priority established by the Korean Covered Bond Laws, the Priority Payment Right Holders will have exclusive prioritised claims over the Cover Pool that will rank ahead of all other claims against the Cover Pool assets. The priority of claims among the Priority Payment Right Holders in respect of the Cover Pool for the periods (i) prior to the service of an Issuer EOD Notice, (ii) following the service of an Issuer EOD Notice but prior to the service of an Acceleration Notice and (iii) following the service of an Acceleration Notice are each established among the Priority Payment Right Holders pursuant to the Establishment Deed. See "*Summary of the Principal Documents – Establishment Deed – Cover Pool Priority of Payments*". Prior to the service of an Issuer EOD Notice, the Issuer may withdraw cash standing to the credit of the Transaction Account on each Korean Business Day provided that the conditions to such daily cash release are satisfied. See "*Summary of the Principal Documents – Establishment Deed – Payments and Cash Release*".

- *Single Cover Pool:* All Covered Bonds issued by the Issuer under the Programme and the Priority Payment Right Holders have, and will have, the benefit of a statutory preference under the Korean Covered Bond Laws over a single Cover Pool. The Cover Pool from time to time will consist of Underlying Assets comprising Mortgage Loans (and, if added by the Issuer to the Cover Pool to satisfy the Pre-Maturity Test, Underlying Assets other than (i) residential mortgage loans or (ii) loans secured by vessels or aircraft), Liquid Assets and Other Assets in compliance with the Korean Covered Bond Laws. The Cover Pool was established on the Initial Filing Date.

- *Priority among the Priority Payment Right Holders:* The Korean Covered Bond Laws provide that holders of Covered Bonds ("**Covered Bondholders**" or "**holders of Covered Bonds**"), Swap Providers, the Asset Monitor, the Trustee, the Agents and the Account Bank are all Priority Payment Right Holders, with a *pari passu*, priority claim over the assets in the Cover Pool. However, pursuant to the Establishment Deed, the Master Definitions Agreement and the Swap Agreements, each Priority Payment Right Holder will agree that the payment claims of certain Priority Payment Right Holders will rank ahead of the claims of other Priority Payment Right Holders, in accordance with the applicable Cover Pool Priority of Payments. In particular, the claims of the Trustee, Agents, Asset Monitor, Account Banks and in certain cases termination payments due to Swap Providers will rank ahead of the claims of the Covered Bondholders, following the service of an Issuer EOD Notice and/or the service of an Acceleration Notice on the Issuer.

- *Mortgage Loans:* The Mortgage Loans in the Cover Pool comprise solely of residential mortgage loans secured by a first-ranking priority mortgage, the Obligors of which are not subject to insolvency proceedings and secured over a residential property located in Korea. In accordance with the Korean Covered Bond Laws, the Mortgage Loans will be subject to 70 per cent. or lower loan-to-value ratio.

- *Cover Pool Accounts:* On or before the Initial Filing Date, the Issuer will open and maintain a Transaction Account to deposit collections related to the Cover Pool and a Swap Cash Collateral Account to deposit Swap Collateral related to the Cover Pool, each in the name of the Issuer but indicating the Cover Pool in the account name, and initially established at Kookmin Bank as the Transaction Account Bank (in the case of the Transaction Account) or as the Reserve Account Bank (in the case of the Swap Cash Collateral Account). If required pursuant to the Transaction Documents, the Issuer will also open and maintain the following accounts to hold cash and securities related to the Cover Pool: a Reserve Cash Account, a Reserve Securities Account and one or more Swap Securities Collateral Accounts and Swap Cash Collateral Accounts, each in the name of the Issuer but indicating the Cover Pool in the account name, and established at Kookmin Bank as the Reserve Account Bank (in the case of the Reserve Cash Account and Swap Cash Collateral Accounts), at the Securities Depositary (in the case of the Reserve Securities Account) and at the Securities Depositary or Euroclear (in the case of Swap Securities Collateral Accounts).

- *Collections:* For so long as any Covered Bonds have been issued by the Issuer under the Programme and remain outstanding, collections from the Mortgage Loans in the Cover Pool will be paid into the general collection account of the Issuer and transferred by the Issuer to the Transaction Account within one Korean Business Day of collection until the Issuer (or the Asset Monitor on its behalf) opens a replacement Transaction Account following the occurrence of certain Transaction Account Bank Termination Events. Upon the opening of a replacement Transaction Account, the Issuer (or the Asset Monitor on its behalf) will use its best efforts to, by the day that such replacement Transaction Account is opened, send notices to the automatic debit banks of the Borrowers and the KFTC to direct all future payments from each Borrower in respect of Mortgage Loans in the Cover Pool to the replacement Transaction Account. If the Issuer fails to serve such notices within five Korean Business Days of the date on which the replacement Transaction Account has been opened, the Asset Monitor will execute and serve such notices.

- *Servicing:* The Issuer will service the Mortgage Loans until the occurrence of a Servicer Replacement Event. Following the occurrence of a Servicer Replacement Event, the Asset Monitor may, if it deems appropriate in its sole discretion to ensure continued servicing of the Mortgage Loans and to maintain the ratings of the Covered Bonds, request that the Issuer and the Asset Monitor jointly appoint a Replacement Servicer to service the Mortgage Loans (or appoint such Replacement Servicer itself if no joint appointment is made within the specified period).

- *Overcollateralisation:* The Korean Covered Bond Laws require that the total value of the Cover Pool at all times must exceed 105 per cent. of the aggregate outstanding principal amount of all Covered Bonds issued under the Programme together with all interest accrued on such Covered Bonds. The Issuer's intention is to maintain an amount of overcollateralisation that exceeds the requirements of the Korean Covered Bond Laws. Moody's and Fitch also expect a minimum level of overcollateralisation to be maintained in order to give a rating of "Aa1" and "AA+", respectively. However, there is no obligation on the Issuer to maintain a particular rating with respect to the Covered Bonds.

- *Asset Coverage Test:* The Asset Coverage Test is intended to ensure that, prior to the service of an Issuer EOD Notice, the value of the Cover Pool is sufficient to make scheduled payments of interest and principal on the Covered Bonds if the Issuer were to default on its payment obligations under the Covered Bonds. For so long as any Covered Bonds have been issued by the Issuer under the Programme and remain outstanding, as of each Calculation Date prior to the earlier to occur of (a) an Issuer Event of Default or (b) the Calculation Date from which the Amortisation Test is required to be satisfied, the Asset Coverage Test will be performed by the Issuer to confirm if on each Calculation Date, the Adjusted Aggregate Loan Amount of the Cover Pool will be in an amount at least equal to the KRW Equivalent of the aggregate principal amount outstanding of the Covered Bonds as calculated on that Calculation Date. The Asset Coverage Test will be monitored from time to time by the Asset Monitor. See "*Summary of the Principal Documents – Asset Monitor Agreement – Testing of Asset Coverage Test and the Required Collaterisation Ratio*". Subject as provided in the next sentence, non-compliance with the Asset Coverage Test does not constitute the occurrence of an Issuer Event of Default or a Covered Bond Event of Default, but it will prevent the Issuer from issuing any further Covered Bonds as long as it remains unremedied. Failure by the Issuer to cure a non-compliance with the Asset Coverage Test on or before the second Calculation Date after such breach will constitute an Issuer Event of Default. See "*Summary of the Principal Documents – Establishment Deed – Asset Coverage Test*".

- *Amortisation Test:* The Amortisation Test is intended to test, on a monthly basis, following the service of an Issuer EOD Notice (but prior to the service of an Acceleration Notice on the Issuer), the asset coverage of the Cover Pool in respect of the Covered Bonds. The Amortisation Test will be performed by the Asset Monitor to confirm if on each Calculation Date, the Amortisation Test Adjusted Aggregate Loan Amount of the Cover Pool as of such Calculation Date is at least equal to the KRW Equivalent of the aggregate outstanding principal amount of all the Covered Bonds as of such Calculation Date. A failure to bring the Cover Pool into compliance with the Amortisation Test within 30 days of such breach will result in the occurrence of a Covered Bond Event of Default. See "*Summary of the Principal Documents – Asset Monitor Agreement – Amortisation Test*".

- *Pre-Maturity Test:* Each Series of Hard Bullet Covered Bonds is subject to the Pre-Maturity Test on each Korean Business Day during the Pre-Maturity Test Period for that Series of Hard Bullet Covered Bonds prior to the occurrence of an Issuer Event of Default. The Pre-Maturity Test is intended to provide liquidity for such Covered Bonds when the Issuer ceases to have the minimum required ratings applicable to the Pre-Maturity Test (being as of the date of this Base Prospectus, (i) a short-term counterparty risk assessment rating, or, if such short-term counterparty risk assessment rating in respect of the Issuer is not available, a senior unsecured rating or an issuer rating, of at least "P-1" by Moody's; and (ii) a short-term issuer default rating of at least "F1" by Fitch) within the Pre-Maturity Test Period of such Covered Bonds, where the Issuer is required to add certain Pre-Maturity Liquidity Assets (being Liquid Assets and/or Underlying Assets (other than residential mortgage loans or loans secured by vessels or aircraft) as permitted under the Korean Covered Bond Laws) to the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and/or of the Reserve Securities Account, with the intention that the aggregate Pre-Maturity Liquidity Assets Value on each relevant Pre-Maturity Test Date will at least be equal to the Pre-Maturity Test Cure Requirement, subject to the Maximum Liquid Assets Requirement in accordance with the Korean Covered Bond Laws. An Issuer Event of Default will occur if (1) the Pre-Maturity Test in respect of any Series of Hard Bullet Covered Bonds is breached during the Pre-Maturity Test Period of such Series of Hard Bullet Covered Bonds and the Issuer does not add Pre-Maturity Liquidity Assets to the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and/or of the Reserve Securities Account with a Pre-Maturity Liquidity Assets Value at least equal to the Series Required Redemption Amount on or before the Series Required Redemption Amount Cut-off Date, except where the Pre-Maturity Test Cure

Requirement is satisfied in respect of all Series of Hard Bullet Covered Bonds which are scheduled to mature within 12 months of such Pre-Maturity Test Date on or prior to the Series Required Redemption Amount Cut-off Date, or (2) in relation to all PMT Ongoing Test Series, the Issuer fails to add Pre-Maturity Liquidity Assets to the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and/or of the Reserve Securities Account with a Pre-Maturity Liquidity Assets Value at least equal to the PMT Shortfall Amount (if any) in respect of a PMT Shortfall Valuation Date on or before the immediately succeeding PMT Shortfall Valuation Date, except where the Pre-Maturity Test Cure Requirement is satisfied on any Pre-Maturity Test Date during the period from the date of determination of such PMT Shortfall Amount to (and including) such immediately succeeding PMT Shortfall Valuation Date. The Issuer's obligations to add Pre-Maturity Liquidity Assets to the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and/or of the Reserve Securities Account shall be subject always to the Maximum Liquid Assets Requirement. For the avoidance of doubt, if the Issuer is at any time restricted from adding further Liquid Assets to the Cover Pool due to the Maximum Liquid Assets Requirement, the Issuer shall add other Pre-Maturity Liquid Assets to the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and/or of the Reserve Securities Account. See "*Summary of the Principal Documents – Establishment Deed – Pre-Maturity Liquidity*".

- *Reserve Fund:* If the Issuer ceases to have the minimum required ratings for the purpose of the Reserve Fund (being as of the date of this Base Prospectus (i) a long-term counterparty risk assessment rating, or, if such long-term counterparty risk assessment rating in respect of the Issuer is not available, a senior unsecured rating or an issuer rating, of at least "A2" by Moody's; and (ii) a short-term issuer default rating of at least "F1" by Fitch, and (iii) a long-term issuer default rating of at least "A" by Fitch), the Issuer will be required to fund the Reserve Ledger of the Reserve Cash Account with the Reserve Fund Required Amount.

- *Issuer Event of Default:* The Issuer Events of Default are set out in Condition 10(a). If an Issuer Event of Default occurs and the Trustee serves an Issuer EOD Notice on the Issuer, then a Cause of Disposal Event will occur and the Asset Monitor will carry out its duties and exercise its rights in connection with such Cause of Disposal Event pursuant to the Korean Covered Bond Laws, the Establishment Deed and the Asset Monitor Agreement.

- *Covered Bond Event of Default:* The Covered Bond Events of Default are set out in Condition 10(b). If a Covered Bond Event of Default occurs and the Trustee serves an Acceleration Notice on the Issuer, all Covered Bonds will immediately become due and repayable at their Final Redemption Amount (if applicable) together with accrued interest and all Swaps will terminate. In addition, a Cause of Disposal Event will occur and the Asset Monitor will carry out its duties and exercise its rights in connection with such Cause of Disposal Event pursuant to the Korean Covered Bond Laws, the Establishment Deed and the Asset Monitor Agreement. The Asset Monitor may, among other things, to the extent not already disposed of following the service of an Issuer EOD Notice, dispose of all or part of the Cover Pool and apply any cash and assets of the Cover Pool in accordance with the Cover Pool Priority of Payments.

- *Disposal of the Cover Pool:* Following the occurrence of a Cause of Disposal Event, the Issuer shall send fixed-date stamped Perfection Notices to the Borrowers of the Mortgage Loans in the Cover Pool notifying them of the registration of the Mortgage Loans as part of the Cover Pool and of the Asset Monitor's rights to dispose of the Cover Pool, and if the Issuer fails to do so within the specified period, the Asset Monitor may, if it deems appropriate in its sole discretion, send such notices itself. The Asset Monitor may also manage, maintain and/or dispose of the Cover Pool (including manage amounts receivable and payable in respect of the Cover Pool or the Priority Payment Rights) following a Cause of Disposal Event.

- *Covered Bond Swaps:* The Issuer will, in respect of each Series of Covered Bonds, enter into a Swap Agreement with a Swap Provider and the Trustee and enter into one or more Swaps in relation to such Series or Tranche (as applicable) of Covered Bonds at the time such Covered Bonds are issued, provided that the Issuer may agree with the relevant Swap Provider in respect of one or more Swaps that no cash flow will be exchanged under the relevant Swaps unless and until the Contingent Swap Effective Date has occurred (each such Swap, a "**Contingent Swap**"). Such Swap(s) will be entered into to provide a hedge against certain currency risks in respect of amounts received by the Issuer under the Underlying Assets and amounts payable by the Issuer under the Covered Bonds of that Series. Under the Swap(s) on the relevant Issue Date (other than any Contingent Swaps), the Issuer will pay to the Swap Provider the amount received by the Issuer in respect of the issue of the relevant Series or Tranche, as applicable, of Covered Bonds, and in return the Swap Provider will pay an amount equal to the KRW Equivalent of the applicable issue proceeds. Thereafter (subject, in the case of any Contingent Swap, to the occurrence of the Contingent Swap Effective Date), the Swap Provider will pay to the Issuer on or immediately prior to each Interest Payment Date amounts equivalent to the amounts that would be payable by the Issuer in respect of interest and principal payable under the relevant Series or Tranche of Covered Bonds. In return, (subject, in the case of any Contingent Swap, to the occurrence of the Contingent Swap Effective Date) the Issuer will pay to the Swap Provider on each Interest Payment Date an amount in Won calculated by reference to the relevant interest rate determined for the relevant Interest Period in accordance with the Swap and the KRW Equivalent of any principal due in respect of the relevant Series or Tranche of Covered Bonds.

- *Risk Factors:* An investment in the Covered Bonds involves a degree of risk. Prospective investors should carefully consider the risks set forth under "*Risk Factors*" below and the other information contained in this Base Prospectus prior to making any investment decision with respect to the Covered Bonds. The risks described under "*Risk Factors*" below could have a material adverse effect on the Issuer's ability to fulfil its obligations under the Covered Bonds. Additional risks and uncertainties, including those of which the Issuer's management is not currently aware or currently deems immaterial, may also potentially have an adverse effect on the Issuer's ability to fulfil its obligations under the Covered Bonds or may result in other events that could cause investors to lose all or part of their investment.

- *Further information:* For a more detailed description of the transactions summarised above relating to the Covered Bonds see, amongst other relevant sections of this Base Prospectus, "*Business*", "*Terms and Conditions of the Covered Bonds*", "*The Korean Residential Mortgage Industry*", "*Summary of the Principal Documents*" and "*Summary of Korean Legislation Regarding Covered Bonds*" below.

OVERVIEW OF THE PROGRAMME

The following description does not purport to be complete and is qualified in its entirety by the remainder of this Base Prospectus. Words and expressions defined in the "Terms and Conditions of the Covered Bonds" below or elsewhere in this Base Prospectus have the same meanings in this overview.

Issuer:	Kookmin Bank acting through its principal office in Korea.
Description:	U.S.$8,000,000,000 Global Covered Bond Programme.
Arranger:	BNP Paribas
Dealers:	BNP Paribas, Barclays Bank PLC, Citigroup Global Markets Inc., Commerzbank Aktiengesellschaft, J.P. Morgan Securities plc, Société Générale and Standard Chartered Bank and others as appointed by the Issuer for a specific issue of Covered Bonds.
Trustee:	BNY Mellon Corporate Trustee Services Limited
Issuing and Paying Agent:	The Bank of New York Mellon, London Branch
Registrar:	The Bank of New York Mellon (Luxembourg) S.A. / The Bank of New York Mellon
Asset Monitor:	Deloitte Anjin LLC
Swap Providers:	As appointed under a Swap Agreement by the Issuer for a specific Series of Covered Bonds.
Transaction Account Bank and Reserve Account Bank:	The Issuer, acting through its principal office in Korea.
Programme Size:	The aggregate principal amount of Covered Bonds outstanding at any time will not exceed U.S.$8,000,000,000 (or its equivalent in another currency calculated as described herein). The Programme size may be increased from time to time without the consent of the holders of Covered Bonds, provided that the outstanding principal amount of the Covered Bonds under the Korean Covered Bond Laws will, at all times, be subject to the limitations on the outstanding principal amount of the Covered Bonds under the Korean Covered Bond Laws.
Currencies:	Any currency agreed between the Issuer, the Arranger and the relevant Dealer(s), subject to any applicable legal or regulatory restrictions (a "**Specified Currency**").

Status:	The Covered Bonds are unsubordinated obligations issued in accordance with the Act on Issuance of Covered Bonds (the "**Korean Covered Bond Act**") and the enforcement decree for the Korean Covered Bond Act (the "**Enforcement Decree**") and supervision regulation on issuance of covered bonds issued by the FSC under the authority conferred on it by the Korean Covered Bond Act (the "**Regulation**") related thereto as the same may be supplemented, amended, modified or varied from time to time (together, the "**Korean Covered Bond Laws**") and rank *pari passu* among themselves and with all other obligations of the Issuer that have been given prioritised claim over the Cover Pool pursuant to the Korean Covered Bond Laws and given the same priority as the Covered Bonds pursuant to the Establishment Deed. To the extent that claims of the Covered Bondholders are not met out of the Cover Pool in accordance with the Korean Covered Bond Laws and the Establishment Deed, the residual claims will rank *pari passu* with the unsecured and unsubordinated obligations of the Issuer. See also "*Summary of Korean Legislation Regarding Covered Bonds.*"
Maturities:	Such maturities as may be agreed between the Issuer, the Arranger and the relevant Dealer(s), subject to such minimum or maximum maturity as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	The Covered Bonds may be issued at par, or at a discount to, or at a premium over, par as specified in the relevant Final Terms. The price and amount of the Covered Bonds to be issued will be determined by the Issuer, the Arranger and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.
Form of Covered Bonds:	The Covered Bonds may be issued in bearer (the "**Bearer Covered Bonds**") or registered form (the "**Registered Covered Bonds**"). Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds and vice versa. Unless otherwise specified in the applicable Final Terms, the Covered Bonds offered in the United States to QIBs in reliance on Rule 144A will be represented by one or more Restricted Global Certificates and the Covered Bonds offered outside the United States in reliance on Regulation S will be represented by one or more Unrestricted Global Certificates (if in registered form) or Global Covered Bonds (if in bearer form). Copies of the Restricted Global Certificates, Unrestricted Global Certificates and Global Covered Bonds will be available for inspection at the specified office of the Issuing and Paying Agent.

	Restricted Global Certificates representing the Covered Bonds will be held by or on behalf of DTC for the benefit of participants in DTC. Unrestricted Global Certificates representing the Covered Bonds will either (i) be held by or on behalf of DTC for the benefit of participants in DTC or (ii) be registered in the name of a nominee for, and deposited with, the Common Depositary. Global Covered Bonds representing the Covered Bonds will be deposited with the Common Depositary, each as specified in the relevant Final Terms. After the Programme Date, the Issuer may (without the consent of the existing Covered Bondholders) modify Transaction Documents to provide for the issuance of Series or Tranches of Covered Bonds in the form of *Namensschuldverschreibungen* ("**N Bonds**"). The terms and conditions of the N Bonds would be governed by German law, except that Condition 3 (*Status*) will be governed by, and construed in accordance with, Korean law. The N Bonds would not be listed or traded on any stock exchange, but would be issued in registered form and placed privately with certain eligible investors. The N Bonds would constitute "Covered Bonds" issued under the Programme, ranking *pari passu* with all other Covered Bonds issued from time to time. See further "*Risk Factors – The Trustee may agree to modifications to the Transaction Documents without Covered Bondholders' prior consent*".
Denomination of Covered Bonds:	Covered Bonds will be issued in such denominations as may be specified in the relevant Final Terms, subject to (i) a minimum denomination of U.S.$200,000 (or, in the case of Covered Bonds not denominated in U.S. dollars, the equivalent thereof in such foreign currency, rounded down to the nearest 1,000 units of such foreign currency, but so that in no event will the minimum denomination be lower than €100,000 or its equivalent at the date of issue of the relevant Covered Bonds) and integral multiples of U.S.$1,000 (or, in the case of Covered Bonds not denominated in U.S. dollars, 1,000 units of such foreign currency) in excess thereof; and (ii) compliance with all applicable legal and/or regulatory and/or central bank requirements.
Interest:	Covered Bonds may be issued as fixed rate or floating rate, as provided in the relevant Final Terms.
Interest Payments:	Interest may be paid monthly, quarterly, semi-annually, annually or at such other intervals as are described in the applicable Final Terms.

Redemption:	The applicable Final Terms will indicate the scheduled maturity date of the Covered Bonds (the "**Maturity Date**"). The Covered Bonds are redeemable at par as specified in the relevant Final Terms. Early redemption of the Covered Bonds will be permitted for taxation reasons. Early redemption at the option of the Issuer or at the option of the holder of the Covered Bond will otherwise be permitted only to the extent specified in the relevant Final Terms. Covered Bonds denominated in Sterling may not be redeemed prior to one year and one day from the date of issue unless the redemption value of each such Covered Bond is not less than £100,000.
Extended Maturity Date:	The applicable Final Terms may provide that an Extended Maturity Date will apply to the relevant Series of Covered Bonds. As regards to redemption of Covered Bonds to which an Extended Maturity Date so applies, if the Issuer fails to redeem all of the relevant Series of Covered Bonds in full on the Maturity Date or within 10 days thereafter, the maturity of the Covered Bonds and the date on which such Covered Bonds will be due and payable for the purposes of the Conditions will be automatically extended up to but no later than the Extended Maturity Date, subject as otherwise provided in the applicable Final Terms. The Issuer (or, if an Issuer EOD Notice has been served on the Issuer, the Asset Monitor on behalf of the Issuer) shall give notice to the holders of Covered Bonds and to the Trustee, the Paying Agents and the Rating Agencies in writing at least five Business Days prior to the Maturity Date of the Series of Covered Bonds confirming whether or not it intends to redeem all or any of the principal amount outstanding in respect of such Series of Covered Bonds on the Maturity Date or within 10 days thereafter. In that event, the Issuer may redeem all or any part of the principal amount outstanding of the Covered Bonds on any Interest Payment Date falling after the Maturity Date up to and including the Extended Maturity Date or as otherwise provided for in the applicable Final Terms. In the event of the extension of the maturity as described above, the Covered Bonds will bear interest on the principal amount outstanding of the Covered Bonds from (and including) the Maturity Date to (but excluding) the earlier of the Interest Payment Date after the Maturity Date on which the Covered Bonds are redeemed in full or the Extended Maturity Date and will be payable in respect of the interest period ending immediately prior to the relevant Interest Payment Date in arrear or as otherwise provided for in the applicable Final Terms on each Interest Payment Date after the Maturity Date at the rate provided for in the applicable Final Terms.

	In the case of a Series of Covered Bonds to which an Extended Maturity Date applies, those Covered Bonds may be issued as fixed rate or floating rate in respect of the period from (and including) the Issue Date to (but excluding) the Maturity Date; and will be issued as floating rate in respect of the period from (and including) the Maturity Date to (but excluding) the Extended Maturity Date as set out in the applicable Final Terms.
Taxation:	All payments in respect of the Covered Bonds will be made without withholding or deduction for or on account of Korean withholding taxes unless required by law. If such withholdings are required by Korean law, the Issuer will in certain circumstances pay certain additional amounts as described in, and subject to exceptions set out in, Condition 7.
Further Issues:	Subject as provided in Conditions 10(c) and 15 and the satisfaction of other relevant requirements under the Korean Covered Bond Laws and the Transaction Documents, the Issuer may from time to time, without the consent of the Covered Bondholders of Covered Bonds of any Series, create and issue further securities having the same terms and conditions as any Series of Covered Bonds in all respects (or in all respects except for the amount of the first payment of interest, if any, on them), which will be consolidated and form a single Series with the outstanding Covered Bonds of such Series, regardless of whether such further Covered Bonds are issued with the same amount of original issue discount as the original Covered Bonds for U.S. federal income tax purposes and even if doing so may adversely affect the value of the outstanding Covered Bonds.
Issuer Events of Default:	As set out in Condition 10(a) (*Issuer Events of Default*).
Covered Bond Events of Default:	As set out in Condition 10(b) (*Covered Bond Events of Default*).
Cross Default and Other Events of Default:	None of the Covered Bonds will accelerate on an Issuer Event of Default, nor will they accelerate automatically on a Covered Bond Event of Default.

	If an Issuer Event of Default occurs and the Trustee serves an Issuer EOD Notice to the Issuer, then the Issuer shall not issue any further Covered Bonds and the Asset Monitor shall, among other things, (i) if the Issuer fails to do so within 15 Korean Business Days following an Issuer EOD Notice, notify Obligors of the registration of the Mortgage Loans as part of the Cover Pool and of the Asset Monitor's rights to dispose of the Cover Pool, (ii) manage, maintain and/or dispose of the Cover Pool (including manage amounts receivable and payable in respect of the Cover Pool or the Priority Payment Rights) and, (iii) (if the Issuer is a Transaction Account Bank and/or Reserve Account Bank) replace the Issuer as Account Bank of the relevant Cover Pool Cash Accounts. All Covered Bonds issued under the Programme will accelerate following a Covered Bond Event of Default (subject to applicable grace periods) if (i) the Trustee exercises its discretion to accelerate, (ii) the Trustee accelerates following a request in writing by the holders of at least 25 per cent. of the aggregate principal amount of the Covered Bonds of all Series then outstanding, as if they were a single Series, or (iii) the Trustee accelerates following an Extraordinary Resolution of the Covered Bondholders of all Series then outstanding. Acceleration by the Trustee as described in (ii) or (iii) above is subject in each case to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction.
Negative Pledge:	None.
Listing and Admission to Trading:	Application has been made to the CSSF in its capacity as competent authority under the Luxembourg Act dated July 10, 2005 relating to prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) for the approval of this document as a base prospectus for the purposes of the Prospectus Directive. Application has also been made to the Luxembourg Stock Exchange for Covered Bonds issued under the Programme during the period of 12 months from date of the approval by the CSSF to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. References in this Base Prospectus to Covered Bonds being "listed" (and all related references) will mean that such Covered Bonds are intended to be admitted to trading on the Luxembourg Stock Exchange's regulated market and are intended to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Investment Services Directive.

	Covered Bonds may also be issued under the Programme on an unlisted basis or be admitted to listing, trading and/or quotation by other stock exchanges, listing authorities and/or quotation by other stock exchanges, listing authorities and/or quotation systems, and the Final Terms applicable to a Series will specify whether or not the Covered Bonds of such Series have been admitted to trading on the regulated market of the Luxembourg Stock Exchange or admitted to listing, trading and/or quotation by any other stock exchange, listing authority and/or quotation system.
Governing Law:	The Covered Bonds will be governed by, and construed in accordance with, English law, except that Condition 3 (*Status*) will be governed by, and construed in accordance with, Korean law. The Account Bank Agreement and the Asset Monitor Agreement will be governed by, and construed in accordance with, Korean law. All other Transaction Documents will be governed by, and construed in accordance with, English law.
Selling Restrictions:	The Covered Bonds have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold directly or indirectly within the United States or to or for the benefit of U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. In addition, there are certain restrictions on the offer, sale and transfer of the Covered Bonds in the European Economic Area (including the United Kingdom) and such other restrictions as may be required in connection with the offer and sale of a particular Series of Covered Bonds. See "*Subscription and Sale and Transfer and Selling Restrictions*."
ERISA Considerations:	Except as otherwise set forth in the relevant Final Terms, the Covered Bonds may generally be acquired by an "employee benefit plan" (as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**")) that is subject to Title I of ERISA, a "plan" as defined in and that is subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), any entity whose underlying assets include, or are deemed for purposes of ERISA or the Code to include, "plan assets" by reason of such employee benefit plan's or plans' investment in the entity, or a governmental or other employee benefit plan which is subject to any U.S. federal, state or local law, or non-U.S. law, that is substantially similar to Section 406 of ERISA or Section 4975 of the Code ("**Similar Law**"), provided that such purchase and holding of the Covered Bonds will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or other employee benefit plan, a violation of any such Similar Law). Each purchaser and/or holder of the Covered Bonds and each transferee thereof will be deemed to have made certain representations regarding these matters. Potential purchasers should read the sections entitled "*Subscription and Sale and Transfer and Selling Restrictions*" and "*United States ERISA Considerations.*"

Ratings:	As of the date of this Base Prospectus, the Covered Bonds issued under the Programme are expected to be assigned an "Aa1" rating by Moody's and an "AA+" rating by Fitch. The Issuer may also obtain a rating of the Covered Bonds issued under the Programme from one or more other credit rating agencies. However, the Issuer may also issue Covered Bonds that are not rated. Details of the ratings and whether or not the Covered Bonds of any certain Series are rated specifically, will be specified in the applicable Final Terms. The Issuer cannot assure investors that any such ratings will not change in the future. A rating reflects only the views of the relevant rating agency and is not a recommendation to buy, sell or hold the Covered Bonds and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A rating of a certain Series of Covered Bonds to be issued under the Programme, if obtained, will be specified in the applicable Final Terms. The Issuer has no obligation to maintain a particular rating of the Covered Bonds.
Terms and Conditions:	The terms and conditions applicable to each Series will be as agreed between the Issuer, the Arranger and the relevant Dealer(s) at or prior to the time of issuance of such Series, and will be specified in the relevant Final Terms. The terms and conditions applicable to each Series will therefore be those set out in this Base Prospectus, as supplemented, modified or replaced by the relevant Final Terms in relation to each Series.
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Covered Bonds. These are set out under the heading "*Risk Factors.*" Investors should carefully consider these risk factors and all of the information in this Base Prospectus before deciding to buy Covered Bonds.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Covered Bonds issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Covered Bonds issued under the Programme, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with any Covered Bonds for other reasons which may not be considered significant risks by the Issuer based on information currently available to it and which it may not currently be able to anticipate. The risks described below are not the only risks faced by the Issuer. Additional risks and uncertainties, including those not presently known to the Issuer or that it currently believes to be immaterial, could also have a material impact on the Issuer's financial results, businesses, financial condition or liquidity and could, directly or indirectly, adversely affect the ability of the Issuer to pay interest, principal or other amounts on or in connection with any Covered Bonds or to perform any of their respective obligations. For such additional information in respect of the Issuer, prospective investors should consider all such risks and factors and read the detailed information set out elsewhere in this Base Prospectus and any applicable Final Terms to reach their own views prior to making any investment decisions.

RISKS RELATING TO THE ISSUER'S RETAIL CREDIT PORTFOLIO

Future changes in market conditions as well as other factors may lead to increases in delinquency levels of the Issuer's retail loan portfolio.

For most of the recent past, consumer debt has increased significantly in Korea. The Issuer's portfolio of retail loans on a separate basis, including mortgage and home equity loans, increased from ₩103,946 billion as of December 31, 2013 to ₩112,080 billion as of December 31, 2014 and decreased to ₩111,787 billion as of March 31, 2015. As of March 31, 2015, on a separate basis, the Issuer's retail loans represented 50.9 per cent. of the Issuer's total lending. On a separate basis, within the Issuer's retail loan portfolio, the outstanding balance of other consumer loans, which unlike mortgage or home equity loans are often unsecured and therefore tend to carry a higher credit risk, decreased from ₩26,271 billion as of December 31, 2013 to ₩25,124 billion as of December 31, 2014 and decreased to ₩25,038 billion as of March 31, 2015; as a percentage of total outstanding retail loans on a separate basis, such balance has decreased from 25.3 per cent. as of December 31, 2013 to 22.4 per cent. as of December 31, 2014 and as of March 31, 2015. The growth of the Issuer's retail lending business, which generally offers higher margins than other lending activities, contributed significantly to its interest income and profitability in recent years.

The growth of the Issuer's retail loan portfolio, together with adverse economic conditions in Korea and globally in recent years, may lead to further increases in delinquency levels and a deterioration in asset quality. On a separate basis, the amount of the Issuer's non-performing retail loans (defined as those loans that are past due by 90 days or more) decreased from ₩546 billion as of December 31, 2013 to ₩302 billion as of December 31, 2014 and increased to ₩329 billion as of March 31, 2015. However, higher delinquencies in the Issuer's retail loan portfolio in the future will require the Issuer to increase its loan loss provisions and charge-offs, which in turn will adversely affect its financial condition and results of operations.

The Issuer's large exposure to consumer debt means that it is exposed to changes in economic conditions affecting Korean consumers. Accordingly, a rise in unemployment, an increase in interest rates, a deterioration of the real estate market or difficulties in the Korean economy may have an adverse effect on Korean consumers, which could result in reduced growth and further deterioration in the credit quality of the Issuer's retail loan portfolio. See "*Risks Relating to Korea – Unfavourable financial and economic developments in Korea may have an adverse effect on the Issuer*." In order to minimise the Issuer's risk as a result of such exposure, the Issuer is continuing to strengthen its risk management processes, including further improving the retail lending process, upgrading its retail credit rating system, as well as strengthening the overall management of its portfolio. Despite the Issuer's efforts, however, there is no assurance that it will be able to prevent significant credit quality deterioration in its retail loan portfolio.

In light of adverse conditions in the Korean economy affecting consumers, in March 2009, the FSC requested Korean banks, including the Issuer, to establish a "pre-workout programme," including a credit counselling and recovery service, for retail borrowers with outstanding short-term debt default. Under the pre-workout programme, which has been in operation since April 2009, maturity extensions and/or interest reductions are provided for retail borrowers with total loans of ₩1.5 billion or less (consisting of no more than ₩500 million of unsecured loans and ₩1 billion of secured loans) who are in arrears on their payments for more than 30 days but less than 90 days or for retail borrowers with an annual income of ₩40 million or less who have been in arrears on their payments for more than 30 days on an aggregate basis for the 12 months prior to their application. 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 Korean government (the "**Government**") launched, and requested Korean banks to participate in, a one-time mortgage loan refinancing program aimed at reducing the payment burden on and improving the asset quality of outstanding mortgage loans. Under such refinancing program, over 34 million qualified retail borrowers converted their outstanding short-term non-amortising floating-rate mortgage loans from Korean commercial banks (including the Issuer) into long-term amortising fixed-rate mortgage loans with lower interest rates, amounting to an aggregate principal amount of ₩34 trillion for all commercial banks in March 2015. The Issuer's participation in such refinancing program may lead to a decrease in its interest income on its outstanding mortgage loans, as well as in its overall net interest margin. More generally, the Issuer's participation in such initiatives led by the Government to provide financial support to retail borrowers may lead the Issuer to offer credit terms for such borrowers that it would not otherwise offer, in the absence of such initiatives, which may have an adverse effect on the Issuer's results of operations and financial condition, as well as some of the Cover Pool assets which may comprise a portion of the Issuer's retail loan portfolio subject to such pre-workout programme.

RISKS RELATING TO THE ISSUER'S SME LOAN PORTFOLIO

The Issuer has significant exposure to SMEs, and any financial difficulties experienced by these customers may result in a deterioration of the Issuer's asset quality and have an adverse impact on the Issuer.

One of the Issuer's core businesses is lending to SMEs. The Issuer's loans to SMEs increased from ₩69,990 billion as of December 31, 2013 to ₩70,509 billion as of December 31, 2014 and increased to ₩72,817 billion as of March 31, 2015. The Issuer's non-performing loans to SMEs decreased from ₩485 billion as of December 31, 2013 to ₩293 billion as of December 31, 2014 and increased to ₩416 billion as of March 31, 2015, and the non-performing loan ratio for such loans decreased from 0.7 per cent. as of December 31, 2013 to 0.4 per cent. as of December 31, 2014 and increased to 0.6 per cent. as of March 31, 2015. The delinquency ratio for Won currency loans to SMEs is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal or interest payments are overdue by one month or more to (2) the aggregate

outstanding balance of such loans. The Issuer's delinquency ratio for such loans decreased from 0.91 per cent. as of December 31, 2013 to 0.58 per cent. as of December 31, 2014 and decreased to 0.49 per cent. as of March 31, 2015. In recent years, the Issuer has taken measures which sought to stem rising delinquencies in its loans to SMEs, including through strengthening the review of loan applications and closer monitoring of the post-loan performance of SME borrowers in industry sectors that are relatively more sensitive to downturns in the economy and have shown higher delinquency ratios, such as construction, hotels, retail and wholesale, restaurants and real estate. Despite such efforts, however, there is no assurance that delinquency levels for the Issuer's loans to SMEs will not rise in the future. In particular, financial difficulties experienced by SMEs as a result of, among other things, adverse economic conditions in Korea and globally in recent years may lead to a deterioration in the asset quality of the Issuer's loans to this segment. Any such deterioration would result in increased charge-offs and higher provisioning and reduced interest and fee income from this segment, which could have a material adverse impact on the Issuer's financial condition and results of operations.

In addition, many SMEs have close business relationships with the largest Korean commercial conglomerates, known as "*chaebols*," primarily as suppliers. Any difficulties encountered by those *chaebols* would likely hurt the liquidity and financial condition of related SMEs, including those to which the Issuer has exposure, also resulting in an impairment of their ability to repay loans.

A substantial part of the Issuer's SME lending comprises loans to SOHOs. SOHOs, which the Issuer currently defines to include sole proprietorships and individual business interests, are usually dependent on a limited number of suppliers or customers. SOHOs tend to be affected to a greater extent than larger corporate borrowers by fluctuations in the Korean economy. In addition, SOHOs often maintain less sophisticated financial records than other corporate borrowers. Although the Issuer continues to make efforts to improve its internally developed credit rating systems to rate potential borrowers, particularly with respect to SOHOs, and intends to manage its exposure to these borrowers closely in order to prevent any deterioration in the asset quality of the Issuer's loans to this segment, the Issuer may not be able to do so as intended.

In light of the deteriorating financial condition and liquidity position of SMEs in Korea since the global financial crisis commencing in the second half of 2008, the Government introduced policies and initiatives intended to encourage Korean banks to provide financial support to SMEs. For example, in November 2008, the Issuer entered into a memorandum of understanding with the FSS under which the Issuer was required to improve the liquidity position of SMEs and exporters by providing them with adequate financing and to endeavor to alleviate burdens on low-income debtors by extending maturity dates or by delaying interest payments on loans owed to the Issuer. In addition, in October 2008, the FSS requested Korean banks, including the Issuer, to establish a "fast track" programme to provide liquidity assistance to SMEs on an expedited basis. Under the fast track programme established by the Issuer, which has been extended until December 31, 2015, the Issuer provides liquidity assistance to qualified SME borrowers applying for such assistance, in the form of new loans or maturity extensions or interest rate adjustments with respect to existing loans, after expedited credit review and approval by the Issuer. The overall prospects for the Korean economy in 2015 and beyond remain uncertain, and the Government may extend or renew existing or past policies and initiatives or introduce new policies or initiatives to encourage Korean banks to provide financial support to SMEs. The Issuer's participation in such Government-led initiatives may lead the Issuer to extend credit to SME borrowers that the Issuer would not otherwise extend, or offer terms for such credit that the Issuer would not otherwise offer, in the absence of such initiatives. Furthermore, there is no guarantee that the financial condition and liquidity position of the Issuer's SME borrowers benefiting from such initiatives will improve sufficiently for them to service their debt on a timely basis, or at all. Accordingly, increases in the Issuer's exposure to SME borrowers resulting from such Government-led initiatives may have a material adverse effect on the Issuer's financial condition and results of operations.

The Issuer has exposure to Korean construction and shipbuilding companies, and financial difficulties of these companies may have an adverse impact on the Issuer.

As of March 31, 2015, on a separate basis, the Issuer had loans outstanding to construction companies and shipbuilding companies (many of which are SMEs) in the amount of ₩3,863 billion and ₩973 billion, or 3.58 per cent. and 0.90 per cent. of its total loans, respectively. The Issuer also has other exposures to Korean construction and shipbuilding companies, including in the form of guarantees extended on behalf of such companies (which included, on a separate basis, ₩726 billion of confirmed guarantees for construction companies and ₩1,208 billion of confirmed guarantees for shipbuilding companies as of March 31, 2015) and debt and equity securities of such companies held by the Issuer. In the case of construction companies, such exposures include guarantees provided to the Issuer by general contractors with respect to financing extended by the Issuer for residential and commercial real estate development projects. In the case of shipbuilding companies, such exposures include refund guarantees extended by the Issuer on behalf of shipbuilding companies to cover their obligation to return a portion of the ship order contract amount to customers in the event of performance delays or defaults under shipbuilding contracts.

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, including as a result of the deterioration of the Korean economy. The shipbuilding industry in Korea has also experienced a severe downturn in recent years due to a significant decrease in ship orders, primarily due to adverse conditions in the global economy and the resulting slowdown in global trade. In response to the deteriorating financial condition and liquidity position of borrowers in the construction and shipbuilding industries, which were disproportionately impacted by adverse economic developments in Korea and globally, the Government implemented a programme in 2009 to promote expedited restructuring of such borrowers by their Korean creditor financial institutions, under the supervision of major commercial banks. In accordance with such programme, 24 construction companies and five shipbuilding companies became subject to workout in 2009, following review by their creditor financial institutions (including the Issuer) and the Government. In addition, in June 2010, the FSC and the FSS announced that, following credit risk evaluations conducted by creditor financial institutions (including the Issuer) of companies in Korea with outstanding debt of ₩50 billion or more, 65 companies had been selected by such financial institutions for restructuring in the form of workout, liquidation or court receivership. Of such 65 companies, 16 were construction companies and three were shipbuilding and shipping companies. In July 2013, the FSC and the FSS announced the results of subsequent credit risk evaluations conducted by creditor financial institutions (including the Issuer) of companies in Korea, in which 40 companies with outstanding debt of ₩50 billion or more (20 of which were construction companies and three of which were shipbuilding and shipping companies) were selected by such financial institutions for restructuring in the form of workout, liquidation or court receivership. However, there is no assurance that these measures will be successful in stabilising the Korean construction and shipbuilding industries.

The allowances that the Issuer has established against its credit exposures to Korean construction and shipbuilding companies may not be sufficient to cover all future losses arising from these and other exposures. If the credit quality of the Issuer's exposures to Korean construction and shipbuilding companies declines further, the Issuer may be required to take substantial additional provisions (including in connection with restructurings of such companies), which could adversely impact its results of operations and financial condition. Furthermore, although a portion of the Issuer's credit exposures to construction and shipbuilding companies are secured by collateral, such collateral may not be sufficient to cover uncollectible amounts in respect of such credit exposures. See "*– Other Risks Relating to the Issuer's Business – A decline in the value of the collateral securing the Issuer's loans and the Issuer's inability to realise full collateral value may adversely affect its credit portfolio*."

The Issuer also has construction-related credit exposures under its 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, Korean banks, including the Issuer, implemented a uniform set of guidelines to apply more stringent criteria in evaluating the asset quality of real estate project financing loans. As a result, the Issuer may be required to establish additional allowances with respect to its outstanding real estate project financing loans, which could adversely affect its financial condition and results of operations.

RISKS RELATING TO THE ISSUER'S STRATEGY

Although increasing its fee income is an important part of the Issuer's strategy, the Issuer may not be able to do so.

The Issuer has historically relied on interest income as its primary revenue source. While the Issuer has developed new sources of fee income as part of its business strategy, the Issuer's ability to increase its fee income and thereby reduce its dependence on interest income will be affected by the extent to which the Issuer's customers generally accept the concept of fee-based services. Historically, customers in Korea have generally been reluctant to pay fees in return for value-added financial services, and their continued reluctance to do so will adversely affect the implementation of the Issuer's strategy to increase its fee income. Furthermore, the fees that the Issuer charges to customers are subject to regulation by Korean financial regulatory authorities, which may seek to implement regulations or measures that may also have an adverse impact on the Issuer's ability to achieve this aspect of the Issuer's strategy.

The Issuer may suffer customer attrition or the Issuer's net interest margin may decrease as a result of its competition strategy.

The Issuer has been pursuing, and intends to continue to pursue, a strategy of maintaining or enhancing its margins where possible and avoid, to the extent possible, entering into price competition. In order to execute this strategy, the Issuer will need to maintain relatively low interest rates on its deposit products while charging relatively higher rates on loans. If other banks and financial institutions adopt a strategy of expanding market share through interest rate competition, the Issuer may suffer customer attrition due to rate sensitivity. In addition, the Issuer may in the future decide to compete to a greater extent based on interest rates, which could lead to a decrease in its net interest margins. Any future decline in the Issuer's customer base or its net interest margins as a result of its future competition strategy could have an adverse effect on the Issuer's results of operations and financial condition.

RISKS RELATING TO COMPETITION

Competition in the Korean banking industry is intense, and the Issuer may lose market share and experience declining margins as a result.

Competition in the Korean financial industry has been and is likely to remain intense. Some of the financial institutions that the Issuer competes with have greater financial resources or more specialised capabilities than the Issuer. In the retail and SME lending business, which has been the Issuer's traditional core business, competition has increased significantly and is expected to increase further, especially given the recent competition from consumer finance companies and other financial institutions in Korea. Most Korean banks have been focusing on retail customers and SMEs in recent years, although they have begun to generally increase their exposure to large corporate borrowers. In addition, the profitability of the Issuer's 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 the Issuer to secure retail and SME customers with the credit quality and on credit terms necessary to achieve the Issuer's business objectives in a commercially acceptable manner.

In addition, the Issuer believes that regulatory reforms and the general modernisation of business practices in Korea will lead to increased competition among financial institutions in Korea. The Issuer also believes that foreign financial institutions, many of which have greater experience and resources than the Issuer, will seek to compete with the Issuer in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the past decade, including Standard Chartered Bank's acquisition of Korea First Bank in 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 February 2012. The Issuer expects that consolidation in the financial industry will continue. Other Korean financial institutions may seek to acquire or merge with such entities, and the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for the Issuer. Increased competition and continuing consolidation may lead to decreased margins, resulting in a material adverse impact on the Issuer's future profitability. Accordingly, the Issuer's results of operations and financial condition may suffer as a result of increasing competition in the Korean financial industry.

RISKS RELATING TO THE ISSUER'S LARGE CORPORATE LOAN PORTFOLIO

The Issuer has exposure to *chaebols*, and, as a result, financial difficulties of *chaebols* may have an adverse impact on the Issuer.

Of the Issuer's 20 largest corporate exposures (including loans, debt and equity securities, guarantees and acceptances and other exposures) as of March 31, 2015 on a separate basis, 15 were to companies that were members of the 41 largest *chaebols* in Korea designated as such by the FSS based on their outstanding exposures. As of that date, on a separate basis, the total amount of the Issuer's exposures to such *chaebols* was ₩19,022 billion, or 7.3 per cent. of the Issuer's total exposures. If the credit quality of the Issuer's exposures to *chaebols* declines, the Issuer could require substantial additional loan loss provisions, which would hurt its results of operations and financial condition. See "*Assets and Liabilities – Loan Portfolio – Exposure to Chaebols*."

The Issuer cannot provide assurance that the allowances it has established against these exposures will be sufficient to cover all future losses arising from these exposures. In addition, with respect to those companies that are in or in the future enter into workout or liquidation proceedings, the Issuer may not be able to make any recoveries against such companies. The Issuer may, therefore, experience future losses with respect to those loans.

The Issuer has exposure to companies that are currently or may in the future be put in restructuring, and the Issuer may suffer losses as a result of additional loan loss provisions required and/or the adoption of restructuring plans with which it does not agree.

As of March 31, 2015, on a separate basis, the Issuer's loans and guarantees to companies that were in workout, restructuring or rehabilitation amounted to ₩789 billion or 0.34 per cent. of the Issuer's total loans and guarantees, most of which were classified as impaired. As of the same date, on a separate basis, the Issuer's allowances for credit losses on these loans and guarantees amounted to ₩456 billion, or 57.8 per cent. of these loans and guarantees. These allowances may not be sufficient to cover all future losses arising from the Issuer's exposure to these companies. Furthermore, the Issuer has other exposure to such companies, in the form of debt and equity securities of such companies held by the Issuer (including equity securities the Issuer acquired as a

result of debt-to-equity conversions). In addition, in the case of borrowers that are or become subject to workout, the Issuer may be forced to restructure its credits pursuant to restructuring plans approved by other creditor financial institutions of the borrower, or to dispose of the Issuer's credits to other creditors on unfavourable terms.

OTHER RISKS RELATING TO THE ISSUER'S BUSINESS

Difficult conditions in the global financial markets could adversely affect the Issuer's results of operations and financial condition.

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, the overall prospects for the Korean and global economy in 2015 and beyond 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 Argentina, Cyprus, Greece, Spain, Italy and Portugal, and the slowdown of economic growth in major emerging market economies. In addition, continuing negotiations regarding Iran's nuclear programme and sanctions adopted by the international community in response, as well as political and social instability in various countries in the Middle East and North Africa, including Iraq, Syria, Egypt and Libya, as well as in the Ukraine and Russia, have resulted in volatility and uncertainty in the global energy markets. Furthermore, in response to China's slowing gross domestic product ("**GDP**") growth rates that began in 2011, the Chinese government has implemented stimulus measures, but the overall impact of such measures remains uncertain. 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 the Issuer's business, financial condition and results of operations.

The Issuer is also exposed to adverse changes and volatility in global and Korean financial markets as a result of the Issuer's liabilities and assets denominated in foreign currencies and the Issuer's holdings of trading and investment securities, including structured products. The value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely in recent years. A depreciation of the Won will increase the Issuer's cost in Won of servicing the Issuer's foreign currency-denominated debt, while continued exchange rate volatility may also result in foreign exchange losses for the Issuer. Furthermore, as a result of adverse global and Korean economic conditions, there has been significant volatility in securities prices, including the stock prices of Korean and foreign companies in which the Issuer holds an interest. Such volatility has resulted in and may lead to further trading and valuation losses on the Issuer's trading and investment securities portfolio as well as impairment losses on its investments accounted for under the equity method, including its non-controlling equity stake in JSC Bank CenterCredit, a Kazakhstan bank, the initial stake in which the Issuer acquired in 2008. See "*Business – Capital Markets Activities and International Banking – International Banking.*"

The Issuer's business may be materially and adversely affected by legal claims and regulatory actions against the Issuer.

The Issuer is subject to the risk of legal claims and regulatory actions in the ordinary course of its business, which may expose the Issuer to substantial monetary damages and legal costs, injunctive relief, criminal and civil penalties, sanctions against the Issuer's management and employees and regulatory restrictions on its operations, as well as significant reputational harm. In particular, commencing in November 2013, the Issuer has been subject to a number of investigations by the FSS and other governmental authorities with respect to alleged issues with the Issuer's internal controls and possible legal violations by the Issuer and its employees.

- In November 2013, the Issuer filed a complaint against the former head and two former employees of its Tokyo Branch for allegedly extending illegal loans under borrowed names. Each of the FSS and the Financial Services Agency of Japan launched an investigation into the allegations.

- In November 2013, the FSS launched an investigation into alleged embezzlement of funds by employees at the Issuer's headquarters, who have since been dismissed, through the presentation for payment of forged Government housing bonds.

- In May 2014, the FSS launched an investigation into a dispute between the Issuer and its holding company, KB Financial Group Inc. ("**KB Financial Group**"), regarding the replacement of the Issuer's main computer system.

In August 2014, the Financial Supervisory Agency of Japan suspended the Issuer from conducting new transactions at its branches in Japan for four months from September 2014 to January 2015. In August and September 2014, the FSS imposed disciplinary sanctions on the Issuer and a number of its officers, directors and employees, including the then chief executive officer of the Issuer. In September 2014, the FSC imposed a disciplinary sanction on the then chief executive officer of KB Financial Group. The chief executive officers of the Issuer and KB Financial Group have since resigned from their posts and have been replaced. In September 2014, the FSC completed its investigation into the Issuer with respect to such allegations. See "*Business – Legal Proceedings*."

In addition, in connection with certain amendments to standard loan policy conditions for mortgage loan agreements that were instituted by the Korea Fair Trade Commission in January 2008 (which require banks to be responsible for the payment of mortgage registration expenses when issuing mortgage loans and which were upheld by the Supreme Court of Korea in August 2010), a number of the Issuer's customers have filed lawsuits in recent years seeking the return of mortgage registration expenses paid by such customers. See "*Business – Legal Proceedings.*"

The Issuer is unable to predict the outcome of these lawsuits and regulatory actions and other investigations, and the total amount in dispute in these matters may increase or the scope of investigation may widen. Furthermore, adverse final determinations, decisions or resolutions in such matters could encourage other parties to bring related claims and actions against the Issuer. Accordingly, the outcome of current and future legal claims, regulatory actions or investigations, particularly those for which it is difficult to assess the maximum potential exposure or the ultimate adverse impact with any degree of certainty, may materially and adversely impact the Issuer's business, reputation, results of operations and financial condition.

The Issuer's risk management system may not be effective in mitigating risk and loss.

The Issuer seeks to monitor and manage its risk exposure through a group-wide risk management platform, encompassing a multi-layered risk management governance structure, reporting and monitoring systems, early warning systems, a centralised credit risk management system for the Issuer's banking operations and other risk management infrastructure, using a variety of risk management strategies and techniques. See "*Risk Management*." However, such risk management strategies and techniques employed by the Issuer and the judgments that accompany their application cannot anticipate the economic and financial outcome in all market environments, and many of the Issuer's risk management strategies and techniques have a basis in historical market behaviour that may limit the effectiveness of such strategies and techniques in times of significant market stress or other unforeseen circumstances. Furthermore, the Issuer's risk management strategies may not be effective in a difficult or less liquid market environment, as other market participants may be attempting to use the same or similar strategies as the Issuer to deal with such market conditions. In such circumstances, it may be difficult for the Issuer to reduce its risk positions due to the activity of such other market participants.

The Issuer is generally subject to Korean corporate governance and disclosure standards, which may differ from those in other countries.

Companies in Korea, including the Issuer, are subject to corporate governance standards applicable to Korean public companies which may differ in some respects from standards applicable in other countries, including the United States. There may also be less publicly available information about Korean companies, such as the Issuer, than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information could result in corporate governance practices or disclosures that are perceived as less than satisfactory by investors in certain countries.

A decline in the value of the collateral securing the Issuer's loans and the Issuer's inability to realise full collateral value may adversely affect its credit portfolio.

A substantial portion of the Issuer's loans is secured by real estate, the values of which have fluctuated significantly in recent years. Although it is the Issuer's general policy to lend up to 40 per cent. to 70 per cent. of the appraised value of collateral (except in areas of high speculation designated by the Government where the Issuer generally limits its lending to between 40 per cent. to 60 per cent. of the appraised value of collateral) and to periodically re-appraise its collateral, the downturn in the real estate market in Korea in recent years has resulted in declines in the value of the collateral securing the Issuer's mortgage and home equity loans. If collateral values decline further in the future, they may not be sufficient to cover uncollectible amounts in respect of the Issuer's secured loans. Any future declines in the value of the real estate or other collateral securing the Issuer's loans, or its inability to obtain additional collateral in the event of such declines, could result in a deterioration in the Issuer's asset quality and may require the Issuer to take additional loan loss provisions.

In Korea, foreclosure on collateral generally requires a written petition to a court. An application, when made, may be subject to delays and administrative requirements that may result in a decrease in the value realised with respect to such collateral. The Issuer cannot guarantee that it will be able to realise the full value on its collateral as a result of, among other factors, delays in foreclosure proceedings and defects in the perfection of its security interest in collateral. The Issuer's failure to recover the expected value of collateral could expose it to losses.

The secondary market for corporate bonds in Korea is not fully developed, and, as a result, the Issuer may not be able to realise the full "marked-to-market" value of debt securities the Issuer holds at the time of any sale of such securities.

As of March 31, 2015, the Issuer held debt securities issued by Korean companies and financial institutions (other than those issued by government-owned or -controlled enterprises or financial institutions, which include Korea Electric Power Corporation, the BOK, Korea Development Bank, Korea Finance Corporation and Industrial Bank of Korea) with a total carrying amount of ₩17,358 billion in the Issuer's trading and investment securities portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates or a deterioration in the financial and economic condition of any particular issuer or of Korea in general. Any of these factors individually or a combination of these factors would require the Issuer to write down the fair value of these debt securities, resulting in impairment losses. Because the secondary market for corporate bonds in Korea is not fully developed, the market value of many of these securities as reflected on the Issuer's statements of financial position is determined by references to suggested prices posted by Korean rating agencies or the Korea Securities Dealers Association. These valuations, however, may differ significantly from the actual value that the Issuer could realise in the event it elects to sell these securities. As a result, the Issuer may not be able to realise the full "marked-to-market" value at the time of any such sale of these securities and thus may incur losses.

The Issuer may be required to make transfers from its general banking operations to cover shortfalls in its guaranteed trust accounts, which could have an adverse effect on its results of operations.

The Issuer manages a number of money trust accounts. Under Korean law, trust account assets of a bank are required to be segregated from the assets of that bank's general banking operations. Those assets are not available to satisfy the claims of a bank's depositors or other creditors of its general banking operations. For some of the trust accounts the Issuer manages, the Issuer has guaranteed either the principal amount of the investor's investment or the principal and a fixed rate of interest.

If, at any time, the income from the Issuer's guaranteed trust accounts is not sufficient to pay any guaranteed amount, the Issuer will have to cover the shortfall first from the special reserves maintained in these trust accounts, then from the Issuer's fees from such trust accounts and finally from funds transferred from the Issuer's general banking operations (but not, for the avoidance of doubt, from the Cover Pool Accounts). As of March 31, 2015, the Issuer had ₩97 billion as special reserves in trust account assets for which the Issuer provided guarantees of principal. There was no transfer from general banking operations to cover deficiencies in guaranteed trust accounts in 2012, 2013, 2014 and the first quarter of 2015. However, the Issuer may be required to make transfers from its general banking operations to cover shortfalls, if any, in its guaranteed trust accounts in the future. Such transfers may adversely impact the Issuer's results of operations.

The Issuer's activities are subject to cybersecurity risk.

The Issuer's activities have been, and will continue to be, subject to an increasing risk of cyber attacks, the nature of which is continually evolving. Cybersecurity risks include unauthorised access to privileged and sensitive customer information, including passwords and account information of the Issuer's retail and corporate customers. For example, many of the Issuer's customers increasingly rely on its Internet banking services as well as its mobile and smartphone banking services for various types of transactions and while such transactions are protected by encryption and other security programmes, they are not free from security breaches. The Issuer has made substantial investments to build systems and defences to address threats from cyber attacks and its monitoring and protection systems have been able to detect and respond to such breaches to date. However, the Issuer may experience security breaches or unexpected disruptions in connection with its services in the future, which may result in liability to its customers and third parties and have an adverse effect on the Issuer's business, reputation and results of operations.

The Issuer may experience disruptions, delays and other difficulties from its information technology systems.

The Issuer relies on its information technology systems for its daily operations including customer service, transactions, billing and record keeping. The Issuer may experience disruptions, delays or other difficulties from its information technology systems, which may have an adverse effect on its business and adversely impact its customers' confidence in it.

RISKS RELATING TO LIQUIDITY AND CAPITAL MANAGEMENT

A considerable increase in interest rates could decrease the value of the Issuer's debt securities portfolio and raise its funding costs while reducing loan demand and the repayment ability of its borrowers, which, as a result, could adversely affect the Issuer.

Interest rates in Korea have been subject to significant fluctuations in recent years. In late 2008 and early 2009, the BOK reduced its policy rate by a total of 325 basis points to support Korea's economy amid the global financial crisis, and left such rate unchanged at 2.00 per cent. throughout 2009. In an effort to stem inflation amid improved growth prospects, the BOK gradually increased its policy rate in 2010 and 2011. However, the BOK reduced its policy rate to 3.00 per cent. in July 2012, 2.75 per cent. in October 2012, 2.50 per cent. in May 2013, 2.25 per cent. in August 2014, 2.00 per cent. in October 2014, 1.75 per cent. in March 2015 and further reduced such rate to 1.50 per cent. in June 2015 to support Korea's economy in light of the recent slowdown in Korea's growth and uncertain global economic prospects. All else being equal, an increase in interest rates leads to a decline in the value of the Issuer's portfolio of debt securities, which generally pay interest based on a fixed rate. A sustained increase in interest rates will also raise the Issuer's funding costs, while reducing loan demand, especially among consumers. Rising interest rates may therefore require the Issuer to rebalance its asset portfolio and its liabilities in order to minimise the risk of potential mismatches and maintain its profitability.

In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of the Issuer's corporate and retail borrowers, which in turn may lead to a deterioration in the Issuer's credit portfolio. Since most of the Issuer's retail and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rate levels will increase the interest costs of the Issuer's retail and corporate borrowers and could adversely affect their ability to make payments on their outstanding loans.

The Issuer's funding is highly dependent on short-term deposits, which dependence may adversely affect the Issuer's operations.

The Issuer meets a significant amount of its funding requirements through short-term funding sources, which consist primarily of customer deposits. As of March 31, 2015, approximately 94.5 per cent. of the Issuer's deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of the Issuer's customer deposits have been rolled over upon maturity. The Issuer cannot guarantee, however, that depositors will continue to roll over their deposits in the future. In the event that a substantial number of the Issuer's short-term deposit customers withdraw their funds or fail to roll over their deposits as higher-yielding investment opportunities emerge, the Issuer's liquidity position could be adversely affected. The Issuer may also be required to seek more expensive sources of short-term and long-term funding to finance its operations. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Liquidity*."

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

Pursuant to the capital adequacy requirements of the FSC, the Issuer is required to maintain a minimum Tier I common equity capital adequacy ratio of 4.0 per cent., Tier I capital adequacy ratio of 5.5 per cent. and combined Tier I and Tier II capital adequacy ratio of 8.0 per cent., on a consolidated basis from January 1, 2014. As of March 31, 2015, the Issuer's Tier I common equity capital, Tier I capital and combined Tier I and Tier II capital adequacy ratios were 14.05 per cent., 14.05 per cent. and 16.37 per cent., respectively, which exceeded the minimum levels required by the FSC. However, the Issuer's capital base and capital adequacy ratios may deteriorate in the

future if its results of operations or financial condition deteriorates for any reason, including as a result of a deterioration in the asset quality of the Issuer's retail loans and loans to SMEs, or if the Issuer is not able to deploy its funding into suitably low-risk assets.

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 May 2013, the FSC announced that major Asian countries have already implemented Basel III in the first quarter of 2013 and that the proposed Basel III measures relating to stricter minimum capital ratio requirements will be implemented in Korea starting from December 1, 2013. In July 2013 and September 2013, the FSC promulgated amended regulations implementing Basel III, pursuant to which Korean banks and bank holding companies 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 December 1, 2013, which minimum ratios increased to 4.5 per cent. and 6.0 per cent., respectively, from January 1, 2015. Such requirements are in addition to the pre-existing requirement for a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8.0 per cent., which remains unchanged. The amended regulations also contemplate an additional capital conservation buffer of 0.625 per cent. starting in 2016, with such buffer to increase in stages to 2.5 per cent. by 2019. The implementation of Basel III in Korea may have a significant effect on the capital requirements of Korean financial institutions, including the Issuer. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Capital Adequacy*."

The Issuer 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, the Issuer may not be able to obtain additional capital on favourable terms, or at all. The Issuer's 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 the Issuer fails to comply with applicable capital adequacy ratio or other regulatory requirements in the future, Korean regulatory authorities may impose penalties on the Issuer ranging from a warning to suspension or revocation of the Issuer's banking licence.

Reductions in the Issuer's credit ratings could, among other things, increase the cost of borrowing funds and may adversely impact the Issuer's ability to raise new funds or refinance maturing debt on commercially acceptable terms.

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

RISKS RELATING TO GOVERNMENT REGULATION AND POLICY

The Government may promote lending and financial support by the Korean financial industry to certain types of borrowers as a matter of policy, which financial institutions, including the Issuer, may decide to follow.

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. The Government has in this manner provided policy loans intended to promote mortgage lending to low-income individuals and lending to SMEs. All loans or credits the Issuer chooses to make pursuant to these policy loans would be subject to review in accordance with its credit approval procedures. However, the availability of policy loans may influence the Issuer to lend to certain sectors or in a manner in which it otherwise would not have done in the absence of such loans from the Government.

In the past, the Government has also announced policies under which financial institutions in Korea are encouraged to provide financial support to particular sectors. For example, in light of the deteriorating financial condition and liquidity position of SMEs in Korea as a result of the global financial crisis commencing in the second half of 2008 and adverse conditions in the Korean economy affecting consumers, the Government introduced measures intended to encourage Korean banks to provide financial support to SMEs and retail borrowers. See " – *Risks Relating to the Issuer's Retail Credit Portfolio – Future changes in market conditions as well as other factors may lead to increases in delinquency levels of the Issuer's retail loan portfolio*" and "– *Risks Relating to the Issuer's SME Loan Portfolio – The Issuer has significant exposure to SMEs, and any financial difficulties experienced by these customers may result in a deterioration of the Issuer's asset quality and have an adverse impact on the Issuer*." The Government may in the future request financial institutions in Korea, including the Issuer, to make investments in or provide other forms of financial support to particular sectors of the Korean economy as a matter of policy, which financial institutions, including the Issuer, may decide to accept. The Issuer may incur costs or losses as a result of providing such financial support.

The FSC may impose burdensome measures on the Issuer if the FSC deems the Issuer to be financially unsound.

If the FSC deems the Issuer's financial condition to be unsound, or if the Issuer fails to meet applicable regulatory standards, such as minimum capital adequacy and liquidity ratios, the FSC may order or recommend, among other things:

- capital increases or reductions, disposal of property holdings or reduction in branch offices and downsizing;
- ban on acquisition of high-risk assets, such as those that give rise to the risk of non-performance of obligations or price fluctuations, or restriction on receipts at exorbitantly high interest;
- assignments of contractual rights and obligations relating to financial transactions;
- suspension of officers' performance of their duties and appointment of receivers;
- stock cancellations;

- mergers with other financial institutions;
- acquisition of the Issuer by a third party; and
- suspensions of a part or all of the Issuer's business operations.

If any of these measures is imposed on the Issuer by the FSC, it could damage the Issuer's business, results of operations and financial condition.

RISKS RELATING TO KOREA

Escalations in tensions with North Korea could have an adverse effect on the Issuer and the market price of the Covered Bonds.

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 future events. In particular, since the death of Kim Jong-il in December 2011, there has been increased uncertainty with respect to the future of North Korea's political leadership and concern regarding its implications for political and economic stability in the region. Although Kim Jong-il's third son, Kim Jong-eun, has assumed power as his father's designated successor, the long-term outcome of such leadership transition remains uncertain.

In addition, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon and long-range missile programmes as well as its hostile military actions against Korea. Some of the significant incidents in recent years include the following:

- In February and March of 2014, North Korea test fired a number of short-range and medium-range missiles from the east coast of the Korean peninsula into the East Sea in apparent protest of annual joint military exercises being held by Korea and the United States.
- In May 2013, North Korea launched several short-range projectiles into waters off its east coast over a three-day period. The Government declared the launches a provocation and urged North Korea to take responsible actions.
- In early April 2013, North Korea blocked access to the inter-Korean industrial complex in its border city of Gaeseong to South Koreans, while the United States deployed nuclear-capable stealth bombers and destroyers to Korean air and sea space.
- 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.

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

North Korea's economy also faces severe challenges. For example, in November 2009, the North Korean government redenominated its currency at a ratio of 100 to 1 as part of a currency reform undertaken in an attempt to control inflation and reduce income gaps. In tandem with the currency redenomination, the North Korean government banned the use or possession of foreign currency by its residents and closed down privately run markets, which led to severe inflation and food shortages. Such developments may further aggravate social and political tensions within North Korea. There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or military hostilities occur, could have a material adverse effect on the Korean economy and on the Issuer's business, financial condition and results of operations and the market price and ratings of the Covered Bonds.

Unfavourable financial and economic developments in Korea may have an adverse effect on the Issuer.

The Issuer is incorporated in Korea, and substantially all of its operations are located in Korea. As a result, the Issuer is subject to political, economic, legal and regulatory risks particular to Korea. 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 the Issuer's 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 U.S. and global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. See "*– Other Risks Relating to the Issuer's Business – Difficult conditions in the global financial markets could adversely affect the Issuer's results of operations and financial condition*." The value of the Won relative to major foreign currencies in general, and the U.S. dollar in particular, has fluctuated greatly. Furthermore, as a result of adverse global and Korean economic conditions, there has been significant volatility in the stock prices of Korean companies in recent years. Future declines in the Korea Composite Stock Price Index (known as the "**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 the Issuer's business, financial condition and results of operations.

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

- difficulties in the financial sectors in Europe and elsewhere and increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;

- 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 Japanese yen exchange rates or revaluation of the Chinese renminbi), interest rates, inflation rates or stock markets;

- 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;

- further decreases in the market price of Korean real estate;

- increasing delinquencies and credit defaults by retail or SME borrowers;

- declines in consumer confidence and a slowdown in consumer spending;

- increasing levels of household debt;

- difficulties in the financial sector in Korea, including the savings bank sector;

- the continued emergence of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China);

- social and labour unrest;

- decrease in tax revenues and substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment benefits and other economic and social programmes that, together, would lead to an increased Government budget deficit;

- financial problems or lack of progress in the restructuring of *chaebols*, other large troubled companies, their suppliers or the financial sector;

- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues concerning certain *chaebols*;

- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;

- the economic impact of any pending or future free trade agreements;

- geo-political uncertainty and risk of further attacks by terrorist groups around the world;

- natural disasters that have a significant adverse economic or other impact on Korea or its major trading partners;

- the occurrence of severe health epidemics in Korea or other parts of the world;

- a 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;

- hostilities or political or social tensions involving oil producing countries in the Middle East and North Africa and any material disruption in the global supply of oil or increase in the price of oil;

- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States; and

- changes in financial regulations in Korea.

Labour unrest in Korea may adversely affect the Issuer's operations.

Economic difficulties in Korea or increases in corporate reorganisations and bankruptcies could result in layoffs and higher unemployment. Such developments could lead to social unrest and substantially increase government expenditures for unemployment benefit and other costs for social programmes. According to statistics from the Korea National Statistical Office, the unemployment rate increased from 3.1 per cent. in 2013 to 3.5 per cent. in 2014. Future increases in unemployment and any resulting labour unrest in the future could adversely affect the Issuer's operations, as well as the operations of many of the Issuer's customers and their ability to repay their loans, and could adversely affect the financial condition of Korean companies in general, depressing the price of their shares. These developments would likely have an adverse effect on the Issuer's financial condition and results of operations.

Any future outbreaks of contagious diseases in Korea and elsewhere in Asia may have a material adverse effect on the Issuer's operations, financial condition and results of operations.

During the first half of 2003, the outbreak of severe acute respiratory syndrome ("**SARS**") caused an adverse effect on the economies of the affected regions in Asia, including Korea. In the last few years, there have also been outbreaks of avian influenza in parts of Asia. In 2009, there were outbreaks among humans of the Human Swine Influenza A ("**H1N1**") virus globally and, on June 11, 2009, the World Health Organization raised its pandemic alert level to Phase 6, its highest level, after considering data confirming the H1N1 outbreak. There were a significant number of confirmed cases of H1N1 in the Asia Pacific region and a number of deaths worldwide. Since May 2015, there has been a number of confirmed cases of Middle East respiratory syndrome ("**MERS**") and several related deaths in Korea.

No assurance can be given that there will not be a recurrence of the outbreak of SARS, avian influenza, H1N1 or other epidemics, or that incidents of MERS will not increase. There can be no assurance that the Issuer's business, financial condition and results of operations would not be adversely affected if another outbreak of SARS, H1N1, avian influenza, MERS or another highly contagious disease occurs.

RISKS RELATING TO THE COVERED BONDS

The Covered Bonds may not be a suitable investment for all investors.

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

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Covered Bonds, the merits and risks of investing in the relevant Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement to this Base Prospectus;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Covered Bonds and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the currency in which such potential investor's financial activities are principally denominated;

- understand thoroughly the terms of the relevant Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Covered Bonds are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Covered Bonds which are complex financial instruments unless it has the expertise (either alone or with the assistance of a financial adviser) to evaluate how the Covered Bonds will perform under changing conditions, the resulting effects on the value of such Covered Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Covered Bonds are legal investments for it, (ii) Covered Bonds can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Covered Bonds under any applicable risk-based capital or similar rules.

The Covered Bonds are obligations of the Issuer only.

The Covered Bonds will constitute obligations of the Issuer which have the benefit of a statutory preference under the Korean Covered Bond Laws on the Cover Pool. An investment in the Covered Bonds involves a reliance on the creditworthiness of the Issuer. The Covered Bonds are not guaranteed by any member of the KB Financial Group or any other person. In particular, the Covered Bonds will not represent an obligation or be the responsibility of any of the Arranger, the Dealers, the Trustee or any other party to the Transaction Documents, their officers, members, directors, employees, security holders or incorporators, other than the Issuer.

In addition, an investment in the Covered Bonds involves the risk that subsequent changes in the actual or perceived creditworthiness of the Issuer may adversely affect the market value or ratings of the relevant Covered Bonds.

The Covered Bonds issued under the Programme that have different terms will rank *pari passu*.

Save in respect of the first issue of Covered Bonds, Covered Bonds issued under the Programme will either be fungible with an existing Series of Covered Bonds or have different terms from an existing Series of Covered Bonds (in which case they will constitute a new Series). The Issuer

may also issue unlisted Covered Bonds and/or Covered Bonds which are not admitted to trading on any regulated or unregulated market. Exempt Covered Bonds will not be issued pursuant to this Base Prospectus and the CSSF has neither approved nor reviewed information contained in this Base Prospectus in connection with exempt Covered Bonds. Exempt Covered Bonds do not form part of this Base Prospectus. As a result, holders of the Covered Bonds issued pursuant to this Base Prospectus should be aware that their claims will rank *pari passu* with holders of Covered Bonds which may be issued in a manner other than pursuant to this Base Prospectus in respect of the Cover Pool assets.

If an Issuer Event of Default occurs and an Issuer EOD Notice is served on the Issuer in respect of a particular Series of Covered Bonds, there will be an Issuer Event of Default in respect of all Series.

If a Covered Bond Event of Default occurs and an Acceleration Notice is served on the Issuer, the Covered Bonds of all Series outstanding will accelerate.

In order to ensure that any further issue of Covered Bonds under the Programme does not adversely affect the existing Covered Bondholders:

- no further covered bonds may be issued under the Programme unless the Issuer has certified to the Trustee that the Asset Coverage Test is satisfied on the previous Interest Calculation Date and will continue to be satisfied after the issue of any further covered bonds; and

- no further covered bonds may be issued under the Programme unless the Issuer has certified to the Trustee that no Issuer Event of Default has occurred or will occur as a result of the issuance of further covered bonds.

However, there is no assurance that the issue of a further Series of Covered Bonds would not be ultimately adverse to the interests of any existing holder of Covered Bonds, because of, for instance, the reduced level of collateralisation in the Cover Pool.

Change of law may affect the Covered Bonds.

The Terms and Conditions of the Covered Bonds are based on English law (except that Condition 3 (*Status*) will be governed by, and construed in accordance with, Korean law) in effect as of the date of issue of the relevant Covered Bonds. The Account Bank Agreement and the Asset Monitor Agreement will be governed by, and construed in accordance with, Korean law, while all other Transaction Documents will be governed by, and construed in accordance with, English law. No assurance can be given as to the impact of any possible judicial decisions or changes to law, administrative practice or tax treatment in the United Kingdom or Korea after the date of issue of the relevant Covered Bonds.

The Korean Covered Bond Act entered into force in December 2013 and, as of the date of this Base Prospectus, there are no precedents as to how the provisions will be interpreted by Korean courts or other judicial authorities. It is uncertain how the Korean Covered Bond Laws will be interpreted or whether changes or amendments will be made to it which will affect Covered Bonds issued under the Programme.

Ratings of the Covered Bonds may be changed at any time and may adversely affect the fair market value of the Covered Bonds.

The Covered Bonds are expected to be rated "Aa1" by Moody's and "AA+" by Fitch upon issuance. The ratings address the likelihood of full and timely payment to the Covered Bondholders of all payments of interest on the Covered Bonds on each Interest Payment Date and

the full and timely payment of principal by the Maturity Date (or, if an Extended Maturity Date is specified, such Extended Maturity Date). Any rating agency may lower its ratings or withdraw its rating if, in the sole judgment of the rating agency, the credit quality of the Covered Bonds has declined or is in question. If any rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may be reduced. A credit rating is not a recommendation to purchase, hold or sell securities and may be subject to revision, suspension or withdrawal at any time.

A credit rating may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above, and other factors that may affect the value of the Covered Bonds. In addition, rating agencies may change their rating methodology from time to time, potentially making it more difficult to maintain a certain credit rating.

If the ratings initially assigned to the Covered Bonds are subsequently lowered or withdrawn for any reason, no person or entity will be obligated to provide any additional credit enhancement with respect to the Covered Bonds. Any reduction or withdrawal of a rating may have an adverse effect on the liquidity and market price of the Covered Bonds. Any reduction or withdrawal of a rating will not constitute an event of default with respect to the Covered Bonds or an event requiring the Issuer to redeem any Covered Bonds. Following the withdrawal of a rating, there is no obligation on any party to procure the re-assessment of a rating to the Covered Bonds.

The Issuer is required under the Korean Covered Bond Laws to maintain at all times a total value of the Cover Pool that exceeds 105 per cent. of the aggregate outstanding principal amount of the Covered Bonds and any interest accrued on such Covered Bonds. However, the ratings of the Covered Bonds (if applicable) are based on an assumption that the Issuer maintains a minimum level of overcollateralisation determined in accordance with the Asset Coverage Test, which exceeds the requirements under the Korean Covered Bond Laws. The level of overcollateralisation that is required for maintaining the ratings of the Covered Bonds (if applicable) may change from time to time. If an Asset Coverage Test Breach Notice has been served on the Issuer and has not been revoked, the Issuer may decide to add further Liquid Assets to the Cover Pool in order to cure the Asset Coverage Test breach on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice and to avoid an Issuer Event of Default. However, there is no obligation on the Issuer to do so or to maintain a particular rating with respect to the Covered Bonds.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the European Union and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-European Union credit rating agencies, unless the relevant credit ratings are endorsed by a credit rating agency registered in the European Union or the relevant non-European Union rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings referred to in this Base Prospectus, is set out in "*Overview of the Programme – Ratings*" of this Base Prospectus.

Rating Agency Confirmation in respect of Covered Bonds.

The terms of the Transaction Documents provide that, in certain circumstances, the Issuer must, and Trustee may, obtain a Rating Agency Confirmation. The terms of the Transaction Documents provide that in the absence of such written confirmation, a Rating Agency Confirmation will be deemed to have been given if (i) the Rating Agency was notified of the proposed action or event and did not express any objection to the relevant action or event within two weeks of being so notified in writing by the Issuer; or (ii) an authorised signatory of the Issuer has certified to the Trustee that the relevant action or event has been notified to the Rating Agencies and, in the Issuer's opinion, would not cause the then current ratings assigned to any outstanding Covered Bonds to be reduced, qualified, suspended or withdrawn by any Rating Agency and, where a Rating Agency was prepared to consult with the Issuer, such opinion is based on such consultation with the relevant Rating Agency.

By acquiring the Covered Bonds, investors will be deemed to have acknowledged and agreed that, notwithstanding the foregoing, a credit rating is an assessment of credit and does not address other matters that may be of relevance to Covered Bondholders, including, without limitation, in the case of a Rating Agency Confirmation, whether any action proposed to be taken by the Issuer, the Trustee or any other party to a Transaction Document is either (i) permitted by the terms of the relevant Transaction Document, or (ii) in the best interests of, or not materially prejudicial to, some or all of the Covered Bondholders. In being entitled to have regard to the fact that the Rating Agencies have confirmed that the then current ratings of the Covered Bonds would not be adversely affected or withdrawn, each of the Issuer, the Trustee, the Covered Bondholders and each other creditor with a prioritised claim to the Cover Pool assets is deemed to have acknowledged and agreed that the above does not impose or extend any actual or contingent liability on the Rating Agencies to the Issuer, the Trustee, any creditor with a prioritised claim to the Cover Pool assets (including the Covered Bondholders) or any other person or create any legal relations between the Rating Agencies and the Issuer, the Trustee, the creditors with a prioritised claim to the Cover Pool assets (including the Covered Bondholders) or any other person whether by way of contract or otherwise.

Any such written confirmation from a Rating Agency constituting a Rating Agency Confirmation may be given or not given at the sole discretion of each Rating Agency. It should be noted that, depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that a Rating Agency cannot provide a Rating Agency Confirmation in the time available or at all, and the Rating Agency will not be responsible for the consequences thereof (including any deemed Rating Agency Confirmation in the absence of such written confirmation). Such confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time, and in the context of cumulative changes to the transaction of which the Covered Bonds form part since the issuance date. A Rating Agency Confirmation represents only a restatement of the opinions given, and is given on the basis that it will not be construed as advice for the benefit of any Covered Bondholders or any parties to the Transaction Documents. Even if a Rating Agency does not object to a proposed action, the relevant action may still have an adverse impact on the then current ratings of the Covered Bonds.

The Covered Bonds are subject to transfer restrictions.

The Covered Bonds will not be registered under the Securities Act or any 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 to QIBs in reliance on the exemption provided by Rule 144A, to certain persons in offshore transactions in reliance on Regulation S, or pursuant to another exemption from, or in another transaction not subject to, the registration requirements of the Securities Act and in

accordance with applicable state securities laws. For a further discussion of the transfer restrictions applicable to the Covered Bonds, see "*Subscription and Sale and Transfer and Selling Restrictions*."

The Covered Bonds may have limited liquidity.

Any Covered Bonds issued under the Programme will constitute a new issue of securities for which there is no existing market. Application has been made to the CSSF in its capacity as competent authority under the Luxembourg Act dated July 10, 2005 relating to prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) for the approval of this document as a base prospectus for the purposes of the Prospectus Directive. Application has also been made to the Luxembourg Stock Exchange for Covered Bonds issued under the Programme during the period of 12 months from date of the approval by the CSSF to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The offer and sale of the Covered Bonds is not conditional on obtaining a listing of the Covered Bonds on the Luxembourg Stock Exchange or any other exchange.

The Covered Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the Covered Bonds. If an active trading market for the Covered Bonds does not develop or is not maintained, the market price and liquidity of the Covered Bonds may be adversely affected. If such a market were to develop, the Covered Bonds could trade at prices that may be higher or lower than the price at which the Covered Bonds are issued depending on many factors, including:

- prevailing interest rates;
- the Issuer's results of operations, financial condition and credit ratings;
- political and economic developments in and affecting Korea;
- the market conditions for similar securities; and
- the financial condition and stability of the Korean financial sector.

Therefore, investors may not be able to sell their Covered Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Covered Bonds that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Covered Bonds generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of the Covered Bonds.

The Covered Bonds may be represented by Global Covered Bonds or Global Certificates and holders of a beneficial interest in a Global Covered Bond or Global Certificate must rely on the procedures of the relevant Clearing System(s).

Covered Bonds issued under the Programme may be represented by one or more Global Covered Bonds or Global Certificates. Such Global Covered Bonds or Global Certificates will be deposited with the Common Depositary for Euroclear and Clearstream, Luxembourg and/or DTC (each of Euroclear, Clearstream, Luxembourg, DTC, a "**Clearing System**"). Except in the circumstances described in the relevant Global Covered Bond or Global Certificate, investors will not be entitled

to receive Definitive Covered Bonds. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Covered Bonds and Certificates. While the Covered Bonds are represented by one or more Global Covered Bonds or Global Certificates, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Covered Bonds are represented by one or more Global Covered Bonds or Global Certificates, the Issuer will discharge its payment obligations under the Covered Bonds by making payments to the relevant Clearing System for distribution to their account holders.

A holder of a beneficial interest in a Global Covered Bond or Global Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Covered Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Covered Bonds or Global Certificates.

The Trustee's powers may affect the interests of the Covered Bondholders.

In the exercise of its powers, trusts, authorities and discretions, the Trustee shall only have regard to the interests of the Covered Bondholders. In the exercise of its powers, trusts, authorities and discretions, the Trustee may not act on behalf of the Issuer.

If, in connection with the exercise of its powers, trusts, authorities or discretions, the Trustee is of the opinion that the interests of the Covered Bondholders would be materially prejudiced thereby, the Trustee shall not exercise such power, trust, authority or discretion without the approval of such Covered Bondholders by Extraordinary Resolution or by a direction in writing of such Covered Bondholders of at least 75 per cent. of the outstanding principal amount of Covered Bonds then outstanding.

The Trustee may agree to modifications to the Transaction Documents without Covered Bondholders' prior consent.

Pursuant to the terms of the Trust Deed the Trustee may, without the consent or sanction of any of the Covered Bondholders, concur with any person in making or sanctioning any modification to the Transaction Documents (including the Conditions of the Covered Bonds):

- provided that (save in relation to a Series Reserved Matter or a modification requiring the consent of the Covered Bondholders under the Korean Covered Bond Laws) the Trustee is of the opinion that such modification will not be materially prejudicial to the interests of any of the Covered Bondholders of any Series; or

- which, in the opinion of the Trustee, is of a formal, minor or technical nature or made to correct a manifest error.

Pursuant to the terms of the Trust Deed the Trustee may also, without the consent or sanction of any of the Covered Bondholders, waive or authorise any breach or proposed breach by the Issuer or any other person of the Transaction Documents (including the Conditions) or determine that an Issuer Event of Default or Covered Bond Event of Default shall not be treated as such, provided that:

- the Trustee is of the opinion that such waiver, authorisation or determination will not be materially prejudicial to the interests of any of the Covered Bondholders of any Series; and

- the Trustee shall not so waive, authorise or determine in contravention of an express direction given by an Extraordinary Resolution or a request made pursuant to Condition 11 (*Meetings of Covered Bondholders, Modification, Waiver and Substitution*).

Prior to the Trustee agreeing to any such modification, waiver, authorisation or determination, the Trustee must have received a legal opinion from a reputable law firm in Korea confirming that in respect of the relevant modification, waiver, authorisation or determination either (a) no consent is required; or that (b) consent has been received, in each case from the FSC, the Ministry of Strategy and Finance of Korea (the "**MOSF**") and/or any other relevant Korean authority.

Notwithstanding the above, the Trustee shall, without the consent of the holders of any of the Covered Bonds, but subject to the other applicable terms of the Trust Deed, be obliged to concur with the Issuer, in making any modifications (other than a modification relating to a Series Reserved Matter or a modification requiring the consent of the Covered Bondholders under the Korean Covered Bond Laws) to the Transaction Documents and the Conditions or in entering into any new documents, whether in its existing capacity as Trustee or in a new capacity, that the Issuer considers necessary; provided that in each case the Trustee has received a legal opinion from a reputable law firm in Korea confirming that in respect of the relevant modification, waiver or authorisation either (x) no consent is required from the FSC, the MOSF and/or any other relevant Korean authority; or that (y) consent has been received from the FSC, the MOSF and/or any other relevant Korean authority:

- for the purpose of maintaining the current rating and complying with, or implementing or reflecting, any change in the criteria of one or more of the Rating Agencies which may be applicable from time to time to maintain that rating, provided that the Issuer certifies in writing to the Trustee that such modification is required solely for such purpose and has been drafted solely to such effect and is necessary to comply with such criteria (including to avoid a downgrade, withdrawal or suspension of the then current rating assigned by each Rating Agency to any Series of Covered Bonds);

- for the purpose of enabling any Series of Covered Bonds to achieve a Moody's rating of "Aaa" and/or a Fitch rating of "AAA", provided that the Issuer certifies in writing to the Trustee that such modification or entry into new documents is required solely for such purpose and has been drafted solely to such effect and is necessary to achieve such a rating;

- for the purpose of making any modification to the Transaction Documents proposed by Issuer in order (i) for a Swap Provider or an Account Bank to remain eligible to perform its role in such capacity in conformity with such criteria and/or (ii) for a Swap Provider or an Account Bank to avoid taking action which it would otherwise be required to take to enable it to continue performing such role (including, without limitation, posting collateral or advancing funds), satisfy such further requirements as set out in the Trust Deed;

- for the purpose of enabling the Covered Bonds issued under the Programme to qualify or to continue to qualify as regulated covered bonds under the Korean Covered Bond Laws and which the Issuer certifies in writing to the Trustee are necessary to comply with the Korean Covered Bond Laws and are required solely for such purpose and have been drafted solely to such effect or, as the case may be, are solely to implement and reflect the Korean Covered Bond Laws;

- for the purpose of enabling the Covered Bonds issued under the Programme or any relevant Transaction Party to comply with any mandatory provisions of law, provided that the Issuer certifies to the Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect;

- for the purpose of enabling the Covered Bonds to be (or to remain) listed on the Luxembourg Stock Exchange, provided that the Issuer certifies to the Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect; or

- for the purpose of enabling the Issuer to issue Covered Bonds in the form of N Bonds under the Programme on the following terms: (i) the terms and conditions of the N Bonds are to be governed by German law (save for Condition 3 (Status), which is to be governed by Korean law); (ii) the N Bonds will not be listed or traded on any stock exchange, but will be issued in registered form on a private placement basis to eligible investors; and (iii) the N Bonds will constitute "Covered Bonds" issued under the Programme, ranking *pari passu* with all other Covered Bonds issued from time to time, provided that the Issuer certifies to the Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect.

However, in no case shall the Trustee be obliged to agree to any modification which, in the sole opinion of the Trustee, would have the effect of (a) exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (b) increasing the obligations or duties, or decreasing the rights or the protection, of the Trustee in the Transaction Documents and/or the Conditions of the Covered Bonds (including the conditions applicable to any N Bonds, if issued).

Covered Bonds subject to optional redemption by the Issuer.

An optional redemption feature is likely to limit the market value of Covered Bonds. During any period when the Issuer may elect to redeem Covered Bonds, the market value of such Covered Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. The Issuer may be expected to redeem Covered Bonds when its cost of borrowing is lower than the interest rate on the Covered Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Covered Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

The Issuer may issue Fixed/Floating Rate Covered Bonds.

Fixed/Floating Rate Covered Bonds may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of such Covered Bonds since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Covered Bonds may be less favourable than then prevailing spreads on comparable Floating Rate Covered Bonds tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on the rest of the Covered Bonds. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on the rest of the Covered Bonds.

Fixed Rate Covered Bonds are subject to interest rate risks.

Investment in Fixed Rate Covered Bonds involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Covered Bonds, this will adversely affect the value of the Fixed Rate Covered Bonds.

Covered Bonds issued at a substantial discount or premium are subject to greater price volatility.

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

There may be extendable obligations under the Covered Bonds.

The applicable Final Terms may provide that an Extended Maturity Date (as defined below) applies to a Series of Covered Bonds.

If an extended Maturity Date (the "**Extended Maturity Date**") so applies and if the Issuer fails to redeem all of the relevant Series of Covered Bonds in full on the Maturity Date or within 10 days thereafter, the maturity of the Covered Bonds and the date on which such Covered Bonds will be due and payable for the purposes of the Conditions will be automatically extended up to but no later than the Extended Maturity Date, subject as otherwise provided in the applicable Final Terms. The Issuer (or, if an Issuer EOD Notice has been served on the Issuer, the Asset Monitor on behalf of the Issuer) shall give notice to the holders of Covered Bonds and to the Trustee, the Paying Agents and the Rating Agencies in writing at least five Business Days prior to the Maturity Date of the Series of Covered Bonds confirming whether or not it intends to redeem all or any of the principal amount outstanding in respect of such Series of Covered Bonds on the Maturity Date, or within 10 days thereafter. In that event, the Issuer may redeem all or part of the principal amount outstanding of the Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date, up to and including the Extended Maturity Date or as otherwise provided for in the applicable Final Terms. In that event also, the Covered Bonds will bear interest on the principal amount outstanding of the Covered Bonds in accordance with the applicable Final Terms.

The extension of the maturity of the principal amount outstanding of the Covered Bonds from the Maturity Date to the Extended Maturity Date will constitute an Issuer Event of Default and a Cause of Disposal Event.

The Covered Bonds may be treated as issued with original issue discount for U.S. federal income tax purposes.

The Covered Bonds may be issued with original issue discount ("**OID**") for U.S. federal income tax purposes. If the stated principal amount of the Covered Bonds exceeds their "issue price" by an amount that is equal to or greater than the statutory *de minimis* amount, the Covered Bonds will be treated as issued with OID for U.S. federal income tax purposes in an amount equal to such difference. If the Covered Bonds are treated as issued with OID for U.S. federal income tax purposes, U.S. investors in such Covered Bonds will generally be required to include OID in their gross income as it accrues in advance of the receipt of cash payments attributable to such income using the constant yield method. See "*Taxation – Certain U.S. Federal Income Tax Considerations – Original Issue Discount*."

Priority Payment Right Holders may rank ahead of the Covered Bondholders.

Pursuant to the Establishment Deed, the Master Definitions Agreement and the Swap Agreements, each Priority Payment Right Holder agrees that the Asset Monitor will apply the Cover Pool assets in accordance with the Cover Pool Priority of Payments, which sets out the order in which the Cover Pool assets will be applied. The Cover Pool Priority of Payments provides that the payment claims of certain Priority Payment Right Holders will rank ahead of the claims of other Priority

Payment Right Holders following the service of an Issuer EOD Notice and/or the service of an Acceleration Notice on the Issuer. In particular, the claims of the Trustee, Agents, Asset Monitor, Account Banks and, in certain cases, termination payments due to Swap Providers will rank ahead of the claims of the Covered Bondholders.

The Covered Bonds with a later Maturity Date or an Extended Maturity Date are subject to more risks.

Under the Cover Pool Priority of Payments, later maturing Series of Covered Bonds (including those in respect of which the repayment of the principal amount outstanding has been extended up to such Extended Maturity Date) may carry more risk than other Series of Covered Bonds with an earlier Maturity Date or Extended Maturity Date, since any overcollateralisation in the Cover Pool will be applied to redeem earlier maturing Series of Covered Bonds as they become due and payable until the service of an Acceleration Notice, following which the amounts outstanding under all Series of Covered Bonds will accelerate and become due and payable and any shortfall in the Cover Pool assets will be divided amongst all such Series of Covered Bonds on a *pro rata* and *pari passu* basis.

Certain decisions of the Covered Bondholders must be taken at Programme level.

Any Extraordinary Resolution to direct the Trustee to serve an Issuer EOD Notice following an Issuer Event of Default or to serve an Acceleration Notice following a Covered Bond Event of Default and any direction to the Trustee to take any enforcement action or to appoint a substitute issuer or to replace the Trustee, in each case must be passed at a single meeting of all the Covered Bondholders of all Series then outstanding. Therefore the holders of a single Series of Covered Bonds may not be able to separately direct the Trustee.

Investors who purchase Covered Bonds in denominations that are an integral multiple of the Specified Denomination may be adversely affected if Definitive Covered Bonds are subsequently required to be issued.

In relation to any issue of Covered Bonds that have denominations consisting of a minimum specified denomination ("**Specified Denomination**") plus one or more higher integral multiples of another smaller amount, it is possible that such Covered Bonds may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case, a Covered Bondholder who, as a result of trading such amounts, holds an amount which (after deducting integral multiples of such minimum Specified Denomination) is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a Definitive Covered Bond in respect of such holding (should Definitive Covered Bonds be printed) and would need to purchase a principal amount of Covered Bonds such that its holding amounts to a Specified Denomination. If such Covered Bonds in definitive form are issued, Covered Bondholders should be aware that Definitive Covered Bonds that have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Covered Bonds are subject to exchange rate risks and exchange controls.

The Issuer will pay principal and interest on the Covered Bonds in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified

Currency would decrease (i) the Investor's Currency-equivalent yield on the Covered Bonds, (ii) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds and (iii) the Investor's Currency-equivalent market value of the Covered Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

There may be potential conflict of interest in connection with the Programme.

The Issuer has a number of roles pursuant to the Programme including, but not limited to, the roles of Issuer and Account Bank, and it also services the Mortgage Loans in the Cover Pool. In respect of the Programme, the Issuer will act in its own interest subject to compliance with the Transaction Documents. Such actions by the Issuer may not be in the best interests of, and may adversely affect, the holders of the Covered Bonds, including by negatively impacting the ability for the Issuer to pay to the holders of the Covered Bonds any principal and/or interest due on the Covered Bonds. Subject to compliance with the Transaction Documents, the Issuer may act in its own interest without incurring any liability to the holders of any Series or Tranche of Covered Bonds.

The Issuer relies on third parties to perform its obligations under the Covered Bonds.

The Issuer has entered into agreements with a number of third parties who have agreed to perform services for the Issuer. In particular, but without limitation, the Asset Monitor has been appointed to calculate and/or monitor compliance with the Asset Coverage Test and the Amortisation Test and to provide services in respect of the management, maintenance and disposal of the Cover Pool following the occurrence of a Cause of Disposal Event; and following an Account Bank Termination Event in respect of the Issuer as Account Bank, the Cover Pool Cash Accounts will be held with a third party Account Bank. If a Servicer Replacement Event occurs, then the Asset Monitor may, as it deems appropriate in its sole discretion to ensure the continued servicing of the Mortgage Loans or to maintain the ratings of the Covered Bonds, request the Issuer to jointly appoint a Replacement Servicer to service the Mortgage Loans in the Cover Pool (or the Asset Monitor may appoint a Replacement Servicer on its own if the Issuer fails to take the requested action within a specified period). The ability of the Asset Monitor, any of its Delegates or any Replacement Servicer to fully perform the required services would depend, among other things, on its access to information, software and records available at the time. The Transaction Account Bank and Reserve Account Bank have been appointed to receive and hold monies in the Cover Pool Accounts and to operate and maintain those accounts in accordance with the Korean Covered Bond Laws, which includes segregating the amounts received from the other assets of the Issuer.

In the event that any of those parties fails to perform its obligations under the relevant agreement to which it is a party, the realisable value of the Cover Pool or any part thereof or pending such realisation (if the Cover Pool or any part thereof cannot be sold) and the ability of the Issuer to make payments under the Covered Bonds may be adversely affected. For instance, if the Asset Monitor (or any Replacement Servicer or Delegate appointed by it) has failed to service the Mortgage Loans adequately, this may lead to higher incidents of non-payment or default by Borrowers. The Issuer is also reliant on the Swap Providers to provide it with the funds matching its obligations under the Covered Bonds, as described below.

In the event of a termination of the Asset Monitor's or any third party Account Bank's appointment, any delay or inability to appoint a substitute Asset Monitor or replacement Account Bank that has the requisite Transaction Account Bank Required Rating or Reserve Account Bank Required Rating may affect the realisable value of the Cover Pool or any part thereof and/or the ability of the Issuer to make payments under the Covered Bonds. Covered Bondholders will have

no right to consent to or approve of any actions taken by the Asset Monitor under the Asset Monitor Agreement. In addition, the terms agreed with the replacement entity may not be as favourable as those agreed with the original party pursuant to the Transaction Documents.

The Trustee is not responsible for monitoring compliance with, nor the monitoring of, the Asset Coverage Test, the Pre-Maturity Test, the Amortisation Test or any other test, nor supervising the performance by any other party of its obligations under any Transaction Document.

If a Swap terminates, the Issuer's ability to make payments under the Transaction Documents may be impaired.

The Issuer will enter into one or more Swaps to hedge against currency and/or interest rate risks in respect of amounts received and payable by the Issuer under the Covered Bonds (in each case prior to the termination of the Swap in accordance with the provisions of the relevant Swap Agreement). See "*Summary of the Principal Documents – Swap Agreements*" for a more detailed description of the Swap and Swap Agreements. There can be no assurance that any Swap entered into by the Issuer will fully hedge all currency risks to which the Issuer is exposed in connection with any issuance of Covered Bonds.

If the Issuer fails to make timely payments of amounts due under any Swap Agreement entered into with a Swap Provider (subject to any applicable grace period), then the Issuer will have defaulted under that Swap Agreement and the Swap(s) entered into with the relevant Swap Provider may be terminated. It should also be noted that if the Issuer fails to pay an amount under a Swap Agreement on the due date for payment (subject to the any applicable grace period), an Issuer Event of Default will occur under the Conditions.

There are a number of other circumstances in which a Swap may terminate. Certain of these other circumstances are summarised under "*Summary of the Principal Documents – Swap Agreements*". In the case of the occurrence of an event of default or a termination event under the relevant Swap Agreement, the Swap(s) entered into with the relevant Swap Provider under such Swap Agreement may be terminated. Further, a Swap Provider is only obliged to make payments to the Issuer under the Swap Agreement as long as and to the extent that the Issuer complies with its payment obligations (subject to any applicable grace periods) under the relevant Swap Agreement. If either (i) a Swap terminates, (ii) the Swap Provider is not obliged to make payments under the Swap Agreement due to an event of default in respect of the Issuer under the relevant Swap Agreement or (iii) the Swap Provider defaults in its obligations to make payments of amounts in the currency of the relevant Covered Bonds equal to the full amount to be paid to the Issuer on the payment date under a Swap, the Issuer will be exposed to changes in the currency rates of exchange for converting Won into the currency of the relevant Covered Bonds and to any changes in the relevant rates of interest. Following the termination of a Swap, unless a replacement swap is entered into, the Issuer may have insufficient funds to make payments under the Covered Bonds.

If a Swap terminates, then the Issuer may be obliged to make a Swap Termination Payment to the relevant Swap Provider. There can be no assurance that the Issuer will have sufficient funds available to make a Swap Termination Payment under the relevant Swap Agreement, nor can there be any assurance that the Issuer will be able to find a replacement swap provider which has sufficiently high ratings as may be required by any of the Rating Agencies and which agrees to enter into a replacement swap.

If the Issuer is obliged to pay a Swap Termination Payment under any Swap Agreement following an Issuer Event of Default, such termination payment (other than any termination payments resulting from a termination of the Swap following an event of default or termination event by the relevant Swap Provider under the relevant Swap Agreement) will (prior to the service of an Acceleration Notice) rank ahead of any principal or interest amounts due on the Covered Bonds

and (following the service of an Acceleration Notice) rank *pari passu* with any principal or interest amounts due on the Covered Bonds. The obligation to pay a Swap Termination Payment may adversely affect the ability of the Issuer to meet its obligations under the Covered Bonds.

Claims of senior ranking creditors may adversely affect the funds available to redeem the Covered Bonds.

The Korean Covered Bond Laws provide that Covered Bondholders, Swap Providers, the Asset Monitor, the Trustee, the Agents and the Account Bank are all Priority Payment Right Holders, with a *pari passu*, priority claim over the assets in the Cover Pool. However, pursuant to the Establishment Deed, the Master Definitions Agreement and the Swap Agreements, each Priority Payment Right Holder will agree that the payment claims of certain Priority Payment Right Holders will rank ahead of the claims of other Priority Payment Right Holders, in accordance with the applicable Cover Pool Priority of Payments. In particular, the claims of the Trustee, Agents, Asset Monitor, Account Banks and in certain cases termination payments due to Swap Providers (in relation to Swap Agreements relating to any Series of Covered Bonds, including those Series that may not have a Swap Agreement) will rank ahead of the claims of the Covered Bondholders following the service of an Issuer EOD Notice and/or the service of an Acceleration Notice on the Issuer. The subordination of the claims of Covered Bondholders may adversely affect the assets available to redeem the Covered Bonds. In particular, Swap Termination Payments due to Swap Providers could be substantial.

The Covered Bonds are subject to uncertainties in insolvency proceedings and validity and/or enforceability of subordination provisions.

There is uncertainty as to the validity and/or enforceability of a provision which (based on contractual and/or trust principles) subordinates certain payment rights of a creditor to the payment rights of other creditors of its counterparty upon the occurrence of insolvency proceedings relating to that creditor. In particular, recent cases have focused on provisions involving the subordination of a hedging counterparty's payment rights in respect of certain termination payments upon the occurrence of insolvency proceedings or other default on the part of such counterparty (so-called "flip clauses"). Such provisions are similar in effect to the terms which will be included in the Transaction Documents relating to the subordination of payments under the Cover Pool Priority of Payments.

The UK Supreme Court has held that a flip clause as described above is valid under English law. However, the United States Bankruptcy Court has held that such a subordination provision is unenforceable under United States bankruptcy law and that any action to enforce such provision would violate the automatic stay which applies under such law in the case of a United States bankruptcy of the counterparty. The implications of this conflicting judgment are not yet known, particularly as the United States Bankruptcy Court approved, in December 2010, the settlement of the case to which the judgment relates and the appeal was subsequently dismissed. However, there remains a stayed action in the United States commenced by the Lehman Brothers' Chapter 11 debtors concerning the enforceability of flip clauses and, in addition, in February 2012, a complaint was filed by certain parties seeking recognition and enforcement of the decision in *Belmont Park Investments Pty Limited v BNY Corporate Trustee Services Limited and Lehman Brothers Special Financing Inc* [2011] UKSC 38 (and corresponding lower court decisions) and other declaratory relief with respect to the flip clause in question on the case described above. At the same time as filing the complaint, the relevant parties also filed a motion seeking the withdrawal of the reference from the United States Bankruptcy Court, requesting that the complaint be heard instead by the United States District Court. It has not yet been determined whether the complaint will be addressed by the United States Bankruptcy Court or the United States District Court, nor is it known when the complaint will be addressed.

If a creditor of the Issuer (such as a Swap Provider) or a related entity becomes subject to insolvency proceedings in any jurisdiction outside England and Wales (including, but not limited to, the United States), and it is owed a payment by the Issuer, a question arises as to whether the insolvent creditor or any insolvency official appointed in respect of that creditor could successfully challenge the validity and/or enforceability of subordination provisions included in the English law governed Transaction Documents (such as a provision of the Cover Pool Priority of Payments which refers to the ranking of the Swap Providers' payment rights). In particular, based on the decision of the United States Bankruptcy Court referred to above, there is a risk that such subordination provisions would not be upheld under United States bankruptcy laws. Such laws may be relevant in certain circumstances with respect to a range of entities which may act as Swap Provider, including entities established in the United States and certain entities established outside the United States with assets or operations in the United States (although the scope of any such proceedings may be limited if the relevant non-United States entity is a bank with a licensed branch in a state within the United States). In general, if a subordination provision included in the Transaction Documents was successfully challenged under the insolvency laws of any relevant jurisdiction outside England and Wales and any relevant foreign judgment or order was recognised by the English courts, there can be no assurance that such actions would not adversely affect the rights of the Covered Bondholders, the market value of the Covered Bonds and/or the ability of the Issuer or the Cover Pool assets to satisfy the Issuer's obligations under the Covered Bonds.

Lastly, given the general relevance of the issues under discussion in the judgments referred to above and that the Transaction Documents will include terms providing for the subordination of payments under the Cover Pool Priority of Payments, there is a risk that the final outcome of the dispute in such judgments (including any recognition action by the English courts) may result in negative rating pressure in respect of the Covered Bonds. If any rating assigned to the Covered Bonds is lowered, the market value of the Covered Bonds may reduce.

The Covered Bonds are subject to the Foreign Account Tax Compliance Act.

Whilst the Covered Bonds are in global form and held within Euroclear or Clearstream, Luxembourg, in all but the most remote circumstances, it is not expected that the reporting regime and potential withholding tax imposed by Sections 1471 to 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") will affect the amount of any payment received by Euroclear or Clearstream, Luxembourg. However, FATCA may affect payments made to custodians or intermediaries (including any clearing system other than Euroclear or Clearstream, Luxembourg) in the payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payments to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives a payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA, including any legislation implementing intergovernmental agreements relating to FATCA (if applicable) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Covered Bonds are discharged once it has paid the common depositary for Euroclear or Clearstream, Luxembourg (as bearer of the Covered Bonds) and the Issuer has therefore no responsibility for any amount thereafter transmitted through the hands of Euroclear, Clearstream, Luxembourg and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an IGA are generally not expected to be required to withhold under FATCA or an IGA (or any law

implementing an IGA) from payments they make on securities such as the Covered Bonds. Prospective investors should refer to the section "*Taxation – Certain U.S. Federal Income Tax Considerations – Foreign Account Tax Compliance Act*."

The Covered Bonds may be subject to withholdings under the EU Savings Directive.

Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**") requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or secured by such a person for the benefit of) an individual resident, or to (or secured for) certain other types of entity established, in that other EU Member State, except that Austria will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period it elects otherwise.

The Council of the European Union has adopted the Amending Savings Directive which would, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above, including by expanding the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and by expanding the circumstances in which payments must be reported or paid subject to withholding. The Amending Savings Directive requires EU Member States to adopt national legislation necessary to comply with it by January 1, 2016, which legislation must apply from January 1, 2017.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any other law implementing or complying with, or introduced in order to conform to, such Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Covered Bond as a result of the imposition of such withholding tax. Furthermore, once the Amending Savings Directive is implemented and takes effect in EU Member States, such withholding may occur in a wider range of circumstances than at present, as explained above. The Issuer is required, as provided in Condition 6(e), to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive or any other law implementing or complying with, or introduced in order to conform to such Directive, which may mitigate an element of this risk if the Covered Bondholder is able to arrange for payment through such a Paying Agent.

The European Commission has published a proposal for a Council Directive repealing the Savings Directive from January 1, 2016 (January 1, 2017 in the case of Austria) (in each case subject to transitional arrangements). The proposal also provides that, if it is adopted, EU Member States will not be required to implement the Amending Savings Directive.

Implementation of and/or changes to the Basel III framework may affect the capital requirements and/or the liquidity associated with a holding of the Covered Bonds for certain investors.

In Europe, the Unites States and elsewhere, there is significant focus on fostering greater financial stability through increased regulation of financial institutions, and their corresponding capital and liquidity positions. This has resulted in a number of regulatory initiatives which are currently at various stages of implementation and which may have an impact on the regulatory position for certain investors in covered bond exposures and/or on the incentives for certain investors to hold covered bonds, and may thereby affect the liquidity of such securities. Investors in the Covered Bonds are responsible for analysing their own regulatory position and none of the Issuer, the

Arranger or the Dealers makes any representation to any prospective investor or purchaser of the Covered Bonds regarding the treatment of their investment on the Issue Date or at any time in the future.

In particular, it should be noted that the Basel Committee on Banking Supervision ("**BCBS**") has approved significant changes to the Basel regulatory capital and liquidity framework (such changes being commonly referred to as Basel III). Basel III provides for a substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards (with heightened requirements for global systemically important banks) and to establish a leverage ratio "backstop" for financial institutions and certain minimum liquidity standards (referred to as the Liquidity Coverage Ratio ("**LCR**") and the Net Stable Funding Ratio ("**NSFR**")). BCBS member countries agreed to implement Basel III from January 1, 2013, subject to transitional and phase-in arrangements for certain requirements (e.g. the LCR requirements refer to implementation from the start of 2015, with full implementation by January 2019, and the NSFR requirements refer to implementation from January 2018). As implementation of Basel III requires national legislation, the final rules and the timetable for its implementation in each jurisdiction, as well as the treatment of covered bonds (e.g. as LCR eligibility assets or not), may be subject to some level of national variation. It should also be noted that changes to regulatory capital requirements are coming for insurance and reinsurance undertakings through national initiatives, such as the Solvency II framework in Europe.

Prospective investors should therefore make themselves aware of the requirements described above (and any corresponding implementing rules of their regulator), where applicable to them, in addition to any other applicable regulatory requirements with respect to their investment in the Covered Bonds. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

The impact of EMIR, Dodd-Frank Act and rule-making thereunder could have an adverse impact on a holding of the Covered Bonds.

The European Market Infrastructure Regulation 648/2012 ("**EMIR**") entered into force on August 16, 2012. EMIR aims to increase stability in European over-the-counter ("**OTC**") derivatives markets and includes measures to require the clearing of certain OTC derivatives contracts through central clearing counterparties and to increase the transparency of OTC derivatives transactions. EMIR will apply to OTC derivatives contracts falling within its scope entered into by financial counterparties established in the European Union, regardless of the identity of the other counterparty to the contract. Whether EMIR applies directly to OTC derivatives contracts falling within its scope entered into by the Issuer as a third country entity will depend on the circumstances. EMIR may however affect the Issuer indirectly due to the fact that the fulfillment by the Issuer's counterparties of certain of their obligations under EMIR (where applicable) affects the obligations the Issuer is required to undertake under its agreements with such counterparties.

In connection with EMIR, various implementing technical standards have now come into force, but certain critical technical standards remain outstanding, including those addressing which classes of OTC derivative contracts will be subject to the clearing obligation and the scope of collateralisation obligations in respect of OTC derivative contracts which are not cleared. Therefore, the potential impact of the clearing obligation on the types of derivative contracts that are entered into by the Issuer is not clear, including whether it will be possible to clear such derivative contracts or whether the derivative contracts will be determined to be too bespoke to be cleared.

Prospective investors should be aware that the regulatory changes arising from EMIR may in due course significantly increase the cost for the Issuer of entering into derivative contracts and may adversely affect their ability to engage in derivative contracts.

In addition, Title VII of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted July 21, 2010 (the "**Dodd-Frank Act**"), establishes a comprehensive U.S. regulatory regime for a broad range of derivatives contracts (collectively referred to in this risk factor as "**covered swaps**"). Among other things, Title VII provides the U.S. Commodity Futures Trading Commission ("**CFTC**") and the U.S. Securities and Exchange Commission with jurisdiction and regulatory authority over many different types of derivatives, requires the establishment of a comprehensive registration and regulatory framework applicable to dealers in covered swaps and other major market participants, requires the reporting of data on covered swaps, requires many types of covered swaps to be exchange-traded or executed on swap execution facilities and centrally cleared, and contemplates the imposition of capital requirements and margin requirements for uncleared transactions in covered swaps.

Many of the key regulations implementing Title VII have recently become effective or are in final form. However, in some instances, the interpretation and potential impact of these regulations are not yet entirely clear. Additionally, not all of the regulations, particularly with respect to margin requirements for uncleared covered swaps and requirements for security-based swaps more generally, have been finalised and made effective. Due to this uncertainty, a complete assessment of the exact effects of Title VII cannot be made at this time. Accordingly, there is no assurance that the Swaps contemplated under the Programme would not be treated as covered swaps under the Dodd-Frank Act, nor is there assurance that the Issuer or the Swap Providers would not be required to comply with additional regulation under the Commodity Exchange Act of 1936, as amended, including by the Dodd-Frank Act.

In particular, the Swaps contemplated under the Programme may include agreements that are regulated as covered swaps under Title VII, each of which may be subject to new clearing, execution, capital, margin posting, reporting and recordkeeping requirements under the Dodd-Frank Act that could result in additional regulatory burdens, costs and expenses (including extraordinary, non-recurring expenses of the Issuer). Such requirements may disrupt the Issuer and its affiliates' ability to hedge their exposure to various transactions, including any obligations it may owe to investors under the Covered Bonds, and may materially and adversely impact a transaction's value or the value of the Covered Bonds. While the Dodd-Frank Act provides for the grandfathering of certain swaps, such grandfathering may not apply to the transactions entered into by the Issuer or may only apply to certain transactions. Additionally, the Issuer cannot be certain as to how these regulatory developments will impact the treatment of the Covered Bonds.

Given that the full scope and consequences of the enactment of EMIR and the Dodd-Frank Act and the rules still to be adopted thereunder are not yet known, investors are urged to consult their own advisors regarding the suitability of an investment in any Covered Bonds.

RISKS RELATING TO THE COVER POOL

The Issuer may be unable to comply with overcollateralisation rules.

The Korean Covered Bond Laws require the value of the assets in a cover pool to at all times exceed 105 per cent. of the total aggregate outstanding principal amount of all Covered Bonds issued under the Programme and any interest accrued on such Covered Bonds. The assets in the Cover Pool may not be sufficient to ensure that the Issuer will have sufficient cash flows to meet its obligations under the Covered Bonds, or that such collateral will have the intended effect. Failure to maintain sufficient assets in the Cover Pool could result in the Issuer being unable to issue further Covered Bonds or to refinance existing Covered Bonds.

The Asset Coverage Test and the Amortisation Test may not ensure the sufficiency of the assets and cash flows of the Issuer to meet its obligations under the Covered Bonds.

The Asset Coverage Test and the Amortisation Test are intended to test whether the assets and cash flows of the Issuer, including the Underlying Assets, Liquid Assets and Other Assets in the Cover Pool and cash flows in respect thereof, will be adequate to enable the Issuer to meet its obligations under the Covered Bonds prior to and following the service of an Issuer EOD Notice.

The Asset Coverage Test is met if the Adjusted Aggregate Loan Amount is at least equal to the KRW Equivalent of the aggregate outstanding principal amount of all Covered Bonds as of each Calculation Date. Prior to the earlier to occur of the service of an Issuer EOD Notice and the service of an Acceleration Notice, if a breach of the Asset Coverage Test occurs as of any Calculation Date (as tested on the relevant Test Date), the Asset Monitor will serve an Asset Coverage Test Breach Notice on the Issuer. If an Asset Coverage Test Breach Notice has been served and not revoked on or before the third Calculation Date after the service of such Asset Coverage Test Breach Notice on the Issuer, then an Issuer Event of Default shall occur and the Trustee shall be entitled (and, in certain circumstances, may be required) to serve an Issuer EOD Notice on the Issuer. Following service of an Issuer EOD Notice, any breach of the Amortisation Test or the Issuer's failure to pay on the Covered Bonds (subject in each case to applicable grace periods) would give rise to a Covered Bond Event of Default and the Trustee shall be entitled (and, in certain circumstances, may be required) to serve an Acceleration Notice on the Issuer.

Pursuant to the Asset Monitor Agreement, following the service of an Issuer EOD Notice (but prior to the service of an Acceleration Notice on the Issuer), the Issuer must ensure that it is in compliance with the Amortisation Test on each Calculation Date. The Amortisation Test will be satisfied if the Amortisation Test Adjusted Aggregate Loan Amount is in an amount at least equal to the KRW Equivalent of the aggregate outstanding principal amount of all the Covered Bonds on such Calculation Date. The Amortisation Test is intended to test whether the assets of the Cover Pool fall below a certain threshold, and therefore whether the assets of the Cover Pool are sufficient to meet the Issuer's obligations under the Covered Bonds.

If the value of the Cover Pool has not been maintained in accordance with the terms of the Asset Coverage Test or, if applicable, the Amortisation Test, then such failure may reduce the likelihood that the realisable value of the Cover Pool or any part thereof (both before and after the occurrence of an Issuer Event of Default) will be sufficient for the Issuer (or the Asset Monitor on its behalf) to make payments under the Covered Bonds. Mortgage Loans that are more than 90 days in arrears are given zero weighting for the purposes of the Asset Coverage Test and the Amortisation Test.

Prior to service of an Issuer EOD Notice or an Acceleration Notice, the Asset Monitor will, subject to receipt of the relevant information from the Issuer, test the calculations performed by the Issuer in respect of the Asset Coverage Test. Following service of an Issuer EOD Notice (but prior to service of an Acceleration Notice), the Asset Monitor will be required to perform calculations in respect of the Amortisation Test. In addition, the Asset Monitor will be required to assess compliance by the Issuer with certain statutory obligations under the Korean Covered Bond Laws. See "*Summary of the Principal Documents – Asset Monitor Agreement*".

Although the Cover Pool is expected to be realised for sufficient value to enable the Issuer to meet its obligations under the Covered Bonds, there can be no assurance that the Asset Coverage Test and the Amortisation Test or any other test will fully ensure the sufficiency of the assets and cash flows of the Issuer for such purposes.

The Issuer may not be able to obtain sufficient Pre-Maturity Liquidity Assets to remedy any breach of the Pre-Maturity Test.

If there is a breach of the Pre-Maturity Test in respect of a Series of Hard Bullet Covered Bonds prior to service of an Issuer EOD Notice on the Issuer, the Issuer may need to add Pre-Maturity Liquidity Assets to the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and/or of the Reserve Securities Account, with the intention that the KRW Equivalent of the value of the Pre-Maturity Liquidity Assets (determined in accordance with the Korean Covered Bond Laws and subject to the application of valuation haircuts in accordance with Rating Agency criteria) will at least be equal to the Required Redemption Amount of all Series of Hard Bullet Covered Bonds which are scheduled to mature during the relevant Pre-Maturity Test Period. See "*Summary of the Principal Documents – Establishment Deed – Pre-Maturity Liquidity*". The Issuer may not be able to obtain sufficient Pre-Maturity Liquidity Assets to credit to such accounts to remedy any breach of the Pre-Maturity Test by the required date and an Issuer Event of Default may occur as a result.

Changes to the lending criteria of the Issuer may lead to increased defaults by borrowers.

Each of the mortgage loans originated by the Issuer will have been originated in accordance with its lending criteria at the time of origination. The Issuer's lending criteria has generally considered the type of property, term of loan, age of applicant, the loan-to-value ratio, insurance policies, status and income of applicants and credit history and is expected to continue to do so. The Issuer retains the right to revise its lending criteria from time to time but would only do so to the extent that such a change would be acceptable to reasonable and prudent institutional mortgage lenders in the Korean market and having consideration of the Korean regulatory guidelines. If the lending criteria of the Issuer changes in a manner that affects the creditworthiness of the mortgage loans, that may lead to increased defaults by borrowers and may affect the realisable value of the Cover Pool, or part thereof, and the ability of the Issuer to make payments on the Covered Bonds.

There can be no assurance that timely payments will be made in the case of bankruptcy of the Issuer.

Following the occurrence of a Cause of Disposal Event, namely the service of an Issuer EOD Notice or an Acceleration Notice on the Issuer, the Asset Monitor may take any action considered necessary, in accordance with the Korean Covered Bond Act and the Asset Monitor Agreement, to ensure that holders of the Covered Bonds receive timely payments on the Covered Bonds, including disposing of assets in the Cover Pool. The Asset Monitor's ability to apply the Cover Pool assets to pay the Priority Payment Right Holders following the service of an Issuer EOD Notice will depend on (a) the realisable value of the Mortgage Loans and related Collateral Security in the Cover Pool, (b) the amount of receivables generated by the Mortgage Loans in the Cover Pool and the timing thereof, (c) amounts received from Swap Providers and (d) the realisable value of Liquid Assets and Other Assets in the Cover Pool. The Asset Monitor will not have any other source of funds available to meet the Priority Payment Rights.

The Asset Monitor will use collections and proceeds of disposal from the Cover Pool to pay the Covered Bondholders and other Priority Payment Right Holders in accordance with the Cover Pool Priority of Payments set out in the Establishment Deed. However, the Asset Monitor may not be able to realise assets in the Cover Pool for sufficient values to satisfy obligations under the Covered Bonds and other Priority Payment Right Holders that rank in priority to or *pari passu* with amounts due on the Covered Bonds in accordance with the Cover Pool Priority of Payments.

To the extent that holders of Covered Bonds and other Priority Payment Right Holders are not fully paid from the proceeds of the disposal of the assets in the Cover Pool, such holders will be able to pursue their claims for the shortfall as unsecured creditors of the Issuer. There is no guarantee that the Issuer will have sufficient funds to pay that shortfall. In the case of bankruptcy

of the Issuer, the Covered Bondholders will be entitled to receive payment from the proceeds of the liquidation of other assets of the Issuer not comprising the Cover Pool (to the extent there are such assets). The holders of Covered Bonds would then rank *pari passu* with any other holders of Covered Bonds, derivative counterparties and the other unsecured, unsubordinated creditors of the Issuer.

Mortgage Loans in the Cover Pool may be subject to insolvency clawback risk.

Under Korean law, the insolvency administrator appointed pursuant to insolvency proceedings commenced with respect to the Issuer in Korea would be entitled to claw back Mortgage Loans from the Cover Pool if the following conditions ("**Clawback Conditions**") had been satisfied at the time of the transfer of the Mortgage Loans (including New Mortgage Loans) to the Cover Pool by the Issuer: (1) (i) the Issuer was Insolvent; or (ii) the Issuer would be Insolvent within a reasonably foreseeable future thereafter (at least within 60 days after the Mortgage Loans were included into the Cover Pool); and (2) the Issuer was aware that the Issuer was Insolvent and was aware of any reason why the Issuer would be Insolvent within the reasonably foreseeable future thereafter. "Insolvent" with respect to the Issuer means that: (a) the Issuer's total assets are less than its total liabilities; (b) the Issuer has suspended payments of its indebtedness or is unable to pay its debts generally; (c) a petition is filed by or with respect to the Issuer under the DRBA; or (d) the Issuer is designated as a "failing company" under the CRPA or a "failing financial institution" under the Act on the Improvement of the Financial Industry of Korea. If any of the Clawback Conditions were satisfied at the time of the transfer of the Mortgage Loans (including New Mortgage Loans) to the Cover Pool by the Issuer, it cannot be ruled out that the insolvency administrator of the Issuer would seek to claw back the relevant Mortgage Loans from the Cover Pool and into the general assets of the Issuer's insolvency estate.

Under the Establishment Deed, the Issuer may not transfer New Mortgage Loans to the Cover Pool unless it provides a solvency certificate.

Collections in respect of Mortgage Loans may be commingled with other funds of the Issuer until collections are re-directed to the Transaction Account following a Transaction Account Bank Termination Event.

Until collections paid by the Borrowers in respect of the Mortgage Loans in the Cover Pool are re-directed by the automatic debit banks and by the KFTC to the Transaction Account (which is an account registered with the FSC as part of the Cover Pool) following the occurrence of a Transaction Account Bank Termination Event and the service of the KFTC Notices, any collections in respect of the Mortgage Loans will continue to be paid to the general collection account of the Issuer, which is not part of the Cover Pool. Such collections will be commingled with collections in respect of other loans originated by the Issuer and other funds of the Issuer which are not part of the Cover Pool, until such collections are transferred by the Issuer into the Transaction Account on the Korean Business Day immediately following receipt of such collections. Any delay or failure of the Issuer or the Asset Monitor to send the KFTC Notices to the automatic debit banks and to KFTC following the occurrence of a Transaction Account Bank Termination Event could affect the amount available in the Cover Pool to pay the Covered Bondholders.

Changes in the servicer may result in delays in payments.

The Issuer will continue to service the Mortgage Loans in the Cover Pool and receive collections in relation to the Mortgage Loan Assets in the Cover Pool until the appointment of a Replacement Servicer. Under the Asset Monitor Agreement, following the occurrence of a Servicer Replacement Event, the Asset Monitor may, if it deems appropriate in its sole discretion to ensure continued servicing of the Mortgage Loans or to maintain the ratings of the Covered Bonds, request that the Issuer and the Asset Monitor jointly appoint a Replacement Servicer (or the Asset Monitor will be

required to appoint such Replacement Servicer itself if no joint appointment is made within the specified period). There is no assurance that a Replacement Servicer who has sufficient experience of administering residential mortgages and who is willing and able to service the Mortgage Loans on the terms required by the Asset Monitor would be found. There is no assurance that any Replacement Servicer appointed will be able to perform the servicing duties that may be required by the Asset Monitor to ensure continued servicing of the Mortgage Loans and to maintain the ratings of the Covered Bonds.

There is no assurance that the Asset Monitor or any Replacement Servicer, when required, will be able to perform the collection services as well as the Issuer or in a timely manner. In particular, it may take time from the date of the appointment of the Replacement Servicer until the IT system of the Replacement Servicer is fully integrated with that of the Issuer and such servicing and collection of amounts due from Obligors will require the cooperation of the Issuer or any bankruptcy administrator appointed in respect of the Issuer. There could be delays in the collection and management of payments due by Obligors in respect of the Mortgage Loans. Any such change of servicer of the Mortgage Loans could adversely affect the Asset Monitor's ability to apply the Cover Pool assets to pay the Priority Payment Right Holders following the service of an Issuer EOD Notice.

Management and disposal of the Cover Pool by the Asset Monitor are subject to certain limitations.

Following the occurrence of a Cause of Disposal Event, the Cover Pool will be managed by the Asset Monitor, who may dispose of assets in the Cover Pool to make payments to Covered Bondholders and other Priority Payment Right Holders. In connection with such duties, the Asset Monitor will, among other things, (i) notify Borrowers of the registration of the Mortgage Loans as part of the Cover Pool and of the Asset Monitor's rights to dispose of the Cover Pool if the Issuer fails to do so within 15 Korean Business Days following the occurrence of a Cause of Disposal Event, (ii) manage, maintain and/or dispose of the Cover Pool (including instructing the Issuer or any Replacement Servicer on servicing the Mortgage Loans and managing amounts receivable and payable in respect of the Cover Pool or the Cover Pool Priority of Payments) and (iii) (if an Account Bank is the Issuer) replace the Issuer as Account Bank of the relevant Cover Pool Cash Accounts with a third party Account Bank with the requisite ratings. The ability of the Asset Monitor to manage the Cover Pool and instruct the Issuer on servicing of the Mortgage Loans depends on the Asset Monitor having all the data it requires for such management. The Asset Monitor Agreement contains certain obligations on the Issuer to provide Data Files of the Mortgage Loans in the Cover Pool to the Asset within five Korean Business Days of a request by the Asset Monitor, and to provide full co-operation and assistance to the Asset Monitor or any of its Delegates or the Replacement Servicer to take certain action necessary for the management of the Cover Pool following the service of an Issuer EOD Notice, including actions relating to the transfer of data relating to the Cover Pool. Any delay or failure of the Issuer to provide all relevant data and any inaccuracy or incompleteness in such data may affect the Asset Monitor's ability to manage the Cover Pool.

In connection with any disposal of Mortgage Loans in the Cover Pool, the Asset Monitor may not make such disposal in respect of a Mortgage Loan until the relevant Obligor has been notified of the Asset Monitor's right of disposal. Any failure or delay of the Asset Monitor to make such notification may affect the timing at which the relevant Mortgage Loan may be disposed of and could affect the amount available in the Cover Pool to pay the Covered Bondholders and other creditors. In addition, if the relevant Obligor has a right to consent to any transfer of the claim under the relevant contract in respect of the Mortgage Loan, then the Asset Monitor must obtain such Obligor's consent, although it is one of the Mortgage Loan Warranties that no consent to the sale and assignment of the relevant Mortgage Loan is required to be given by the relevant borrower.

The Asset Monitor is required under the Korean Covered Bond Act and undertakes in the Asset Monitor Agreement that it will perform its duties in connection with the management, maintenance and (if it deems appropriate) disposal of the Cover Pool with the level of due care as is required of the Asset Monitor under the Korean Covered Bond Laws and exercise the standard of care necessary to protect the interests of the Priority Payment Right Holders, acting reasonably and in good faith for and on behalf of the Priority Payment Right Holders. However, the exact timing and the manner in which the Asset Monitor decides to perform its duties and in particular to dispose of all or part of the Cover Pool may affect the realisable value of the Cover Pool or any part thereof.

Certain factors may adversely affect the value of the Cover Pool realisable by the Asset Monitor.

The realisable value of the assets of the Cover Pool (which may affect the timing and quantum of payments on the Covered Bonds) may be adversely affected by:

- the extent of representations or warranties that the Issuer may give in respect of the assets (which may be none);
- default by Borrowers of amounts due on their Mortgage Loans; and
- changes to the lending criteria of the Issuer.

If the realisable value of the Cover Pool assets is less than the par value thereof, then such deficiency will adversely affect the level of overcollateralisation available for Covered Bonds maturing at a later date.

The transfer of the Mortgage Loan Assets to the Cover Pool will not be perfected against the Obligors until a Cause of Disposal Event occurs, if at all.

Under Korean law, the registration of Mortgage Loan Assets as part of the Cover Pool by the Issuer will be perfected against third parties (other than the relevant Obligors) on the date the relevant Mortgage Loan Assets are registered with the FSC as part of the Cover Pool. In order to perfect the transfer to the Cover Pool against the Obligors, it is necessary to notify the Obligors of such transfer. No Perfection Notices will be sent to the Obligors until a Cause of Disposal Event occurs. As a consequence, the transfer of the Mortgage Loan Assets to the Cover Pool will not be perfected against the Obligors and the Obligors are entitled to continue to make payments to the Issuer under the Mortgage Loan Agreements and exercise against the Asset Monitor all defences (such as set-off rights) that are available against the Issuer in respect of their obligations under the Mortgage Loan Agreements. Any such exercise of rights may adversely affect the Asset Monitor's ability to pay the Priority Payment Right Holders following the service of an Issuer EOD Notice.

Set-off risk may adversely affect the value of the Cover Pool or any part thereof.

An underlying Obligor of any Mortgage Loan in the Cover Pool that has a deposit account with the Issuer will be able to set-off its deposit claims arising from such deposit account before notice to the underlying Obligor regarding the registration of the relevant Mortgage Loan as part of the Cover Pool with the FSC and the Asset Monitor's right to dispose of the Cover Pool. Set-off against the Issuer would not be affected by the fact that the deposit with the Issuer is subject to deposit insurance provided by the Korea Deposit Insurance Corporation ("**KDIC**"). As the deposit insurance payment to be paid by the KDIC is calculated by deducting from the deposit amount any debt (other than guarantee debt) owed by the depositor to the Issuer, the insurance payments from the KDIC will be an amount net of the loan outstanding. Therefore, the rights of the Covered Bondholders and other Priority Payment Right Holders in respect of the Cover Pool assets may be

subject to the underlying Obligors' set-off rights against the Issuer which occur in relation to deposits made prior to notification to the underlying Obligors regarding the registration of the Cover Pool.

The exercise of set-off rights by the underlying Obligors may adversely affect the realisable value of the Cover Pool, which would have an impact on the Issuer's ability to satisfy the Asset Coverage Test or Amortisation Test, as applicable, and/or the ability of the Issuer to make payments under the Covered Bonds. The Asset Coverage Test has been structured to mitigate the potential set-off risk, but there is no assurance that such risks will be completely accounted for.

The valuation on the properties underlying the Mortgage Loans may not be accurate.

Under the Issuer's lending criteria, appraisals or valuation of the properties securing the Mortgage Loans take place through: (1) internal appraisals through one of the Issuer's branch offices or the Collateral Valuation Department or (2) an independent appraisal conducted by an external appraiser.

The Issuer conducts internal appraisals of the relevant properties based on the information provided by the KB Property Index, which is the Issuer's own proprietary index based on internal and external surveys and research for property valuation in Korea, and, where available, the price information from the Ministry of Land, Infrastructure and Transport.

In the case of those Mortgage Loans for which an appraisal conducted by an external appraiser was used, such appraisal reflects the individual appraiser's judgment as to value, based on the market values of comparable homes sold within the recent past in comparable nearby locations and on the estimated replacement cost.

No assurance can be given that values of the properties underlying the Mortgage Loans have remained or will remain at the levels which existed on the dates of appraisal (or, where applicable, on the dates of appraisal updates) of the related Mortgage Loans.

The appraisal relates both to the land and to the structure; however, a significant portion of the appraised value of a property may be attributable to the value of the land rather than to the residence.

Due to the unique locations (for example, properties in scarcely populated areas) and special features of certain properties, identifying comparable properties in nearby locations may be difficult. The appraised values of such properties will be based to a greater extent on adjustments made by the appraisers to the appraised values of reasonably similar properties rather than on objectively verifiable sales data. As a result, such appraisals could be more likely to overvalue certain properties and therefore overstate the value of the collateral underlying the Cover Pool. If the market value of the properties underlying the Mortgage Loans is less than the appraised value of these properties, this may adversely affect the ability of the Issuer to make payments on the Covered Bonds, in circumstances where the Issuer is required to obtain payment from borrowers by a foreclosure sale of the properties underlying the relevant Mortgage Loans.

The Mortgage Loans are exposed to fluctuations in performance of the Korean real estate market.

The Issuer's Mortgage Loan portfolio is exposed to fluctuations in performance of the Korean residential real estate market. Declines in demand for or falls in the price of residential real estate in Korea could have a significant impact on the business of the Issuer, reducing both its income from collections of interest and principal payments and the value of the properties securing the

Issuer's Mortgage Loans. In relation to the Mortgage Loans such factors could reduce the liquidation proceeds and thereby ultimately result in less funds available to make payment of interest on and the repayment of principal of the Covered Bonds.

See also the Risk Factor headed "– *A decline in the value of the collateral securing the Mortgage Loans and its inability to realise full collateral value may adversely affect the Issuer's Mortgage Loans*" below.

A decline in the value of the collateral securing the Mortgage Loans and its inability to realise full collateral value may adversely affect the Issuer's Mortgage Loans.

As described above, residential real estate values in Korea have fluctuated significantly in recent years. Although the maximum loan-to-value of the Mortgage Loans included in the Cover Pool is 70 per cent. at the time of origination, downturns in the real estate markets in Korea from time to time have resulted in declines in the value of the collateral securing some loans to levels below their outstanding principal balance. Future declines in real estate prices would reduce the value of the collateral securing the Mortgage Loans. If collateral values decline in the future to a sufficient extent, they may not be sufficient to cover amounts owing in respect of the relevant Mortgage Loan. Following the occurrence of an Issuer Event of Default, cash collections from, and disposal proceeds of, the Mortgage Loans in the Cover Pool are the primary source of payment on the Covered Bonds.

In the event of a decline in real estate prices, losses sustained on the Mortgage Loans could result in losses being sustained on the Covered Bonds. In addition, any declines in the value of the real estate securing its mortgage loan portfolio could result in a deterioration in the Issuer's asset quality and may require it to take additional loan loss provisions.

In Korea, the process of enforcing security on real estate assets generally requires a written petition to a court by the secured creditor. An application, when made, may be subject to delays and administrative requirements that may result in a decrease in the value realised with respect to the relevant secured asset. There can be no assurance that the Issuer will be able to realise the full value of the security as a result of, among other factors, delays in enforcement proceedings and defects, if any, in the perfection of its security interest, though it is a requirement that all the Mortgage Loans included in the Cover Pool have the benefit of fully perfected mortgages over real estate in Korea. The Issuer's failure to recover the expected value of the security could expose it to losses and may impact upon the payment of interest on, and the repayment of principal, of the Covered Bonds.

The Cover Pool consists of limited assets.

The Cover Pool consists mainly of Mortgage Loans which are secured on interests in residential property located in Korea and also claims which the Issuer holds, or may acquire, against Swap Providers and certain other Liquid Assets or Other Assets. All Mortgage Loans in the Cover Pool must comply with the Korean Covered Bond Laws, which, at the date of this Base Prospectus, require a loan-to-value ratio (calculated as the ratio of the loan amount to the mortgage value of the property) of 70 per cent. or lower of the collateral property in the case of residential mortgage loans.

It should be noted that the value of the Issuer's Cover Pool may decline in the event of a general downturn in the value of property in Korea (given that currently all of the mortgaged properties in the Cover Pool are in Korea), which could adversely affect the Issuer's ability to perform its obligations under the Covered Bonds. In addition, the Covered Bondholders shall share the benefit

of the statutory preference under the Korean Covered Bond Laws over the same Cover Pool with any other Covered Bondholders of the Issuer and other Priority Payment Right Holders, which could limit the amount of assets available to satisfy the claims of Covered Bondholders.

The Cover Pool is subject to geographic concentration risks.

Certain geographic regions of Korea from time to time will experience weaker regional economic conditions and housing markets or be directly or indirectly affected by natural disasters. Mortgage loans in such areas will experience higher rates of loss and delinquency than mortgage loans generally.

The ability of borrowers to make payments on the Mortgage Loans may also be affected by factors which do not necessarily affect property values, such as adverse economic conditions generally in particular geographic areas or industries, or affecting particular segments of the borrowing community (such as borrowers relying on commission income and self-employed borrowers). Such occurrences may accordingly affect the actual rates of delinquencies, foreclosures and losses with respect to the mortgage loans in the Cover Pool.

The Mortgage Loans may from time to time be concentrated in certain regions. Such concentration may present the risk considerations described above in addition to those generally present for similar securities without such concentration.

Borrowers may default on their obligations under their Mortgage Loans.

Borrowers may default on their obligations due under the Mortgage Loans for a variety of reasons. The Mortgage Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal. Examples of such factors include changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in the Borrowers' individual, personal or financial circumstances may affect the ability of Borrowers to repay the Mortgage Loans. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by and bankruptcies of Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay the Mortgage Loans. In addition, the ability of a Borrower to sell a property given as security for a Mortgage Loan at a price sufficient to repay the amounts outstanding under that Mortgage Loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time.

The Issuer may change its lending criteria.

Each of the Mortgage Loans originated by the Issuer will have been originated in accordance with its lending criteria at the time of origination. It is expected that the Issuer's lending criteria will generally consider type of property, term of loan, age of applicant, the loan-to-value ratio, status of applicants and credit history. The Issuer retains the right to revise its lending criteria from time to time. If the lending criteria change in a manner that affects the creditworthiness of the Mortgage Loans, such change may lead to increased defaults by Borrowers and may affect the realisable value of the Cover Pool, or part thereof, and the ability of the Asset Monitor to apply proceeds of the Cover Pool to make payments to Covered Bondholders.

There is no assurance that the characteristics of the New Mortgage Loans added to the Cover Pool after the Programme Date will be the same as those of the Mortgage Loans as of the Programme Date and limited description of the assets in the Cover Pool may be available.

The Covered Bondholders will only receive statistics or information in relation to the Mortgage Loans as set out herein (including as set out in "*Certain Information Regarding the Cover Pool*"), in one or more Base Prospectus supplements to the extent such supplement is prepared by the Issuer to update statistics or information on the Cover Pool, and in the Investor Report and Asset Monitor Report to be published on the Issuer's website on each Investor Report Date and Asset Monitor Report Date, respectively. Covered Bondholders will not receive additional information in relation to the Mortgage Loans and other assets included in the Cover Pool and it is expected that the constitution of the Cover Pool will change from time to time due to, for example, the addition and/or substitution of further Mortgage Loans by the Issuer to the Cover Pool from time to time or repayments or prepayments by Borrowers. Therefore, there is no assurance that the characteristics of such New Mortgage Loans will be the same as the Mortgage Loans forming part of the Initial Cover Pool. However, each Mortgage Loan will be required to meet the Eligibility Criteria and satisfy the Mortgage Loan Warranties set out in the Establishment Deed, although the Eligibility Criteria may also change in certain circumstances as described herein. See "*Summary of the Principal Documents – Establishment Deed*". In addition, the Asset Coverage Test is intended to ensure that the Adjusted Aggregate Loan Amount is an amount equal to or in excess of the KRW Equivalent of the aggregate principal amount outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding.

The Issuer, with the approval of the FSC, has appointed the Asset Monitor to monitor the Issuer's compliance with the asset coverage requirement and the segregation requirement of the Korean Covered Bond Laws, and to calculate compliance with the Amortisation Test following the service of an Issuer EOD Notice, and the Asset Monitor shall provide a report on such monitoring and/or calculation to the FSC on a quarterly basis. Such report of the Asset Monitor will be available on the Issuer's website.

Chapter 4 Proceedings could delay the enforcement of the Mortgage Loan Assets and Collateral Security.

A Chapter 4 Proceeding (as defined in "*Korean Legal Considerations – Insolvency Laws – Debtor Rehabilitation and Bankruptcy Act*") provides for individual debtor rehabilitation proceedings to individual debtors who earn wages or business income with debts of no more than a specified amount. Chapter 4 Proceedings are intended to assist individuals in financial difficulty by providing a court-sanctioned financial rehabilitation program outside the Korean bankruptcy regime. Under a Chapter 4 Proceeding, a debtor may apply to the court to have certain of his or her debts rescheduled to allow future income to be used to repay those debts. Chapter 4 Proceedings will not directly affect the amount, timing or interest rate on the Mortgage Loan Assets but may affect the enforcement of security while the court considers the debtor's application for rehabilitation which may take up to a month. Further, once the court issues an order to commence a Chapter 4 Proceeding, any enforcement of security will be automatically suspended until a repayment plan is approved by the court or the Chapter 4 Proceeding is discontinued, whichever is earlier. If the approval of the repayment plan is delayed, the value and timing of proceeds of enforcement of the Mortgage Loan Asset granted by a Obligor or a third party who has applied for a Chapter 4 Proceeding could be adversely affected, which could adversely affect the Asset Monitor's ability to apply the Cover Pool assets to pay the Priority Payment Right Holders following the service of an Issuer EOD Notice. See also "– *Chapter 2 Proceedings could adversely affect the enforcement of the Mortgage Loan Assets and Collateral Security*" below.

Chapter 2 Proceedings could adversely affect the enforcement of the Mortgage Loan Assets and Collateral Security.

A Chapter 2 Proceeding (as defined in "*Korean Legal Considerations – Insolvency Laws – Debtor Rehabilitation and Bankruptcy Act*") is based on the former Corporate Reorganisation Act but expands the scope of eligible applicants to all types of legal entities, including corporations and unincorporated foundations or associations, as well as individuals. Eligible individuals may petition for a Chapter 4 Proceeding under the Consolidated Insolvency Act as well. Under the Consolidated Insolvency Act, an individual debtor may petition to the court for a Chapter 2 Proceeding if he or she is unable to repay his or her debts when they become due without having a material adverse effect on his or her business or if he or she may become bankrupt. Unlike a Chapter 4 Proceeding, in a Chapter 2 Proceeding, claims of secured creditors will be subject to the reorganisation plan approved by the court. While it is expected that claims of the secured creditors will receive preferential treatment relative to claims of unsecured creditors, there can be no assurance that, when an Obligor or a third party files for a Chapter 2 Proceeding, the claims of the Issuer in relation to the related Mortgage Loan Asset and Collateral Security will not be thereby adversely affected. This could in turn adversely affect the Asset Monitor's ability to apply the Cover Pool assets to pay the Priority Payment Right Holders following the service of an Issuer EOD Notice. See also "– *Chapter 4 Proceedings could adversely affect the enforcement of the Mortgage Loan Assets and Collateral Security*" above.

Individual Work-out Plans could restrict the Issuer or the Asset Monitor's ability to recover amounts due and payable under the Mortgage Loans or to enforce the Mortgages to retain the full value of the proceeds of enforcement.

The Individual Work-out Plan Agreement (as defined in "*Korean Legal Considerations – Insolvency Laws – Individual Work-out Plans*") took effect on September 25, 2002 (and which has subsequently been amended) to assist qualifying individuals who are in financial difficulty to avoid personal bankruptcy. The Individual Work-out Plan Agreement applies to sole practitioners and to individuals who have a bad credit history, who owe ₩1.5 billion or less to financial institutions and (i) whose income exceeds a specified minimum or (ii) who are determined by the Review Committee (as defined in "*Korean Legal Considerations – Insolvency Laws – Individual Work-out Plans*") to be able to repay their debts. The amendment to the Individual Work-out Plan Agreement, which took effect on April 13, 2009, expands the applicability of the Individual Work-out Plan Agreement by introducing the concept of "pre-workout plans" for debtors whose delinquency period is less than the three-month period required for qualifying for Individual Work-out Plans. If the Individual Work-out Plan is adopted by approval of creditor financial institutions representing more than 50 per cent. of the debtor's outstanding unsecured debt and 50 per cent. or more of the debtor's outstanding secured debt, the creditor financial institutions are bound by its terms. If an Individual Work-out Plan or Pre-Work-out Plan in respect of any Obligor takes effect, the Asset Monitor's ability to apply the Cover Pool assets to pay the Priority Payment Right Holders following the service of an Issuer EOD Notice may be adversely affected.

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Covered Bonds issued under the Programme.

[Date]

Kookmin Bank
Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]
under the U.S.$8,000,000,000 Global Covered Bond Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated June 12, 2015 [and the supplement[s] to the Base Prospectus dated [date] which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplement[s]] [is] [are] available for viewing on the website of the Luxembourg Stock Exchange (www.bourse.lu).

[*The following alternative language applies if the first Tranche of a Series which is being increased was issued under a Base Prospectus 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 Covered Bonds (the "**Conditions**") set forth in the Base Prospectus dated June 12, 2015. This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of Directive 2003/71/EC (the "**Prospectus Directive**") and must be read in conjunction with the Base Prospectus dated [*current date*] [and the supplement[s] to the Base Prospectus dated [*date*]] which [*together*] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated June 12, 2015 and are attached hereto. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated June 12, 2015 and [*current date*] [as so supplemented]. Copies of such Base Prospectuses [and the supplement[s]] are available for viewing on the website of the Luxembourg Stock Exchange (www.bourse.lu).]

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

[*When adding any other final terms or information, consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive*.]

1	(i)	Series Number:	[●]
	(ii)	Tranche Number:	[●] (*If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible*)
2		Specified Currency or Currencies:	[●]
3		Aggregate Nominal Amount:	
	(i)	Series:	[●]
	(ii)	Tranche:	[●]
4		Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]
5	(i)	Specified Denominations:	[●] (*No Covered Bonds may be issued which have a minimum denomination of less than U.S.$200,000 (but so that in no event will the minimum denomination be lower than €100,000 or its equivalent at the date of issue of the relevant Covered Bonds) and integral multiples of U.S.$1,000*)
	(ii)	Calculation Amount:	[●]
6	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date (if different from the Issue Date):	[●]
		(a) Period to Maturity Date:	[●]
		(b) Period from Maturity Date up to Extended Maturity Date:	[Not Applicable] [*specify period*]
7	(i)	Maturity Date:	[*Fixed rate – specify date/Floating Rate* – Interest Payment Date falling in or nearest to [*specify month and year*]]
	(ii)	Extended Maturity Date:	[Applicable/Not Applicable]

		[The Extended Maturity Date is [*insert date*]][1] (*If an Extended Maturity Date is specified hereon as applicable and if the Issuer fails to redeem all of the relevant Series of Covered Bonds in full on the Maturity Date or within 10 days thereafter, the maturity of the Covered Bonds and the date on which such Covered Bonds will be due and payable for the purposes of the Conditions will be automatically extended up to but no later than the Extended Maturity Date, subject as otherwise provided hereon. See Conditions 4(i) and 5(b).*)
8	Interest Basis:	
	(i) Period to (and including) Maturity Date:	[[●]per cent. Fixed Rate] [[LIBOR/EURIBOR] +/– [●] per cent. Floating Rate] (further particulars specified below)
	(ii) Period from (but excluding) Maturity Date up to (and including) Extended Maturity Date:	[[LIBOR/EURIBOR] +/– [●] per cent. Floating Rate] (further particulars specified below)
9	Redemption/Payment Basis:	Redemption at par
10	Change of Interest Basis:	[*Specify details of any provision for change of Covered Bonds into another Interest Basis*]
11	Put/Call Options:	[Put Option] [Call Option] [(further particulars specified below)]
12	Method of distribution:	[Syndicated/Non-syndicated]

[1] If applicable, the date should be that falling one year after the Maturity Date. If not applicable, insert "Not Applicable".

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13 Fixed Rate Covered Bond Provisions

To Maturity Date:	[Applicable/Not Applicable] (*If the above is not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i) Rate(s) of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]
(ii) Interest Payment Date(s):	[●] in each year up to and including the Maturity Date/[specify other] (*N.B. This will need to be amended in the case of long or short coupons*)
(iii) Fixed Coupon Amount(s):	[●] per Calculation Amount
(iv) Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
(v) Day Count Fraction (subject to paragraph 23):	[Actual/Actual (ICMA) or 30/360 or [specify other]]
(vi) Determination Date(s):	[●] in each year [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon* *N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration* *N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)*]
(vii) Other terms relating to the method of calculating interest for Fixed Rate Covered Bonds:	[None/*Give details*]

14 Floating Rate Covered Bond Provisions

(I) To Maturity Date:	[Applicable/Not Applicable]

(II)	From Maturity Date up to Extended Maturity Date:	[Applicable/Not Applicable] (*If (I) and (II) above are not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Interest Period(s)/Specified Interest Payment Dates:	
	(a) To Maturity Date:	[Not Applicable] [●] [in each case subject to adjustment in accordance with the Business Day Convention]
	(b) From Maturity Date up to Extended Maturity Date:	[Not Applicable] [●] [in each case subject to adjustment in accordance with the Business Day Convention]
(ii)	Business Day Convention:	
	(a) To Maturity Date:	[Not Applicable] [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[*specify other*]]
	(b) From Maturity Date up to Extended Maturity Date:	[Not Applicable] [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[*specify other*]]
(iii)	Additional Business Centre(s):	
	(a) To Maturity Date:	[Not Applicable] [●]
	(b) From Maturity Date up to Extended Maturity Date:	[Not Applicable] [●]
(iv)	Manner in which the Rate of Interest and Interest Amount is to be determined:	
	(a) To Maturity Date:	[Screen Rate Determination/ISDA Determination/[*specify other*]]
	(b) From Maturity Date up to Extended Maturity Date:	[Not Applicable] [Screen Rate Determination/ ISDA Determination/[*specify other*]]

(v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Calculation Agent):

(a) To Maturity Date: [Not Applicable] [●]

(b) From Maturity Date up to Extended Maturity Date: [Not Applicable] [●]

(vi) Screen Rate Determination:

(a) To Maturity Date:

– Reference Rate: [●]
(*Either LIBOR, EURIBOR or other, – although additional information is required if other – including the fall back provisions in the Conditions*)

– Interest Determination Date(s): [●]
(*Second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of each Interest Period if LIBOR (other than euro LIBOR or Sterling LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*)

– Relevant Screen Page: [●]
(*In the case of EURIBOR, if not Reuters Page EURIBOR01 (or any successor page), ensure it is a page which shows a composite rate or amend the fall back provisions appropriately*)

(b) From Maturity Date up to Extended Maturity Date: [Not Applicable]

– Reference Rate: [●]
(*Either LIBOR, EURIBOR or other, – although additional information is required if other – including the fall back provisions in the Conditions*)

– Interest Determination Date(s): [●]
(*Second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of each Interest Period if LIBOR (other than euro LIBOR or Sterling LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*)

– Relevant Screen Page: [●]
(*In the case of EURIBOR, if not Reuters Page EURIBOR01 (or any successor page), ensure it is a page which shows a composite rate or amend the fall back provisions appropriately*)

(vii) ISDA Determination

(a) To Maturity Date: [Not Applicable]

– Floating Rate Option: [●]
– Designated Maturity: [●]
– Reset Date: [●]

(b) From Maturity Date up to Extended Maturity Date: [Not Applicable]

– Floating Rate Option: [●]
– Designated Maturity: [●]
– Reset Date: [●]

(viii) Margin(s):

(a) To Maturity Date: [Not Applicable] [+/-][●] per cent. per annum

(b) From Maturity Date up to Extended Maturity Date: [Not Applicable] [+/-][●] per cent. per annum

(ix) Minimum Rate of Interest:

(a) To Maturity Date: [Not Applicable] [●] per cent. per annum

(b) From Maturity Date up to Extended Maturity Date: [Not Applicable] [●] per cent. per annum

(x) Maximum Rate of Interest:

(a) To Maturity Date: [Not Applicable] [●] per cent. per annum

(b) From Maturity Date up to Extended Maturity Date: [Not Applicable] [●] per cent. per annum

(xi) Day Count Fraction:

(a) To Maturity Date:	[Not Applicable] [Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 *Other*]
(b) From Maturity Date up to Extended Maturity Date:	[Not Applicable] [Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 *Other*] (*See Condition 4(g) for alternatives*)

(xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Covered Bonds, if different from those set out in the Conditions:

(a) To Maturity Date:	[Not Applicable] [●]
(b) From Maturity Date up to Extended Maturity Date:	[Not Applicable] [●]

PROVISIONS RELATING TO REDEMPTION

15 Call Option	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i) Optional Redemption Date(s):	[●]
(ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
(iii) If redeemable in part:	
Minimum Redemption Amount:	[●] per Calculation Amount
Maximum Redemption Amount:	[●] per Calculation 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 Issuing and Paying Agent or the Covered Bondholders*)
16	Put Option:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Covered Bond and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) Notice period (if other than as set out in the Conditions):	[●] (*N.B. If setting notice periods which are different 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 Trustee or the Covered Bondholders*)
17	Final Redemption Amount of each Covered Bond:	[●] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

18	Form of Covered Bonds:	
	Form:	[Bearer Covered Bonds: Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Definitive Bearer Covered Bonds in the limited circumstances specified in the Permanent Global Covered Bond] [Permanent Global Covered Bond exchangeable for Definitive Covered Bonds in the limited circumstances specified in the Permanent Global Covered Bond]

		[Registered Covered Bonds: [Unrestricted Global Certificate [●] nominal amount registered in the name of a nominee for [DTC/a Common Depositary for Euroclear and Clearstream, Luxembourg] [Restricted Global Certificate [●] nominal amount registered in the name of a nominee for [DTC/a Common Depositary for Euroclear and Clearstream, Luxembourg]]
19	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 item 14(iii) relates*)
20	Talons for future Coupons to be attached to Definitive Covered Bonds (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
21	Additional U.S. federal income tax considerations:	[Not Applicable/*give details*]
22	Calculation Agent	[●]

Responsibility

The Issuer accepts responsibility for the information contained in these Final Terms. [[●] has been extracted from [●]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By: [●]
Duly authorised

PART B – OTHER INFORMATION

1 Listing and Admission to Trading

(a) Listing and Admission to trading:	[Application has been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the Luxembourg Stock Exchange's regulated market and listing on the Official List of the Luxembourg Stock Exchange with effect from [●].][Application is expected to be made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the regulated market of the Luxembourg Stock Exchange with effect from [●].] [Not applicable]
(b) Estimate of total expenses related to admission to trading:	[●]

2 Ratings

Ratings:	[The Covered Bonds to be issued [have been]/[are expected to be] assigned the following rating: [Moody's: [●]] Fitch: [●]] The Covered Bonds to be issued have not been assigned any rating]

3 Interests of Natural and Legal Persons involved in the Issue

[Save for any fees payable to the [*Arranger / Dealers*] so far as the Issuer is aware, no person involved in the issue of the Covered Bonds has an interest material to the offer.] [The [Arranger/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.] [*Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest.*]

4 Yield to Maturity Date (Fixed Rate Notes only)

Indication of yield:	[●] [The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

5 Operational Information

(a) ISIN Code:	[●] [The temporary ISIN code is [●]. After the Exchange Date, the ISIN code will be [●]]

(b)	Common Code:	[●] [The temporary Common Code is [●]. After the Exchange Date, the Common Code will be [●].]
(c)	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable/[●] [*address*]]
(d)	Delivery:	Delivery [against/free of] payment
(e)	Names and addresses of additional Paying Agent(s) (if any):	[●]

TERMS AND CONDITIONS OF THE COVERED BONDS

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Covered Bonds in definitive form (if any) issued in exchange for the Global Covered Bond(s) or the Global Certificate(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Covered Bonds or on the Certificates relating to such Registered Covered Bonds. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms or the Master Definitions Agreement, as the case may be. Those definitions will be endorsed on the definitive Covered Bonds or Certificates, as the case may be. References in these Conditions to "Covered Bonds" are to the Covered Bonds of one Series only, not to all Covered Bonds that may be issued under the Programme, unless otherwise provided.

The Covered Bonds are constituted by a Trust Deed (as amended or supplemented as at the date of issue of the Covered Bonds (the "**Issue Date**"), the "**Trust Deed**") dated June 12, 2015 between the Issuer and BNY Mellon Corporate Trustee Services Limited (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Covered Bondholders (as defined below). These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Covered Bonds, Certificates, Coupons and Talons referred to below. An Agency Agreement (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") dated June 12, 2015 has been entered into in relation to the Covered Bonds between the Issuer, the Trustee, The Bank of New York Mellon, London Branch as initial issuing and paying agent and the other agents named in it. The issuing and paying agent, the other paying agents, the exchange agent, the registrars, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Issuing and Paying Agent**", the "**Paying Agents**" (which expression shall include the Issuing and Paying Agent), the "**Exchange Agent**", the "**Registrars**", the "**Transfer Agents**" (which expression shall include the Registrars) and the "**Calculation Agent(s)**". Copies of the Trust Deed, the Agency Agreement and each of the other Transaction Documents are available for inspection during usual business hours at the principal office of the Trustee (presently at One Canada Square, London E14 5AL, United Kingdom) and at the specified offices of the Paying Agents and the Transfer Agents. The Covered Bondholders and the holders of the interest coupons (the "**Coupons**") relating to interest bearing Covered Bonds in bearer form and, where applicable in the case of such Covered Bonds, talons for further Coupons (the "**Talons**") (the "**Couponholders**") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and those provisions of the Agency Agreement, the Master Definitions Agreement and each of the other Transaction Documents which are applicable to them.

Except where the context otherwise requires, capitalised terms used and not otherwise defined in these Conditions (including the preceding paragraphs) shall bear the meanings given to them in the master definitions schedule made between, *inter alia*, the Issuer, the Trustee, the Issuing and Paying Agent and the Registrars (as amended and/or supplemented and/or restated from time to time, the "**Master Definitions Agreement**").

The Trust Deed contains provisions for determining the U.S. dollar equivalent of the nominal amount of any Covered Bonds denominated in a currency other than U.S. dollars, where any matter has to be determined by reference to either (i) an Extraordinary Resolution of the holders of the Covered Bonds of all outstanding Series as if they were a single Series or (ii) the holders of a specified percentage in nominal amount of the Covered Bonds of all outstanding Series as if they were a single Series.

1 Form, Denomination and Title

The Covered Bonds are issued in bearer form ("**Bearer Covered Bonds**") or in registered form ("**Registered Covered Bonds**") in each case in the specified denomination(s) shown in the relevant Final Terms (the "**Specified Denomination**"). References in these Conditions to "**Covered Bonds**" are to Bearer Covered Bonds and Registered Covered Bonds collectively, or to the Bearer Covered Bonds or, as the case may be, the Registered Covered Bonds, as applicable.

This Covered Bond is a Fixed Rate Covered Bond or a Floating Rate Covered Bond or any other kind of Covered Bond, depending upon the Interest and Redemption/Payment Basis shown in the relevant Final Terms.

Bearer Covered Bonds are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached.

Registered Covered Bonds are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Covered Bonds by the same holder.

Title to the Bearer Covered Bonds and the Coupons and Talons shall pass by delivery. Title to the Registered Covered Bonds shall pass by registration in the register that the Issuer shall procure to be kept by the relevant Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Covered Bond, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Covered Bondholder**" means the bearer of any Bearer Covered Bond or the person in whose name a Registered Covered Bond is registered (as the case may be), "**holder**" (in relation to a Covered Bond, Coupon or Talon) means the bearer of any Bearer Covered Bond, Coupon or Talon or the person in whose name a Registered Covered Bond is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Covered Bonds.

2 No Exchange of Covered Bonds and Transfers of Registered Covered Bonds

(a) **No Exchange of Covered Bonds:** Registered Covered Bonds may not be exchanged for Bearer Covered Bonds. Bearer Covered Bonds of one Specified Denomination may not be exchanged for Bearer Covered Bonds of another Specified Denomination. Bearer Covered Bonds may not be exchanged for Registered Covered Bonds.

(b) **Transfer of Registered Covered Bonds:** Subject to Condition 2(f) (*Closed Periods*), one or more Registered Covered Bonds may be transferred upon the surrender (at the specified office of the relevant Registrar or any other Transfer Agent) of the Certificate representing such Registered Covered Bonds to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the relevant Registrar or such other Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Covered Bonds represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Covered Bonds and entries on the Register will be made subject to the detailed regulations concerning transfers of Covered Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the relevant Registrar and the Trustee. A copy of the current regulations will be made available by the relevant Registrar to any Covered Bondholder upon request.

(c) **Exercise of Options or Partial Redemption in Respect of Registered Covered Bonds:** In the case of an exercise of an Issuer's or Covered Bondholders' option in respect of, or a partial redemption of, a holding of Registered Covered Bonds represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Covered Bonds of the same holding having different terms, separate Certificates shall be issued in respect of those Covered Bonds of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the relevant Registrar or any other Transfer Agent. In the case of a transfer of Registered Covered Bonds to a person who is already a holder of Registered Covered Bonds, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Condition 2(b) or Condition 2(c) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 5(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the relevant Registrar or of the other Transfer Agent (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Registrar or the relevant Transfer Agent (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Registrar or the relevant Transfer Agent (as the case may be).

(e) **Transfers Free of Charge:** Transfers of Covered Bonds and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the relevant Registrar or the Transfer Agents, but upon

payment by the relevant Covered Bondholder of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or prefunding as the relevant Registrar or the relevant Transfer Agent may require).

(f) **Closed Periods:** No Covered Bondholder may require the transfer of a Registered Covered Bond to be registered (i) during the period of 15 days ending on the due date for redemption of that Covered Bond, (ii) during the period of 15 days prior to any date on which Covered Bonds may be called for redemption by the Issuer at its option pursuant to Condition 5(d), (iii) after any such Covered Bond has been called for redemption, or (iv) during the period of seven days ending on (and including) any Record Date.

3 Status

The Covered Bonds and the Coupons constitute unsubordinated obligations of the Issuer issued in accordance with the Act on Issuance of Covered Bonds and relevant executive decrees and regulations related thereto as the same may be supplemented, amended, modified or varied from time to time (the "**Korean Covered Bond Laws**") and shall at all times rank *pari passu* and without any preference among themselves and with all other obligations of the Issuer that have been provided the same priority as the Covered Bonds under the Cover Pool Priority of Payments. To the extent that claims in relation to the Covered Bonds, the Coupons and the Priority Payment Rights are not met out of the assets of the Issuer that are covered in accordance with the Korean Covered Bond Laws, the residual claims will at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer (other than those preferred by law), present and future. By subscribing for a Covered Bond, each Covered Bondholder agrees to be bound by the Cover Pool Priority of Payments.

4 Interest and other Calculations

(a) **Interest on Fixed Rate Covered Bonds:** Each Fixed Rate Covered Bond bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 4(f).

(b) **Interest on Floating Rate Covered Bonds**:

(i) *Interest Payment Dates:* Each Floating Rate Covered Bond bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 4(f). Such Interest Payment Date(s) is/are either shown in the relevant Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown in the relevant Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day

Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interestfor Floating Rate Covered Bonds:* The Rate of Interest in respect of Floating Rate Covered Bonds for each Interest Accrual Period shall be determined in the manner specified in the relevant Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Final Terms.

(A) ISDA Determination for Floating Rate Covered Bonds:

Where ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified in the relevant Final Terms;

(y) the Designated Maturity is a period specified in the relevant Final Terms; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Final Terms.

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

(B) Screen Rate Determination for Floating Rate Covered Bonds:

(x) Where Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean 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 either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation 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 Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Covered Bonds is specified in the relevant Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Covered Bonds will be determined as provided in the relevant Final Terms.

(y) If the Relevant Screen Page is not available or if sub-paragraph (x)(1) above applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, then subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

(z) If sub-paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) 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, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation 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 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, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), 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 Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, 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 or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) Linear Interpolation:

Where Linear Interpolation is specified in the relevant Final Terms as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified in the relevant Final Terms as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified in the relevant Final Terms as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"**Applicable Maturity**" means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

(c) **Accrual of Interest:** Interest shall cease to accrue on each Covered Bond on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 4 to the Relevant Date (as defined in Condition 7).

(d) **Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding:**

(i) If any Margin is specified in the relevant Final Terms (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified

Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 4(b) above by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin, subject always to the next paragraph.

(ii) If any Maximum Rate of Interest or Minimum Rate of Interest or Redemption Amount is specified in the relevant Final Terms, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (y) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant shall be rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the relevant country of such currency.

(e) **Calculations:** The amount of interest payable per calculation amount specified in the relevant Final Terms (or, if no such amount is specified, the Specified Denomination) (the "**Calculation Amount**") in respect of any Covered Bond for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the relevant Final Terms, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Covered Bond for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(f) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts and Optional Redemption Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount or Optional Redemption Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount or Optional Redemption Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Covered Bondholders, any other Calculation Agent appointed in respect of the Covered Bonds that is to make a further calculation upon receipt of such information and, if the Covered Bonds are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the

case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 4(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the prior written consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Covered Bonds become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Covered Bonds shall nevertheless continue to be calculated as previously in accordance with this Condition 4 but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(g) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Centre**" means each of London, New York, Seoul and Hong Kong, unless the context otherwise requires or unless otherwise specified in the relevant Final Terms;

"**Business Day**" means:

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

(ii) in the case of euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); and/or

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

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Covered Bond for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Interest Calculation Period**"):

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

(ii) if "**Actual/365 (Fixed)**" is specified in the relevant Final Terms, the actual number of days in the Interest Calculation Period divided by 365;

(iii) if "**Actual/365 (Sterling)**" is specified in the relevant Final Terms, the actual number of days in the Interest Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "**Actual/360**" is specified in the relevant Final Terms, the actual number of days in the Interest Calculation Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the relevant Final Terms, the number of days in the Interest Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

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

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

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

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

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Calculation 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 Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30.

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified in the relevant Final Terms, the number of days in the Interest Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

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

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

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

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

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Calculation 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 Calculation Period, unless such number would be 31, in which case D_2 will be 30.

(vii) if "**30E/360 (ISDA)**" is specified in the relevant Final Terms, the number of days in the Interest Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

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

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

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

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

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Calculation 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 Calculation 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.

(viii) if "**Actual/Actual-ICMA**" is specified in the relevant Final Terms,

(a) if the Interest Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Interest Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Interest Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Interest Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Interest Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"**Determination Date**" means the date(s) specified as such in the relevant Final Terms or, if none is so specified, the Interest Payment Date(s).

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended;

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date;

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Covered Bonds, and unless otherwise specified in the relevant Final Terms, shall mean the Fixed Coupon Amount or Broken Amount specified in the relevant Final Terms as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified in the relevant Final Terms;

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Final Terms or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro;

"**Interest Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date unless otherwise specified in the relevant Final Terms;

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified in the relevant Final Terms;

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. (as the same may be updated, amended or supplemented from time to time), unless otherwise specified in the relevant Final Terms;

"**Rate of Interest**" means the rate of interest payable from time to time in respect of this Covered Bond and that is either specified or calculated in accordance with the provisions in the relevant Final Terms;

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Issuer or as specified in the relevant Final Terms;

"**Reference Rate**" means the relevant LIBOR, EURIBOR or other rate as specified in the relevant Final Terms;

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Final Terms (or any successor or replacement page, section, caption, column or other part of a particular information service);

"**Specified Currency**" means the currency specified as such in the relevant Final Terms or, if none is specified, the currency in which the Covered Bonds are denominated;

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto;

(h) Calculation Agent: The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the relevant Final Terms and for so long as any Covered Bond is outstanding (as defined in the Master Definitions Agreement). Where more than one Calculation Agent is appointed in respect of the Covered Bonds, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior written approval of the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid;

(i) Interest Rate and Payments in the event of an extension of maturity of the Covered Bonds: If an Extended Maturity Date is specified in the relevant Final Terms and the maturity of the Covered Bonds is extended beyond the Maturity Date in accordance with Condition 5(b), the following provisions shall apply:

(i) Each Covered Bond shall bear interest on its outstanding nominal amount from (and including) the Maturity Date to (but excluding) the earlier of the relevant Interest Payment Date after the Maturity Date on which it is redeemed in full and the Extended Maturity Date;

(ii) Such interest shall be payable in arrear on each such Interest Payment Date falling after the Maturity Date, in respect of the interest periods beginning on (and including) the Maturity Date and ending on (but excluding) the first Interest Payment Date after the Maturity Date and each subsequent interest period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date, subject as otherwise provided in the relevant Final Terms. The final Interest Payment Date shall fall no later than the Extended Maturity Date;

(iii) The rate of interest payable in respect of the outstanding nominal amount on each Covered Bond on each such Interest Payment Date falling after the Maturity Date will be a floating rate as specified in the relevant Final Terms and, where applicable, determined by the Calculation Agent as specified in the relevant Final Terms.

This Condition 4(i) shall only apply to the Covered Bonds in respect of which an Extended Maturity Date is specified in the relevant Final Terms and only if the Issuer fails to redeem those Covered Bonds (in full) on the Maturity Date (or within 10 days thereafter) and the maturity of those Covered Bonds is automatically extended up to the Extended Maturity Date in accordance with Condition 5(b).

5 Redemption, Purchase and Options

(a) **Final Redemption:**

Unless previously redeemed, purchased and cancelled as provided below, each Covered Bond shall be redeemed on the Maturity Date specified in the relevant Final Terms at its Final Redemption Amount (which is its nominal amount), subject to Condition 5(b) if an Extended Maturity Date is specified in the relevant Final Terms.

(b) **Extension of maturity up to Extended Maturity Date:**

(i) An Extended Maturity Date may be specified in the relevant Final Terms as applying to the relevant Series of Covered Bonds, and this Condition 5(b) shall only apply to the relevant Series of Covered Bonds if an Extended Maturity Date is specified in the relevant Final Terms;

(ii) If an Extended Maturity Date is specified in the relevant Final Terms as applicable and the Issuer fails to redeem all of the relevant Series of Covered Bonds in full on the Maturity Date or within 10 days thereafter, the maturity of the Covered Bonds and the date on which such Covered Bonds will be due and payable for the purposes of these Conditions will be automatically extended up to but no later than the Extended Maturity Date, subject as otherwise provided for in the relevant Final Terms. The Issuer (or, if the Trustee has given an Issuer EOD Notice pursuant to

Condition 10(a), the Asset Monitor on behalf of the Issuer) shall give notice to the holders of Covered Bonds (in accordance with Condition 16) and to the Trustee, the Paying Agents and the Rating Agencies in writing at least five Business Days prior to the Maturity Date confirming whether or not it intends to redeem all or any of the principal amount outstanding of the Covered Bonds on the Maturity Date or within 10 days thereafter. Any failure by the Issuer to notify such persons shall not affect the validity or effectiveness of any redemption by the Issuer on the Maturity Date or within 10 days thereafter or, as the case may be, of any extension of the maturity of the Covered Bonds, or give rise to rights to any such persons;

(iii) Following an extension of the date on which the Series of Covered Bonds will be due and payable to the Extended Maturity Date, the Issuer may redeem all or any part of the principal amount outstanding of the Covered Bonds on any Interest Payment Date falling after the Maturity Date up to and including the Extended Maturity Date or as otherwise provided in the relevant Final Terms. The Issuer (or, if the Trustee has given an Issuer EOD Notice pursuant to Condition 10(a), the Asset Monitor on behalf of the Issuer) shall give notice to the holders of Covered Bonds (in accordance with Condition 16) and to the Trustee and the Paying Agents in writing of its intention to redeem all or any of the principal amount outstanding of the Covered Bonds at least five Business Days prior to the relevant Interest Payment Date or, as applicable, the Extended Maturity Date (such amount to be redeemed to be determined, following the giving of an Issuer EOD Notice, in accordance with the applicable priority of payments as set out in the Establishment Deed). Any failure by the Issuer to notify such persons shall not affect the validity or effectiveness of any redemption by the Issuer on a relevant Interest Payment Date or, as applicable, the Extended Maturity Date or give rise to rights to any such persons;

(iv) Any extension of the maturity of the Covered Bonds under this Condition 5(b) shall be irrevocable;

(v) In the event of the extension of the maturity of the Covered Bonds under this Condition 5(b), interest rates, interest periods and interest payment dates on the Covered Bonds from (and including) the Maturity Date to (but excluding) the Extended Maturity Date shall be determined and made in accordance with the terms specified in the relevant Final Terms and Condition 4(i);

(vi) If the Issuer redeems part and not all of the principal amount outstanding of the Covered Bonds on any Interest Payment Date falling after the Maturity Date, the redemption proceeds shall be applied rateably across the Covered Bonds and the principal amount outstanding of the Covered Bonds shall be reduced by the level of that redemption.

(c) **Redemption for Taxation Reasons:** The Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Covered Bond is a Floating Rate Covered Bond) or at any time (if this Covered Bond is not a Floating Rate Covered Bond), on giving not less than 30 nor more than 60 days' notice to the Covered Bondholders in accordance with Condition 16 (which notice shall be irrevocable) at their Final Redemption Amount (as described in Condition 5(a) above) (together with interest accrued to the date fixed for redemption), if the Issuer delivers a certificate signed by one authorised signatory of the Issuer to the Trustee (which certificate the Trustee shall be entitled to accept as sufficient evidence of the satisfaction of the conditions precedent in (i) and (ii) of this Condition 5(c) without further enquiry and without liability for doing so to the Covered Bondholders and

Couponholders or any other person) before the giving of such notice that (i) it has or will become obliged to pay additional amounts as described under Condition 7 as a result of any change in, or amendment to, the laws or regulations of Korea or any political subdivision or, in each case, any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Covered Bonds, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Covered Bonds then due.

(d) **Redemption at the Option of the Issuer:** If Call Option is specified in the relevant Final Terms, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Covered Bondholders in accordance with Condition 16 (or such other notice period as may be specified in the relevant Final Terms) redeem all or, if so provided, some of the Covered Bonds on any Optional Redemption Date. Any such redemption of Covered Bonds shall be at their Optional Redemption Amount specified in the relevant Final Terms, together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Covered Bonds of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the relevant Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the relevant Final Terms.

All Covered Bonds in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption, the notice to Covered Bondholders shall also contain the certificate numbers of the Bearer Covered Bonds, or in the case of Registered Covered Bonds shall specify the nominal amount of Registered Covered Bonds drawn and the holder(s) of such Registered Covered Bonds to be redeemed, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) **Redemption at the Option of Covered Bondholders:** If Put Option is specified in the relevant Final Terms, the Issuer shall, at the option of the holder of any such Covered Bond, upon the holder of such Covered Bond giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified in the relevant Final Terms) redeem such Covered Bond on the Optional Redemption Date(s) at its Optional Redemption Amount specified in the relevant Final Terms, together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Covered Bonds) such Covered Bond (together with all unmatured Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Covered Bonds) the Certificate representing such Covered Bond(s) with the relevant Registrar or any other Transfer Agent at its specified office, together with a duly completed option exercise notice (an "**Exercise Notice**") in the form obtainable from any Paying Agent, the relevant Registrar or any Transfer Agent (as applicable) within the notice period. No Covered Bond or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) **Purchases:** The Issuer and its subsidiaries may at any time purchase Covered Bonds (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. For the purposes of this Condition 5(f), a "**subsidiary**" of a company or corporation (the "**parent**") shall be construed as a reference to any company or corporation (i) in which the parent holds a majority of the voting rights or (ii) of which the parent is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the parent is a member and controls a majority of the voting rights, and includes any company which is a subsidiary of a subsidiary of the parent.

(g) **Cancellation:** All Covered Bonds purchased by or on behalf of the Issuer or any of its subsidiaries may be surrendered for cancellation, in the case of Bearer Covered Bonds, by surrendering each such Covered Bond together with all unmatured Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Covered Bonds, by surrendering the Certificate representing such Covered Bonds to the relevant Registrar and, in each case, if so surrendered, shall, together with all Covered Bonds redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Covered Bonds so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Covered Bonds shall be discharged.

6 Payments and Talons

(a) **Bearer Covered Bonds:** Payments of principal and interest in respect of Bearer Covered Bonds shall, subject as mentioned below, be made against presentation and surrender of the relevant Covered Bonds (in the case of interest, as specified in Condition 6(f)(v)) or Coupons (in the case of interest, save as specified in Condition 6(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by transfer to an account denominated in such currency with, a Bank. In this Condition 6, "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) **Registered Covered Bonds:**

(i) Payments of principal in respect of Registered Covered Bonds shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the relevant Registrar or any of the other Transfer Agents and in the manner provided in Condition 6(b)(ii) below.

(ii) Interest on Registered Covered Bonds shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Covered Bond shall be made in the relevant currency by transfer to an account in the relevant currency maintained by the payee with a Bank.

(c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Covered Bonds are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Covered Bonds in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or

receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) **Payments subject to Laws:** Save as provided in Condition 7, all payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws and regulations to which the Issuer or its Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commission or expenses shall be charged to the Covered Bondholders or Couponholders in respect of such payments.

(e) **Appointment of Agents:** The Issuing and Paying Agent, the Paying Agents, the Registrars, the Exchange Agent, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the other Paying Agents, the Registrars, the Exchange Agent, the other Transfer Agents and the Calculation Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Covered Bondholder or Couponholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrars, the Exchange Agent, any other Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a relevant Registrar in relation to Registered Covered Bonds, (iii) a Transfer Agent in relation to Registered Covered Bonds, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) Paying Agents having specified offices in at least two major European cities, (vi) such other agents as may be required by any other stock exchange on which the Covered Bonds may be listed in each case, as approved by the Trustee, (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to confirm to, such Directive and (viii) so long as any Registered Covered Bonds payable in a currency other than U.S. dollars are held through DTC or its nominee, an Exchange Agent with a specified office in New York City.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Covered Bonds denominated in U.S. dollars in the circumstances described in Condition 6(c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Covered Bondholders.

(f) **Unmatured Coupons and unexchanged Talons**:

(i) Upon the due date for redemption of Bearer Covered Bonds which comprise Fixed Rate Covered Bonds, such Covered Bonds should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be

paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 8).

(ii) Upon the due date for redemption of any Bearer Covered Bond comprising a Floating Rate Covered Bond, unmatured Coupons relating to such Covered Bond (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Covered Bond, any unexchanged Talon relating to such Covered Bond (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Where any Bearer Covered Bond that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Covered Bonds is presented for redemption without all unmatured Coupons, and where any Bearer Covered Bond is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity and/or security as the Issuer may require.

(v) If the due date for redemption of any Covered Bond is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Covered Bond or Certificate representing it, as the case may be. Interest accrued on a Covered Bond that only bears interest after its Maturity Date shall be payable on redemption of such Covered Bond against presentation of the relevant Covered Bond or Certificate representing it, as the case may be.

(g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Covered Bond, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 8).

(h) **Non-Business Days:** If any date for payment in respect of any Covered Bond or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 6, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" in the relevant Final Terms and:

(i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in euro) which is a TARGET Business Day.

7 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Covered Bonds and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by Korea or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Covered Bondholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Covered Bond or Coupon:

(a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Covered Bond or Coupon by reason of his having some connection with Korea other than the mere holding of the Covered Bond or Coupon; or

(b) **Lawful avoidance of withholding:** to, or to a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Covered Bond (or the Certificate representing it) or Coupon is presented for payment; or

(c) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day; or

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

(e) **Payment by another Paying Agent:** presented (or in respect of which the Certificate representing it is 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 Covered Bond or Coupon to another Paying Agent in a Member State of the European Union.

Notwithstanding any other provision of these Conditions, any amounts to be paid on the Covered Bonds by or on behalf of the Issuer will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

As used in these Conditions, "**Relevant Date**" in respect of any Covered Bond or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is

duly given to the Covered Bondholders that, upon further presentation of the Covered Bond (or relative Certificate) or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation.

References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Covered Bonds, Final Redemption Amounts, Optional Redemption Amounts and all other amounts in the nature of principal payable pursuant to Condition 5 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 4 or any amendment or supplement to it, and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition 7 or any undertaking given in addition to or in substitution for it under the Trust Deed.

8 Prescription

Claims against the Issuer for payment in respect of the Covered Bonds and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

9 Issuer Covenants

The Issuer makes the covenants set out in clause 4 (*Issuer Covenants*) of the Establishment Deed (in these Conditions, the "**Issuer Covenants**") in favour of the Trustee for so long as any of the Covered Bonds are outstanding. The Trustee shall hold the benefit of the Issuer covenants on trust for the Covered Bondholders and Couponholders of the relevant Series.

10 Events of Default

(a) **Issuer Events of Default:** If any of the following events (each an "**Issuer Event of Default**") occurs and is continuing, the Trustee at its discretion may (but is not obliged to do so) and, if so requested in writing by holders of at least 25 per cent. in nominal amount of the Covered Bonds of this Series and the Covered Bonds of all other Series then outstanding as if they were all a single Series or if so directed by an Extraordinary Resolution of holders of Covered Bonds of all outstanding Series as if they were all a single Series shall (but in the case of the happening of any of the events mentioned in sub-paragraphs (iii), (v) and (viii) below, only if the Trustee certifies that the occurrence of such event is materially prejudicial to the interests of the holders of the Covered Bonds of any Series) (subject in each case to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer (which notice shall be copied to the Asset Monitor and the Rating Agencies) (an "**Issuer EOD Notice**") that an Issuer Event of Default has occurred:

(i) **Non-payment under Covered Bonds:** default is made in the payment of any amount of principal or interest in respect of the Covered Bonds of any Series on the due date for payment thereof (including, in respect of Covered Bonds for which an Extended Maturity Date is specified, default in the payment of principal in full on the Maturity Date) and such default remains unremedied for 10 days or, in the case of default in the payment of interest, 15 days thereafter; or

(ii) **Non-payment under Swap Agreement:** default is made by the Issuer in the payment of any amount under any Swap Agreement on the due date for payment thereof and the expiration of any applicable grace period; or

(iii) **Breach of Issuer Covenants:** default is made in the performance or observance of any of the Issuer Covenants (other than in respect of the Pre-Maturity Test (for which Condition 10(a)(xi) applies) or the Asset Coverage Test (for which Condition 10(a)(xii) applies)) and such default remains unremedied for 30 days (or such longer period as the Trustee may permit) after written notice thereof, addressed to the Issuer, has been delivered by the Trustee to the Issuer; or

(iv) **Cross-acceleration:** (1) any Indebtedness in aggregate exceeding U.S.$20,000,000 (or its equivalent in one or more currencies) of the Issuer is not paid within 30 days after the due date or, as the case may be, the expiry of any originally applicable grace period, (2) any Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (in the absence of any event of default, howsoever described) any person entitled to such Indebtedness or (3) the Issuer fails to pay within 30 days after the due date or, as the case may be, the expiry of any originally applicable grace period, any amount payable by it under any Surety, in each case excluding any Indebtedness or Surety for which non-payment is due to an on-going litigation or dispute in a court, arbitral body or other regulatory authority regarding payment of such Indebtedness or Surety; or

(v) **Enforcement proceedings:** a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out upon or against any of the assets or revenues of the Issuer in aggregate exceeding U.S.$10,000,000 and is not discharged or stayed within 60 days; or

(vi) **Cessation of Business:** the Issuer ceases or threatens to cease to carry on the whole or a substantial part of its business save for the purposes of, or pursuant to and followed by, a consolidation, amalgamation, merger or reorganisation; or

(vii) **Security enforced:** a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer in an aggregate amount exceeding U.S.$10,000,000; or

(viii) **Insolvency, etc.:** (1) the Issuer becomes insolvent or is unable to pay its debts generally as they fall due; (2) an administrator or liquidator of the Issuer or the whole or any part of the undertaking, assets and revenues of the Issuer is appointed (or application for any such appointment is made and is not withdrawn within 60 days thereafter), (3) the Issuer takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Surety given by it, or (4) the Issuer ceases or threatens to cease to be a foreign exchange bank with a general banking licence in Korea; or

(ix) **Winding up:** an order is made or an effective resolution is passed for the winding up of the Issuer; or

(x) **Analogous event:** any event occurs which under the laws of Korea has an analogous effect to any of the events referred to in Conditions 10(v) to 10(ix) (both inclusive) above; or

(xi) **Failure of Pre-Maturity Test:** (1) the Pre-Maturity Test in respect of any Series of Hard Bullet Covered Bonds is breached during the Pre-Maturity Test Period of such Series of Hard Bullet Covered Bonds and the Issuer does not add

Pre-Maturity Liquidity Assets to the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and/or of the Reserve Securities Account with a Pre-Maturity Liquidity Assets Value at least equal to the Series Required Redemption Amount on or before the earlier of (i) 20 Korean Business Days following such failure of the Pre-Maturity Test and (ii) the Maturity Date of such Series of Hard Bullet Covered Bonds (such earlier date, the "**Series Required Redemption Amount Cut-off Date**"), except where the Pre-Maturity Test Cure Requirement is satisfied in respect of all Series of Hard Bullet Covered Bonds which are scheduled to mature within 12 months of such Pre-Maturity Test Date on or prior to the Series Required Redemption Amount Cut-off Date), or (2) in relation to all PMT Ongoing Test Series, the Issuer fails to add Pre-Maturity Liquidity Assets to the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and/or of the Reserve Securities Account with a Pre-Maturity Liquidity Assets Value at least equal to the PMT Shortfall Amount (if any) in respect of a PMT Shortfall Valuation Date on or before the immediately succeeding PMT Shortfall Valuation Date, except where the Pre-Maturity Test Cure Requirement is satisfied on any Pre-Maturity Test Date during the period from the date of determination of such PMT Shortfall Amount to (and including) such immediately succeeding PMT Shortfall Valuation Date; or

(xii) **Failure of Asset Coverage Test:** (1) an Asset Coverage Test Breach Notice has been served and remains outstanding and has not been revoked or deemed to have been revoked on or before the second Calculation Date after service of such Asset Coverage Test Breach Notice by the Asset Monitor on the Issuer, or (2) an Asset Coverage Test Breach Notice has been served on the Issuer by the Asset Monitor following the determination by the Asset Monitor that there have been errors in the relevant calculations of the Asset Coverage Test performed by the Issuer and that the Asset Coverage Test was not satisfied on the previous three Calculation Dates (where the Issuer had recorded it as being satisfied on those days), and such breach of the Asset Coverage Test is not cured within 60 days of receipt of that Asset Coverage Test Breach Notice; or

(xiii) **Covered Bond Event of Default:** the occurrence of a Covered Bond Event of Default.

(b) **Covered Bond Events of Default:** If, following the occurrence of an Issuer Event of Default which is continuing and in respect of which an Issuer EOD Notice has been given by the Trustee to the Issuer, any of the following events (each a "**Covered Bond Event of Default**") occurs and is continuing, the Trustee at its discretion may (but is not obliged to do so) and, if so requested in writing by holders of at least 25 per cent. in nominal amount of the Covered Bonds of this Series and the Covered Bonds of all other Series then outstanding as if they were all a single Series, or if so directed by an Extraordinary Resolution of holders of Covered Bonds of all outstanding Series as if they were all a single Series, shall (subject in each case to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction) give notice to the Issuer (which notice shall be copied to the Asset Monitor and the Rating Agencies) (an "**Acceleration Notice**") that the Covered Bonds shall immediately become due and repayable, whereupon the Covered Bonds shall immediately become due and repayable at their Final Redemption Amount together with accrued interest as provided in the Trust Deed:

(i) **Failure of Amortisation Test**: failure to satisfy the Amortisation Test, and the Issuer fails to bring the Cover Pool into compliance with the Amortisation Test within 30 days of such breach; or

(ii) **Non-payment**: default is made in the payment of any amount of principal or interest in respect of the Covered Bonds of any Series on the due date for payment thereof (subject to Condition 5(b)) and such default remains unremedied for 20 days or, in the case of default in the payment of interest, 25 days thereafter.

(c) The Issuer shall not issue any further Covered Bonds if the Trustee has given an Issuer EOD Notice to the Issuer in accordance with Condition 10(a).

(d) In these Conditions:

(i) "**Indebtedness**" means any obligation (whether present or future, actual or contingent) for the payment or repayment of money which has been borrowed or raised (including money raised by way of acceptances or leasing);

(ii) "**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; and

(iii) "**Surety**" means any obligation of any Person(s) to pay any Indebtedness of another Person(s) in an aggregate principal amount of not less than U.S.$20,000,000 including, without limitation, (1) any obligation to purchase such Indebtedness, (2) any obligation to lend or give money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness, (3) any indemnity against the consequences of a default payment in the payment of such indebtedness and (4) any other agreement to be responsible for such indebtedness.

11 Meetings of Covered Bondholders, Modification, Waiver and Substitution

(a) **Meetings of Covered Bondholders:** The Trust Deed contains provisions for convening meetings of Covered Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed or the other Transaction Documents. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee if requested in writing by Covered Bondholders holding not less than 10 per cent. in nominal amount of the Covered Bonds for the time being outstanding (subject to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction against the costs and expenses of such meeting). The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing more than 50 per cent. in nominal amount of the Covered Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Covered Bondholders whatever the nominal amount of the Covered Bonds held or represented, unless (1) the business of such meeting is the substitution of the Issuer as principal debtor under the Trust Deed, in which case no quorum is required provided that the holders of the relevant nominal amount outstanding of the Covered Bonds have approved such substitution; or (2) the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Covered Bonds, any date for payment of interest or Interest Amounts on the Covered Bonds, in each case, for the avoidance of doubt, other than due to an Extended Maturity Date being specified in the relevant Final Terms, (ii) to reduce or cancel the nominal amount of, or any premium payable on redemption of, the Covered Bonds, (iii) to reduce the rate or rates of interest in respect of the Covered Bonds or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Covered

Bonds, (iv) if a Minimum Rate of Interest and/or a Maximum Rate of Interest or Redemption Amount is shown in the relevant Final Terms, to reduce any such Minimum Rate of Interest and/or Maximum Rate of Interest or any such Redemption Amount, (v) to vary any method of, or basis for, calculating the Final Redemption Amount or the Optional Redemption Amount or (vi) to modify the provisions concerning the quorum required at any meeting of Covered Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent, or at any adjourned meeting not less than 25 per cent, in nominal amount of the Covered Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Covered Bondholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution:

(1) in writing signed by or on behalf of; or

(2) approved by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) to the Issuing and Paying Agent or another specified agent and/or the Trustee in accordance with their operating rules and procedures by or on behalf of,

the holders of not less than 75 per cent. (or, in the case of a resolution regarding the substitution of the Issuer as principal debtor under the Trust Deed, such percentage as is required by the Korean Covered Bond Laws) in nominal amount of the Covered Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Covered Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Covered Bondholders.

The Trust Deed sets out the requirements for the holding of meetings of the Covered Bondholders where the relevant resolution affects one Series alone or more than one Series. The Trust Deed further provides that where any provisions of the Trust Deed or the Conditions expressly require an Extraordinary Resolution of the Covered Bonds of all outstanding Series as if they were all a single Series, any such Extraordinary Resolution shall be deemed to have been duly passed only if passed at a single meeting of the Covered Bondholders of all Series (provided that any such resolution may also be passed by resolutions in writing or approved by way of electronic consents).

These Conditions may be amended, modified or varied in relation to any Series of Covered Bonds by the terms of the relevant Final Terms in relation to such Series.

(b) **Modification of the Transaction Documents:**

(i) Subject to Condition 11(b)(ii) below, the Trustee may agree, without the consent of the Covered Bondholders or Couponholders, to (I) any modification of any of the provisions of the Transaction Documents (including these Conditions) that is of a formal, minor or technical nature or is made to correct a manifest error, and (II) any other modification (other than a modification relating to a Series Reserved Matter or a modification requiring the consent of Covered Bondholders under the Korean Covered Bond Laws), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Transaction Documents (including these Conditions) that is in the opinion of the Trustee not materially prejudicial to the interests of the Covered Bondholders of any Series, provided that in the case of

a waiver or authorisation, the Trustee shall not do so in contravention of an express direction given by an Extraordinary Resolution or a request made pursuant to this Condition 11, and provided further that in each case the Trustee has received a legal opinion from a reputable law firm in Korea confirming that in respect of the relevant modification, waiver or authorisation either (x) no consent is required from the FSC, the MOSF and/or any other relevant Korean authority; or that (y) such consent has been received from the FSC, the MOSF and/or any other relevant Korean authority.

(ii) Notwithstanding Condition 11(b)(i) above and subject to the terms of the Trust Deed, the Trustee shall, without the consent of the Covered Bondholders or Couponholders, be obliged to concur with the Issuer in making any modifications (other than a modification relating to a Series Reserved Matter or a modification requiring the consent of Covered Bondholders under the Korean Covered Bond Laws) to the Transaction Documents (including these Conditions) to which it is a party or entering into any new documents, whether in its existing capacity as Trustee or in a new capacity, that the Issuer considers necessary (provided that in each case the Trustee has received a legal opinion from a reputable law firm in Korea confirming that in respect of the relevant modification or entry into new documents either (x) no consent is required from the FSC, the MOSF and/or any other relevant Korean authority; or that (y) consent has been received from the FSC, the MOSF and/or any other relevant Korean authority):

(I) for the purpose of maintaining the current rating and complying with, or implementing or reflecting, any change in the criteria of one or more of the Rating Agencies which may be applicable from time to time to maintain that rating, provided that the Issuer certifies in writing to the Trustee that such modification or entry into new documents is required solely for such purpose and has been drafted solely to such effect and is necessary to comply with such criteria (including to avoid a downgrade, withdrawal or suspension of the then current rating assigned by each Rating Agency to any Series of Covered Bonds);

(II) for the purpose of enabling any series of Covered Bonds to achieve a Moody's rating of "Aaa" and/or a Fitch rating of "AAA", provided that the Issuer certifies in writing to the Trustee that such modification or entry into new documents is required solely for such purpose and has been drafted solely to such effect and is necessary to achieve such a rating;

(III) for the purpose of making any modification to a Transaction Document or entering into new documents proposed by the Issuer in order (A) for a Swap Provider or an Account Bank to remain eligible to perform its role in such capacity in conformity with the criteria of the Rating Agencies and/or (B) for the Swap Provider or an Account Bank to avoid taking action which it would otherwise be required to take to enable it to continue performing such role (including, without limitation, posting collateral or advancing funds), provided that the Issuer certifies in writing to the Trustee that such modification or entry into new documents is necessary for the purposes described in Conditions 11(b)(ii)(III)(A) and/or 11(b)(ii)(III)(B) above;

(IV) for the purpose of enabling the Covered Bonds issued under the Programme to qualify or to continue to qualify as regulated covered bonds under the Korean Covered Bond Laws and which the Issuer certifies in writing to the Trustee are necessary to comply with the Korean Covered Bond Laws and are

required solely for such purpose and have been drafted solely to such effect or, as the case may be, are solely to implement and reflect the Korean Covered Bond Laws;

(V) for the purpose of enabling the Covered Bonds issued under the Programme or any relevant Transaction Party to comply with any mandatory provisions of law, provided that the Issuer certifies to the Trustee in writing that such modification or entry into new documents is required solely for such purpose and has been drafted solely to such effect;

(VI) for the purpose of enabling the Covered Bonds to be (or to remain) listed on the Stock Exchange, provided that the Issuer certifies to the Trustee in writing that such modification or entry into new documents is required solely for such purpose and has been drafted solely to such effect; or

(VII) for the purpose of enabling the Issuer to issue Covered Bonds in the form of N Bonds under the Programme on the following terms: (1) the terms and conditions of the N Bonds shall be governed by German law (save for Condition 3 (*Status*), which shall be governed by Korean law); (2) the N Bonds shall not be listed or traded on any Stock Exchange, but shall be issued in registered form on a private placement basis to eligible investors; and (3) the N Bonds shall constitute "Covered Bonds" issued under the Programme, ranking *pari passu* with all other Covered Bonds issued from time to time,

provided that the Issuer certifies to the Trustee in writing that such modification or entry into new documents is required solely for such purpose and has been drafted solely to such effect.

Each certificate to be provided by the Issuer or the relevant Transaction Party, as the case may be, pursuant to paragraphs (I) to (VII) above is a "**Modification Certificate**" and it is agreed that the Trustee shall rely on any Modification Certificate absolutely and without further enquiry or liability), provided that:

(1) (except for any modification or entry into new documents pursuant to Condition 11(b)(ii)(VII) the Issuer has provided at least 30 days' notice to the Covered Bondholders of each Series of the proposed modification or entry into new documents in accordance with Condition 16 (*Notices*); and

(2) the Modification Certificate in relation to such modification or entry into new documents shall be provided to the Trustee both at the time the Trustee is notified of the proposed modification or entry into new documents and on the date that such modification or entry into new documents takes effect, and further provided that:

(3) (except for any modification or entry into new documents pursuant to Condition 11(b)(ii)(VII) Covered Bondholders representing at least 10 per cent. in nominal amount of the Covered Bonds of all Series then outstanding as if they were all a single Series (and for this purpose, the nominal amount of Covered Bonds which are not denominated in U.S. dollars shall be the equivalent in U.S. dollars at the spot rate of a bank nominated by the Trustee for the conversion of the relevant currency or currencies into U.S. dollars on the seventh dealing day prior to the last day of the notification period referred to above) have not contacted the Trustee in writing (or otherwise in

accordance with the then current practice of any applicable clearing system through which such Covered Bonds may be held) within such notification period notifying the Trustee that such Covered Bondholders do not consent to the modification or entry into new documents.

If Covered Bondholders representing at least 10 per cent. in nominal amount of the Covered Bonds of all Series then outstanding as if they were all a single Series (and for this purpose, the nominal amount of Covered Bonds which are not denominated in U.S. dollars shall be the equivalent in U.S. dollars at the spot rate of a bank nominated by the Trustee for the conversion of the relevant currency or currencies into U.S. dollars on the seventh dealing day prior to the last day of the notification period referred to above) have notified the Trustee in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Covered Bonds may be held) within the notification period referred to above that they do not consent to the modification or entry into new documents, then such modification or entry into new documents will not be made unless a single Extraordinary Resolution or, as determined in accordance with the provisions of the Trust Deed, separate Extraordinary Resolutions of the Covered Bondholders of the Series affected by such modification or entry into new documents is/are passed in favour of such modification or entry into new documents in accordance with Condition 11(a) (*Meetings of Covered Bondholders*). Objections made in writing other than through the applicable clearing system must be accompanied by evidence to the Trustee's satisfaction (having regard to prevailing market practices) of the relevant Covered Bondholder's holding of the Covered Bonds;

(4) the Issuer obtains from each of the Rating Agencies written confirmation that such modification or entry into new documents would not result in a downgrade, withdrawal or suspension of the then current ratings assigned to any Series of Covered Bonds by such Rating Agency and would not result in any Rating Agency placing any Covered Bonds on rating watch negative (or equivalent) and delivers a copy of each such confirmation to the Issuer and the Trustee;

(5) the Asset Monitor has provided its consent to such modification or entry into new documents prior to the date that such modification or entry into new documents takes effect, such consent not to be unreasonably withheld or delayed; and

(6) the Issuer pays all fees, costs and expenses (including legal fees) properly incurred by the Trustee in connection with such modification, or entry into new documents.

(iii) Any such modification, entry into new documents, authorisation or waiver in accordance with the Trust Deed and this Condition 11(b) shall be binding on the Covered Bondholders and the Couponholders and such modification or entry into new documents shall be notified by the Issuer as soon as reasonably practicable to the Covered Bondholders (in accordance with Condition 16 (*Notices*)), the Asset Monitor and, so long as any of the Covered Bonds rated by the Rating Agencies remains Outstanding, each Rating Agency.

(c) **Substitution:** The Trust Deed provides that if, pursuant to Article 22(3) of the Korean Covered Bond Act, the FSC has requested that the consent of Covered Bondholders be sought in preparation for an order to be given by the FSC that the contracts relating to the Covered Bonds be transferred to another issuer, the Issuer will seek, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, the consent of holders of Covered Bonds of all outstanding Series as if they were all a single Series of Covered Bonds acting by Extraordinary Resolution, to the substitution of the relevant substitute issuer that is an 'Eligible Issuer' for the purposes of the Korean Covered Bond Act (the "**Substituted Obligor**") in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Covered Bonds, provided that the Issuer and the Substituted Obligor comply with such other requirements as the Trustee may direct in the interests of the Covered Bondholders.

Notice of the substitution shall be given to the Covered Bondholders (in accordance with Condition 16) within 14 days of the execution of such documents and compliance with such requirements.

Provided that holders of Covered Bonds of all outstanding Series as if they were a single Series, acting by Extraordinary Resolution, have approved such substitution, and upon completion of the formalities set out in the Trust Deed, the Substituted Obligor shall be deemed to be named in the Transaction Documents, the Covered Bonds, the Certificates, the Coupons and the Talons as the principal debtor in place of the Issuer (or of any previous substitute) and the Transaction Documents, the Covered Bonds, the Certificates, the Coupons and the Talons shall be deemed to be amended as necessary to give effect to the substitution.

(d) **Entitlement of the Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition 11) the Trustee shall have regard to the interests of the Covered Bondholders as a class and shall not have regard to the consequences of such exercise for individual Covered Bondholders or Couponholders, and the Trustee shall not be entitled to require, nor shall any Covered Bondholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Covered Bondholders or Couponholders.

(e) **Deemed consent to termination or resignation of Asset Monitor:** By holding Covered Bonds, each Covered Bondholder is deemed to consent to the resignation or termination of the Asset Monitor if:

(i) such resignation or termination of the Asset Monitor is due to the appointment of the Asset Monitor as the auditor of the Issuer or where it is expected that the Asset Monitor will be appointed as the auditor of the Issuer; or

(ii) an Extraordinary Resolution of holders of Covered Bonds of all outstanding Series as if they were all a single Series has approved such resignation or termination of the Asset Monitor.

12 Enforcement

At any time after the Covered Bonds become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings and/or other steps or action (including lodging an appeal in any proceedings) against or in relation to the Issuer or any other person as it may think fit to enforce the terms of the Trust Deed, the Covered Bonds and the Coupons, but it need not take any such proceedings unless (a) it shall have been so

directed by the Covered Bondholders acting by way of an Extraordinary Resolution of holders of Covered Bonds of all outstanding Series as if they were all a single Series or so requested in writing by Covered Bondholders holding at least 25 per cent. in nominal amount of the Covered Bonds of all outstanding Series as if they were all a single Series, and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Covered Bondholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing. Any proceeds received by a Covered Bondholder pursuant to any such proceedings brought by a Covered Bondholder shall be paid promptly following receipt thereof to the Trustee for application pursuant to clause 12 of the Establishment Deed or, as the case may be, pursuant to Clause 5.1 of the Trust Deed.

13 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee may rely without liability to Covered Bondholders or Couponholders on any report, confirmation or certificate or any advice of any accountants, legal advisers, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, certificate or advice and, in such event, such report, confirmation, certificate or advice shall be binding on the Issuer, the Trustee and the Covered Bondholders and Couponholders.

14 Replacement of Covered Bonds, Certificates, Coupons and Talons

If a Covered Bond, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Covered Bonds, Coupons or Talons) and of the relevant Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Covered Bondholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Covered Bond, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Covered Bonds, Certificates, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Covered Bonds, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

15 Further Issues

The Issuer may from time to time without the consent of the Covered Bondholders or Couponholders create and issue further covered bonds either having the same terms and conditions as the Covered Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding Covered Bonds of any series (including the Covered Bonds) or upon such terms as the Issuer may determine at the time of their issue, subject to the Trustee receiving written confirmation from the Issuer that:

(a) the Asset Coverage Test was satisfied on the previous Calculation Date and will continue to be satisfied after the issue of any further covered bonds; and

(b) no Issuer Event of Default has occurred or will occur as a consequence of the issue of any further covered bonds.

References in these Conditions to the Covered Bonds include (unless the context requires otherwise) any further covered bonds issued pursuant to this Condition 15 and forming a single series with the Covered Bonds. Any further covered bonds forming a single series with the outstanding securities of any series (including the Covered Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other covered bonds may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Covered Bondholders and the holders of Covered Bonds of other series in certain circumstances. The Issuer shall notify each Rating Agency upon the issue of any further covered bonds.

16 Notices

Notices to the holders of Registered Covered Bonds shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Covered Bonds shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). So long as the Covered Bonds are listed on the Luxembourg Stock Exchange, notices to the holders of the Covered Bonds shall also be published either on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) or in a daily newspaper with general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Covered Bonds in accordance with this Condition 16.

17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Covered Bonds under the Contracts (Rights of Third Parties) Act 1999.

18 Governing Law and Jurisdiction

(a) **Governing Law:** The Trust Deed, the Covered Bonds, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law save that the provisions of Condition 3 are governed by, and shall be construed in accordance with, Korean law.

(b) **Jurisdiction:** The courts of England are to have jurisdiction to settle any disputes (whether contractual or non-contractual) that may arise out of or in connection with any Covered Bonds, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Covered Bonds, Coupons or Talons ("**Proceedings**") may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

(c) **Service of Process:** The Issuer has in the Trust Deed irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any Proceedings in England.

SUMMARY OF PROVISIONS RELATING TO THE COVERED BONDS WHILE IN GLOBAL FORM

Initial Issue of the Covered Bonds

Global Covered Bonds and Global Certificates may be delivered on or prior to the original Issue Date of the Tranche to the Common Depositary.

Upon the initial deposit of a Global Covered Bonds with the Common Depositary or registration of Registered Covered Bonds in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Covered Bonds equal to the nominal amount thereof for which it has subscribed and paid.

Upon the initial deposit of a Global Certificate in respect of, and registration of, Registered Covered Bonds in the name of a nominee for DTC and delivery of the relevant Global Certificate to the custodian for DTC, DTC will credit each participant with a nominal amount of Covered Bonds equal to the nominal amount thereof for which it has subscribed and paid.

Covered Bonds that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Covered Bonds that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg, DTC or any alternative clearing system ("**Alternative Clearing System**") as the holder of a Covered Bond represented by a Global Covered Bond or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg, DTC or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Covered Bond or the holder of the underlying Registered Covered Bond, as the case may be, and in relation to all other rights arising under the Global Covered Bonds or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, DTC or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Covered Bonds for so long as the Covered Bonds are represented by such Global Covered Bond or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Covered Bond or the holder of the underlying Registered Covered Bonds, as the case may be, in respect of each amount so paid.

Exchange

Temporary Global Covered Bonds

Each temporary bearer Global Covered Bond (the "**Temporary Global Covered Bond**") will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(i) if the relevant Final Terms indicates that such Global Covered Bond is issued in compliance with the U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) or in a transaction to which United States Tax Equity and Fiscal Responsibility Act of 1982 is not applicable, in whole, but not in part, for the Definitive Covered Bond defined and described below; and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a Permanent Global Covered Bond or, if so provided in the relevant Final Terms, for Definitive Covered Bonds.

Permanent Global Covered Bond

Each permanent bearer Global Covered Bond (the "**Permanent Global Covered Bond**") will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under "– *Delivery of Covered Bonds*" below, in part for Definitive Covered Bonds if the Permanent Global Covered Bond is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so by such holder giving notice to the Issuing and Paying Agent.

Global Certificates

(a) Unrestricted Global Certificates

If the Final Terms state that the Covered Bonds are to be represented by an Unrestricted Global Certificate on issue, the following will apply in respect of transfers of Covered Bonds held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Covered Bonds within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Covered Bonds may be withdrawn from the relevant clearing system.

Transfers of the holding of Covered Bonds represented by any Global Certificate pursuant to Condition 2(b) may only be made:

(i) in whole but not in part, if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

(ii) in whole or in part, with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to sub-paragraph (i) or (ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

(b) Restricted Global Certificates

If the Final Terms state that the Restricted Covered Bonds are to be represented by a Restricted Global Certificate on issue, the following will apply in respect of transfers of Covered Bonds held in DTC. These provisions will not prevent the trading of interests in the Covered Bonds within a clearing system whilst they are held on behalf of DTC, but will limit the circumstances in which the Covered Bonds may be withdrawn from DTC. Transfers of the holding of Covered Bonds represented by that Restricted Global Certificate pursuant to Condition 2(b) may only be made:

(i) in whole but not in part, if such Covered Bonds are held on behalf of a custodian for DTC and if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to that Restricted Global Certificate or DTC ceases to be a "clearing agency" registered under the Exchange Act or is at any time no longer eligible to act as such, and this Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; or

(ii) in whole or in part, with the Issuer's consent,

provided that, in the case of any transfer pursuant to (i) above, the relevant Registered Covered Bondholder has given the relevant Registrar not less than 30 days' notice at its specified office of the Registered Covered Bondholder's intention to effect such transfer. Individual Certificates issued in exchange for a beneficial interest in a Restricted Global Certificate shall bear the legend applicable to such Covered Bonds as set out in "*Subscription and Sale and Transfer and Selling Restrictions*".

Delivery of Covered Bonds

On or after any due date for exchange, the holder of a Global Covered Bond may surrender such Global Covered Bond or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Covered Bond, or the part thereof to be exchanged, the Issuer will (i) in the case of a Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond, deliver, or procure the delivery of, a Permanent Global Covered Bond in an aggregate nominal amount equal to that of the whole or that part of a Temporary Global Covered Bond that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a Permanent Global Covered Bond to reflect such exchange or (ii) in the case of a Global Covered Bond exchangeable for Definitive Covered Bonds, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Covered Bonds. Definitive Covered Bonds will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each Permanent Global Covered Bond, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Covered Bonds.

Exchange Date

"**Exchange Date**" means, in relation to a Temporary Global Covered Bond, the day falling after the expiry of 40 days after its Issue Date and, in relation to a Permanent Global Covered Bond, a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located.

Amendment to Conditions

The Temporary Global Covered Bonds, Permanent Global Covered Bonds and Global Certificates contain provisions that apply to the Covered Bonds that they represent, some of which modify the effect of the terms and conditions of the Covered Bonds set out in this Base Prospectus. The following is a summary of certain of those provisions:

Payments

No payment falling due after the Exchange Date will be made on any Global Covered Bond unless exchange for an interest in a Permanent Global Covered Bond or for Definitive Covered Bonds is improperly withheld or refused. Payments on any Temporary Global Covered Bond issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Covered Bonds represented by a Global Covered Bond will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Covered Bonds, surrender of that Global Covered Bond to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Covered Bondholders for such purpose. A record of each payment so made will be endorsed on

each Global Covered Bond, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Covered Bonds. Condition 7(e) and Condition 8(e) will apply to the Definitive Covered Bonds only. For the purpose of any payments made in respect of a Global Covered Bond, the relevant place of presentation shall be disregarded in the definition of "business day" set out in Condition 6(h) (*Non-Business Days*).

All payments in respect of Covered Bonds represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

Prescription

Claims against the Issuer in respect of Covered Bonds that are represented by a Permanent Global Covered Bond will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 7).

Meetings

The holder of a Permanent Global Covered Bond or of the Covered Bonds represented by a Global Certificate shall (unless such Permanent Global Covered Bond or Global Certificate represents only one Covered Bond) be treated as being two persons for the purposes of any quorum requirements of a meeting of Covered Bondholders and, at any such meeting, and the holder of a Permanent Global Covered Bond shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Covered Bonds.

Cancellation

Cancellation of any Covered Bond represented by a Permanent Global Covered Bond that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant Permanent Global Covered Bond or its presentation to or to the order of the Issuing and Paying Agent for endorsement in the relevant schedule of such Permanent Global Covered Bond, whereupon the principal amount thereof shall be reduced for all purposes by the amount so cancelled and endorsed.

Purchase

Covered Bonds represented by a Permanent Global Covered Bond may only be purchased by the Issuer or any of its subsidiaries if they are purchased together with the rights to receive all future payments of interest thereon.

Issuer's Option

Any option of the Issuer provided for in the Conditions of any Covered Bonds while such Covered Bonds are represented by a Permanent Global Covered Bond shall be exercised by the Issuer giving notice to the Covered Bondholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Covered Bonds drawn in the case of a partial exercise of an option and accordingly no drawing of Covered Bonds shall be required.

Covered Bondholders' Options

Any option of the Covered Bondholders provided for in the Conditions of any Covered Bonds while such Covered Bonds are represented by a Permanent Global Covered Bond may be exercised by the holder of the Permanent Global Covered Bond giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Covered Bonds with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Covered Bonds in respect of which the option has been exercised, and stating the nominal amount of Covered Bonds in respect of which the option is exercised and at the same time presenting the Permanent Global Covered Bond to the Issuing and Paying Agent, or to a Paying Agent acting on behalf of the Issuing and Paying Agent, for notation.

Trustee's Powers

In considering the interests of Covered Bondholders while any Global Covered Bond is held on behalf of, or Registered Covered Bonds are registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Covered Bond or Registered Covered Bonds and may consider such interests as if such accountholders were the holders of the Covered Bonds represented by such Global Covered Bond or Global Certificate.

Notices

So long as any Covered Bonds are represented by a Global Covered Bond or a Global Certificate and such Global Covered Bond or Global Certificate is held on behalf of a clearing system, notices to the holders of Covered Bonds of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Covered Bond, except that so long as the Covered Bonds are listed on the Luxembourg Stock Exchange's regulated market and the rules of that exchange so require, notices shall also be published either on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) or in a leading newspaper having general circulation in Luxembourg (which is expected to be *the Luxemburger Wort*).

Electronic Consent and Written Resolution

While any Global Covered Bond is held on behalf of, or any Global Certificate is registered in the name of any nominee for, a clearing system, then:

(a) where the terms of the resolution proposed by the Issuer or the Trustee (as the case may be) have been notified to the Covered Bondholders through the relevant clearing system(s) as provided in sub-paragraphs (i) and/or (ii) below, each of the Issuer and the Trustee shall be entitled to rely upon approval of such resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) to the Issuing and Paying Agent or another specified agent and/or the Trustee in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Covered Bonds outstanding (or, in the case of a Substitution Resolution, at least the percentage in nominal amount of the Covered Bonds outstanding as is required by the Korean Covered Bond Laws (the "**Required Proportion**")) ("**Electronic Consent**") by close of business on the Electronic Consent Due Date. Any resolution passed in such manner shall be

binding on all Covered Bondholders and Couponholders, even if the relevant consent or instruction proves to be defective. None of the Issuer or the Trustee shall be liable or responsible to anyone for such reliance:

a. When a proposal for a resolution to be passed as an Electronic Consent has been made, at least 10 days' notice (exclusive of the day on which the notice is given and of the day on which affirmative consents will be counted) shall be given to the Covered Bondholders through the relevant clearing system(s). The notice shall specify, in sufficient detail to enable Covered Bondholders to give their consents in relation to the proposed resolution, the method by which their consents may be given (including, where applicable, blocking of their accounts in the relevant clearing system(s)) and the time and date (the "**Electronic Consent Relevant Date**") by which they must be received in order for such consents to be validly given, in each case subject to and in accordance with the operating rules and procedures of the relevant clearing system(s).

b. If, on the Electronic Consent Relevant Date on which the consents in respect of an Electronic Consent are first counted, such consents do not represent the Required Proportion, the resolution shall, if the party proposing such resolution (the "**Proposer**") so determines, be deemed to be defeated. Such determination shall be notified in writing to the other party or parties to the Trust Deed. Alternatively, the Proposer may give a further notice to Covered Bondholders that the resolution will be proposed again on such date and for such period as shall be agreed with the Trustee (unless the Trustee is the Proposer). Such notice must inform Covered Bondholders that insufficient consents were received in relation to the original resolution and the information specified in sub-paragraph (i) above. For the purpose of such further notice, references to "Electronic Consent Relevant Date" shall be construed accordingly.

For the avoidance of doubt, an Electronic Consent may only be used in relation to a resolution proposed by the Issuer or the Trustee which is not then the subject of a meeting that has been validly convened in accordance with the Trust Deed, unless that meeting is or shall be cancelled or dissolved; and

(b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by accountholders in the clearing system with entitlements to such Global Covered Bond or Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer and the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting or implementation of such consent or instruction. Any resolution passed in such manner shall be binding on all Covered Bondholders and Couponholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, "**commercially reasonable evidence**" includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg, DTC or any other relevant Alternative Clearing System, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Covered Bonds. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures

and in which the accountholder of a particular principal or nominal amount of the Covered Bonds is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

The net proceeds from each issue of Covered Bonds will be applied by the Issuer for its general corporate purposes. If, in respect of any particular issue, there is another or a particular identified use of proceeds, this will be stated in the applicable Final Terms.

CAPITALISATION

The following table sets forth the Issuer's capitalisation, defined as the sum of its borrowings and debentures and its equity, as of March 31, 2015:

	As of March 31, 2015[1]
	(in billions of Won)
Borrowings and debentures[2]	26,029
Equity	
Common stock, par value ₩5,000	
Authorised – 1,000,000,000 shares	
Issued and outstanding common stock – 404,379,116 shares.	2,022
Capital surplus	5,220
Accumulated other comprehensive income.	667
Retained earnings	14,374
Total equity	22,283
Total capitalisation	48,312

Notes:

(1) There has been no material change in the capitalisation of the Issuer since March 31, 2015.

(2) Consists of borrowings of ₩11,140 billion and debentures of ₩14,889 billion.

SELECTED FINANCIAL AND OPERATING DATA

Selected Financial Data

The selected financial data set forth below as of and for the years ended December 31, 2012, 2013 and 2014 have been derived from the Issuer's audited consolidated financial statements and as of March 31, 2015 and for the three months ended March 31, 2014 and 2015 have been derived from the Issuer's unaudited interim consolidated financial statements. The financial statements have been prepared in accordance with Korean IFRS. See "*General Information – Independent Accountants*" for information about the Issuer's independent accountants.

	Years ended December 31			Three months ended March 31	
	2012[(1)(2)]	**2013**[(1)(2)(3)]	**2014**[(3)]	**2014**[(3)]	**2015**
	(in billions of Won, except per share amounts)				
Consolidated statements of comprehensive income					
Interest income	12,495	10,595	9,703	2,465	2,229
Interest expense	(6,716)	(5,435)	(4,731)	(1,256)	(1,051)
Net interest income	5,779	5,160	4,971	1,209	1,178
Fee and commission income	1,437	1,282	1,271	297	336
Fee and commission expense	(184)	(177)	(193)	(44)	(50)
Net fee and commission income	1,253	1,105	1,078	253	286
Net gains on financial assets/liabilities at fair value through profit and loss	741	691	356	41	111
Net other operating expenses	(1,250)	(1,055)	(769)	(118)	(202)
General and administrative expenses	(3,277)	(3,397)	(3,373)	(841)	(901)
Operating profit before provision for credit losses	3,246	2,503	2,264	545	472
Provision for credit losses	(1,294)	(1,065)	(888)	(222)	(125)
Operating profit	1,952	1,438	1,377	322	347
Share of profit (loss) of associates	(6)	(203)	18	14	18
Net other non-operating income (expense)	(64)	(24)	(34)	4	189
Net non-operating profit (loss)	(70)	(227)	(16)	18	207
Profit before income tax expense	1,882	1,212	1,360	340	555
Income tax expenses	(442)	(381)	(331)	(96)	(78)
Profit for the year (period)	1,440	830	1,029	244	476
(Adjusted profit after provision of regulatory reserve for credit losses).	1,379	730	852	242	433
Items that will not be reclassified to profit or loss					
Remeasurements of net defined benefit liabilities	(29)	42	(84)	(3)	(2)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations	(26)	(2)	17	5	3
Valuation gains on financial investments	208	34	222	32	97
Share of other comprehensive loss of associates	(43)	(10)	(33)	(32)	(2)
Other comprehensive income for the year net of tax	110	64	123	2	97
Total comprehensive income for the year	1,550	894	1,152	246	573
Profit attributable to:					
Shareholders of the parent company	1,440	831	1,029	244	476
Non-controlling interests	0	0	–	–	–
	1,440	831	1,029	244	476
Total comprehensive income attributable to:					
Shareholders of the parent entity	1,550	894	1,152	246	573
Non-controlling interests.	0	0	–	–	–

Notes:

(1) Pursuant to an amendment to Korean IFRS 1019, *Employee Benefits*, which is effective beginning in 2013, the Issuer's consolidated financial statements as of and for the year ended December 31, 2013 reflect changes in the methodology for recognition and measurement of actuarial gains and losses and expected returns and service costs relating to its employee pension plans. The Issuer's consolidated financial statements as of and for the year ended December 31, 2012 have been restated to retroactively apply such changes. See Note 2.1 of the notes to the Issuer's audited consolidated financial statements for the years ended December 31, 2013 and 2012 included elsewhere in this Base Prospectus.

(2) Pursuant to the adoption of Korean IFRS 1110, *Consolidated Financial Statements*, which is effective beginning in 2013, the Issuer's consolidated financial statements as of and for the year ended December 31, 2013 include trust accounts for which the Issuer guarantees only the repayment of principal, as well as certain other entities, which were not previously subject to consolidation, while excluding certain other entities that were previously consolidated. The Issuer's consolidated financial statements as of and for the year ended December 31, 2012 have been restated to retroactively apply this change. See Note 2.1 of the notes to the Issuer's audited consolidated financial statements for the years ended December 31, 2013 and 2012 included elsewhere in this Base Prospectus.

(3) For the periods prior to the year ended December 31, 2014, pursuant to Korean IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*, if an uncertain tax position satisfied the criteria for provisions, the Issuer measured the best estimate of expenditure for such uncertain tax position. The Issuer's claims for refund of the amounts levied by the tax authority were then treated as contingent assets. However, in 2014, the Issuer retroactively applied the accounting policy in accordance with Korean IFRS 1012, *Income Taxes*, which allows recognition of tax payments as income tax assets when it is probable that the Issuer will receive a tax refund. The Issuer's consolidated financial statements as of and for the year ended December 31, 2013 and for the three months ended March 31, 2014 have been restated to retroactively apply this change while no such restatements have been made in the Issuer's consolidated financial statements as of and for the year ended December 31, 2012 as originally issued.

	As of December 31			As of March 31, 2015
	2012[1][2]	2013[1][2][3]	2014[3]	
	(in billions of Won)			
Consolidated statements of financial position				
Assets				
Cash and due from financial institutions	10,029	13,730	13,974	13,196
Financial assets at fair value through profit or loss	6,498	7,070	7,520	7,593
Derivative financial assets	1,996	1,719	1,910	1,987
Loans	199,415	203,124	211,526	218,179
Financial investments	32,190	30,087	29,259	28,969
Investments in associates	923	742	667	679
Property and equipment	2,938	2,903	2,888	2,858
Investment property	92	201	409	413
Intangible assets	265	225	207	198
Current income tax assets	–	329	306	138
Deferred income tax assets	0	0	5	5
Assets held for sale[2]	5	21	54	49
Other assets	6,696	5,437	6,729	7,866
Total assets	261,047	265,588	275,454	282,130
Liabilities				
Financial liabilities at fair value through profit or loss	42	40	52	57
Derivative financial liabilities	2,041	1,766	1,759	1,880
Deposits	197,233	200,968	211,611	213,751
Debts	14,632	13,570	14,297	15,361
Debentures	15,949	16,213	15,250	14,889
Provisions	537	540	483	465
Net defined benefit liabilities	73	52	57	100
Current income tax liabilities	7	1	8	7
Deferred income tax liabilities	195	120	110	112
Other liabilities	10,320	11,372	9,886	13,225
Total liabilities	241,029	244,642	253,513	259,847
Equity				
Capital stock	2,022	2,022	2,022	2,022
Capital surplus	5,220	5,220	5,220	5,220
Accumulated other comprehensive income	384	448	571	668
Retained earnings	12,391	13,258	14,127	14,373
(Provision of regulatory reserve for credit losses)	(1,530)	(1,590)	(1,691)	(1,868)
(Amounts estimated to be appropriated)	(61)	(101)	(177)	(43)
Equity attributable to shareholders of the parent company	20,017	20,947	21,940	22,283
Non-controlling interest equity	1	–	–	–
Total equity	20,018	20,947	21,940	22,283
Total liabilities and equity	261,047	265,588	275,454	282,130

Notes:

(1) Pursuant to an amendment to Korean IFRS 1019, *Employee Benefits*, which is effective beginning in 2013, the Issuer's consolidated financial statements as of and for the year ended December 31, 2013 reflect changes in the methodology for recognition and measurement of actuarial gains and losses and expected returns and service costs relating to its employee pension plans. The Issuer's consolidated financial statements as of and for the year ended December 31, 2012 have been restated to retroactively apply such changes. See Note 2.1 of the notes to the Issuer's audited consolidated financial statements for the years ended December 31, 2013 and 2012 included elsewhere in this Base Prospectus.

(2) Pursuant to the adoption of Korean IFRS 1110, *Consolidated Financial Statements*, which is effective beginning in 2013, the Issuer's consolidated financial statements as of and for the year ended December 31, 2013 include trust accounts for which the Issuer guarantees only the repayment of principal, as well as certain other entities, which were not previously subject to consolidation, while excluding certain other entities that were previously consolidated. The Issuer's consolidated financial statements as of and for the year ended December 31, 2012 have been restated to retroactively apply this change. See Note 2.1 of the notes to the Issuer's audited consolidated financial statements for the years ended December 31, 2013 and 2012 included elsewhere in this Base Prospectus.

(3) For the periods prior to the year ended December 31, 2014, pursuant to Korean IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*, if an uncertain tax position satisfied the criteria for provisions, the Issuer measured the best estimate of expenditure for such uncertain tax position. The Issuer's claims for refund of the amounts levied by the tax authority were then treated as contingent assets. However, in 2014, the Issuer retroactively applied the accounting policy in accordance with Korean IFRS 1012, *Income Taxes*, which allows recognition of tax payments as income tax assets when it is probable that the Issuer will receive a tax refund. The Issuer's consolidated financial statements as of and for the year ended December 31, 2013 and for the three months ended March 31, 2014 have been restated to retroactively apply this change while no such restatements have been made in the Issuer's consolidated financial statements as of and for the year ended December 31, 2012 as originally issued.

Selected Operating Data

Unless otherwise stated, the selected ratios set forth below as of and for the years ended 2012, 2013 and 2014 and the three months ended March 31, 2014 and 2015 are calculated based on the separate financial statements of the Issuer prepared in accordance with Korean IFRS.

	As of or for the year ended December 31			As of or for the three months ended March 31	
	2012[1]	2013[1]	2014	2014	2015
Profit as a percentage of:					
Average total assets[2]	0.48	0.30	0.33	0.40	0.59
Average equity[2]	7.02	4.21	4.51	5.50	7.95
Ratio of non-performing credits to total credits[3]	1.13	1.43	1.03	1.63	1.07
Ratio of allowance to total credits[3]	2.19	1.98	1.74	2.02	1.74
Net interest spread[4]	2.09	1.84	1.74	1.71	1.66
Net interest margin[5]	2.18	1.91	1.81	1.78	1.72
Total capital adequacy ratio[6][10]	14.40	15.42	15.97	15.38	16.37
Tier I capital adequacy ratio[7][10]	10.87	12.61	13.38	12.81	14.05
Tier I common equity capital adequacy ratio[8][10]	N/A	12.61	13.38	12.81	14.05
Tier II capital adequacy ratio[9][10]	3.53	2.81	2.59	2.57	2.32

Notes:

(1) With effect from December 1, 2013, the FSC adopted amended guidelines that implemented capital adequacy requirements in Korea based on Basel III. Capital adequacy ratios as of December 31, 2012 were computed in accordance with previously applicable guidelines based on Basel II and therefore are not directly comparable to corresponding ratios as of December 31, 2013.

(2) Derived by dividing profit by the daily average balance of total assets or total equity, as applicable, in each case calculated in accordance with applicable FSS reporting guidelines.

(3) Includes loans, guarantees and other credits in both the banking and trust accounts, calculated in accordance with applicable FSS reporting guidelines.

(4) Represents the difference between the average annual rate of interest earned on interest earning assets and the average annual rate of interest paid on interest bearing liabilities, calculated in accordance with applicable FSS reporting guidelines.

(5) Derived by dividing net interest income by average interest earning assets, calculated in accordance with applicable FSS reporting guidelines.

(6) Calculated as the ratio of the sum of Tier I and Tier II capital to risk-weighted assets, on a consolidated basis and in accordance with guidelines issued by the FSC. See "*Regulation and Supervision – Legal and Regulatory Framework in Korea – Capital Adequacy*."

(7) Calculated as the ratio of Tier I capital to risk-weighted assets, on a consolidated basis and in accordance with guidelines issued by the FSC. See "*Regulation and Supervision – Legal and Regulatory Framework in Korea – Capital Adequacy*."

(8) Calculated as the ratio of Tier I common equity capital to risk-weighted assets, on a consolidated basis and in accordance with guidelines issued by the FSC. See "*Regulation and Supervision – Legal and Regulatory Framework in Korea – Capital Adequacy*."

(9) Calculated as the ratio of Tier II capital to risk-weighted assets, on a consolidated basis and in accordance with guidelines issued by the FSC. See "*Regulation and Supervision – Legal and Regulatory Framework in Korea – Capital Adequacy*."

(10) Calculated based on the consolidated financial statements of the Issuer prepared in accordance with Korean IFRS.

SELECTED STATISTICAL DATA

Average Balance and Related Interest

The following tables show the Issuer's average balances and interest rates for 2012, 2013, 2014 and the three months ended March 31, 2014 and 2015.

	Year ended December 31									Three months ended March 31					
	2012			2013			2014			2014			2015		
	Average Balance[1]	Interest Income[2][3]	Average Yield	Average Balance[1]	Interest Income[2][3]	Average Yield	Average Balance[1]	Interest Income[2][3]	Average Yield	Average Balance[1]	Interest Income[2][3]	Average Yield	Average Balance[1]	Interest Income[2][3]	Average Yield
	(in billions of Won, except percentages)														
Assets															
Interest earning assets															
Cash and interest earning deposits in other banks	3,978	110	2.77	4,788	107	2.23	6,286	143	2.27	5,745	33	2.33	6,370	31	1.97
Financial investment (debt securities)	29,568	1,250	4.23	28,994	1,085	3.74	26,484	922	3.48	27,509	247	3.64	26,320	201	3.10
Loans:															
Corporate	101,452	5,232	5.16	99,332	4,424	4.45	100,098	4,099	4.09	101,596	945	3.77	101,011	926	3.72
Mortgage	44,418	2,160	4.86	44,455	1,821	4.10	47,994	1,728	3.60	45,903	427	3.77	51,957	424	3.31
Home equity	30,171	1,534	5.08	30,272	1,286	4.25	32,029	1,211	3.78	26,643	317	4.83	34,230	290	3.44
Other consumer	29,086	2,117	7.28	27,953	1,785	6.39	26,741	1,570	5.87	31,779	477	6.09	26,119	348	5.40
Foreign	2,744	92	3.35	2,851	87	3.05	2,875	30	1.04	1,394	19	5.53	1,474	9	2.48
Total loans	207,871	11,135	5.36	204,863	9,403	4.59	209,737	8,638	4.12	207,315	2,185	4.27	214,791	1,997	3.77
Total average interest-earning assets	241,417	12,495	5.18	238,645	10,595	4.44	242,507	9,703	4.00	240,569	2,465	4.16	247,481	2,229	3.65
Non-interest earning assets															
Cash and due from banks	7,667	–	–	7,683	–	–	7,975	–	–	8,150	–	–	8,564	–	–
Financial assets at fair value through profit or loss	7,005	–	–	6,570	–	–	6,878	–	–	6,945	–	–	7,396	–	–
Debt securities	6,711	–	–	6,294	–	–	6,687	–	–	6,721	–	–	7,248	–	–
Equity securities	258	–	–	234	–	–	144	–	–	180	–	–	93	–	–
Other	36	–	–	42	–	–	47	–	–	44	–	–	55	–	–
Financial investment (equity securities)	2,359	–	–	2,425	–	–	2,716	–	–	2,599	–	–	2,691	–	–
Investment in associates	849	–	–	873	–	–	677	–	–	710	–	–	660	–	–
Derivative financial assets	1,808	–	–	1,696	–	–	1,692	–	–	1,500	–	–	1,856	–	–
Premises and equipment	3,073	–	–	3,045	–	–	3,044	–	–	3,063	–	–	3,176	–	–
Intangible assets	279	–	–	251	–	–	201	–	–	222	–	–	206	–	–
Loan loss allowance	(3,629)	–	–	(3,548)	–	–	(2,924)	–	–	(3,024)	–	–	(2,309)	–	–
Other non-interest earning assets	6,226	–	–	7,070	–	–	5,844	–	–	5,808	–	–	5,806	–	–
Total average non-interest earning assets	25,637	–	–	26,065	–	–	26,103	–	–	25,973	–	–	28,046	–	–
Total average assets	267,054	12,495	4.68	264,710	10,595	4.00	268,610	9,703	3.61	266,542	2,465	3.75	275,527	2,229	3.28

Notes:

(1) Average balance of each item shows simple average calculated on a daily basis.

(2) The Issuer does not invest in any tax-exempt securities.

(3) Excludes interest income from debt securities at fair value through profit or loss.

	Year ended December 31									Three months ended March 31					
	2012			2013			2014			2014			2015		
	Average Balance	Interest Expense	Average Cost	Average Balance	Interest Expense	Average Cost	Average Balance	Interest Expense	Average Cost	Average Balance	Interest Expense	Average Cost	Average Balance	Interest Expense	Average Cost
	(in billions of Won, except percentages)														
Liabilities															
Interest bearing liabilities															
Deposits:															
Demand deposits	56,115	335	0.60	60,847	285	0.47	67,596	284	0.42	64,712	71	0.44	75,073	71	0.38
Certificate of deposits	1,735	67	3.86	1,788	54	3.02	1,692	46	2.72	1,719	12	2.83	1,727	10	2.35
Time deposits	136,289	5,021	3.68	130,147	3,936	3.02	130,171	3,512	2.70	129,023	887	2.79	129,040	802	2.52
Total deposits	194,139	5,423	2.79	192,782	4,275	2.22	199,459	3,842	1.93	195,454	970	2.01	205,840	883	1.74
Debts	20,349	403	1.98	19,199	336	1.75	17,875	294	1.64	18,845	82	1.76	17,928	61	1.38
Debentures	16,768	890	5.31	15,833	824	5.20	15,137	594	3.92	16,246	204	5.09	14,960	107	2.90
Total average interest bearing liabilities	231,256	6,716	2.90	227,814	5,435	2.39	232,471	4,730	2.03	230,545	1,256	2.21	238,728	1,051	1.79
Non-interest bearing liabilities															
Non-interest bearing demand deposits	3,276	–	–	3,440	–	–	3,565	–	–	3,594	–	–	3,723	–	–
Derivative financial liabilities	1,741	–	–	1,772	–	–	1,634	–	–	1,579	–	–	1,734	–	–
Financial liabilities at fair value through profit and loss	63	–	–	51	–	–	47	–	–	44	–	–	55	–	–
Other non-interest bearing liabilities	10,871	–	–	10,932	–	–	9,371	–	–	9,586	–	–	8,992	–	–
Total average non-interest bearing liabilities	15,951	–	–	16,195	–	–	14,617	–	–	14,803	–	–	14,504	–	–
Total average liabilities	247,207	6,716	2.72	244,009	5,435	2.23	247,088	4,730	1.91	245,348	1,256	2.08	253,232	1,051	1.68
Stockholders' equity	19,847	–	–	20,701	–	–	21,522	–	–	21,194	–	–	22,295	–	–
Total liabilities and equity	267,054	6,716	2.51	264,710	5,435	2.05	268,610	4,730	1.76	266,542	1,256	1.91	275,527	1,051	1.55

Analysis of Changes in Net Interest Income – Volume and Rate Analysis

The following table provides an analysis of changes in the Issuer's interest income, interest expense and net interest income based on changes in volume and changes in rate for 2012 compared to 2013 and 2013 compared to 2014 and the three months ended March 31, 2014 compared to the three months ended March 31, 2015. Information is provided with respect to: (1) effects attributable to changes in volume (changes in volume multiplied by prior rate) and (2) effects attributable to changes in rate (changes in rate multiplied by prior volume). Changes attributable to the combined impact of changes in rate and volume have been allocated proportionately to the changes due to volume changes and changes due to rate changes.

	2013 vs. 2012 Increase/(decrease) due to changes in			2014 vs. 2013 Increase/(decrease) due to changes in			Three months ended March 31, 2015 vs. 2014 Increase/(decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total	Volume	Rate	Total
	(in billions of Won)								
Interest earning assets									
Cash and interest earning deposits in other banks	20	(23)	(3)	34	2	36	16	(18)	(2)
Financial investment (debt securities)	(24)	(141)	(165)	(90)	(73)	(163)	(10)	(36)	(46)
Loans:									
Corporate	(107)	(701)	(808)	34	(359)	(325)	(6)	(13)	(19)
Mortgage	2	(341)	(339)	139	(232)	(93)	218	(221)	(3)
Home Equity	5	(253)	(248)	72	(147)	(75)	355	(382)	(27)
Other consumer	(80)	(252)	(332)	(75)	(140)	(215)	(79)	(50)	(129)
Foreign	3	(8)	(5)	1	(58)	(57)	7	(17)	(10)
Total interest income	(181)	(1,719)	(1,900)	115	(1,007)	(892)	501	(737)	(236)
Interest bearing liabilities									
Deposits:									
Demand deposits	27	(77)	(50)	31	(32)	(1)	42	(42)	0
Certificate of deposits	2	(15)	(13)	(3)	(5)	(8)	0	(2)	(2)
Other time deposits	(218)	(867)	(1,085)	1	(425)	(424)	1	(86)	(85)
Debts	(22)	(45)	(67)	(22)	(20)	(42)	(4)	(17)	(21)
Debentures	(48)	(18)	(66)	(35)	(195)	(230)	(15)	(82)	(97)
Total interest expense	(259)	(1,022)	(1,281)	(28)	(677)	(705)	24	(229)	(205)
Total net interest income	78	(697)	(619)	143	(330)	(187)	477	(508)	(31)

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

The following discussion and analysis is based on the Issuer's consolidated financial statements as of and for the years ended December 31, 2012, 2013 and 2014 and as of March 31, 2015 and for the three months ended March 31, 2014 and 2015. This discussion should be read together with the Issuer's consolidated financial statements and related notes included elsewhere in this Base Prospectus. Unless otherwise specified, the information provided below is stated on a consolidated basis.

The Issuer prepares its financial statements in accordance with Korean IFRS, which differs in certain significant respects from U.S. GAAP. The Issuer has made no attempt to identify or quantify the impact of differences between Korean IFRS and U.S. GAAP.

For a description of certain recent changes to Korean IFRS, see Note 2.1 of the notes to the Issuer's audited consolidated financial statements included elsewhere in this Base Prospectus.

Overview

Trends in the Korean Economy

The Issuer's financial position and results of operations have been and will continue to be significantly affected by financial and economic conditions in Korea. Substantial growth in lending in Korea to SMEs in recent years, and financial difficulties experienced by such enterprises as a result of, among other things, adverse economic conditions in Korea and globally from the second half of 2008, have generally led to increasing delinquencies and a deterioration in overall asset quality in the credit exposures of Korean banks to SMEs. On a separate basis, the Issuer recorded charge-offs of ₩725 billion in respect of its loans to SMEs in 2014, compared to charge-offs of ₩641 billion in 2013. In light of the difficult financial condition and liquidity position of SMEs in Korea since the second half of 2008, the Government introduced measures intended to encourage Korean banks to provide financial support to SME borrowers. See "*Risk Factors – Risks Relating to the Issuer's SME Loan Portfolio – The Issuer has significant exposure to SMEs, and any financial difficulties experienced by these customers may result in a deterioration of the Issuer's asset quality and have an adverse impact on the Issuer.*"

In recent years, commercial banks, consumer finance companies and other financial institutions in Korea have also made significant investments and engaged in aggressive marketing in retail lending (including mortgage and home equity loans), leading to substantially increased competition in this segment. The rapid growth in retail lending, together with adverse economic conditions since the second half of 2008, have generally led to increasing delinquencies and a deterioration in asset quality. On a separate basis, the Issuer recorded charge-offs of ₩520 billion and provision for loan losses of ₩308 billion in respect of its retail loan portfolio in 2014, compared to charge-offs of ₩581 billion and provision for loan losses of ₩363 billion in 2013. See "*Risk Factors – Risks relating to the Issuer's retail credit portfolio.*"

The Korean economy is closely tied to, and is affected by developments in, the global economy. 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, the overall prospects for the Korean and global economy in 2015 and beyond 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 Argentina, Cyprus, Greece, Spain, Italy and Portugal, and the slowdown of economic growth in major emerging market economies. In addition, continuing negotiations regarding Iran's nuclear programme and sanctions adopted by the international community in response, as well as

political and social instability in various countries in the Middle East and North Africa, including Iraq, Syria, Egypt and Libya, and in the Ukraine and Russia, have resulted in volatility and uncertainty in the global energy markets. Furthermore, in response to China's slowing GDP growth rates that began in 2011, the Chinese government has implemented stimulus measures, but the overall impact of such measures remains uncertain. 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 the Issuer's business, financial condition and results of operations.

The Issuer is also exposed to adverse changes and volatility in global and Korean financial markets as a result of the Issuer's liabilities and assets denominated in foreign currencies and the Issuer's holdings of trading and investment securities, including structured products. The value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely in recent years. A depreciation of the Won will increase the Issuer's cost in Won of servicing the Issuer's foreign currency-denominated debt, while continued exchange rate volatility may also result in foreign exchange losses for the Issuer. Furthermore, as a result of adverse global and Korean economic conditions, there has been significant volatility in securities prices, including the stock prices of Korean and foreign companies in which the Issuer holds an interest. Such volatility has resulted in and may lead to further trading and valuation losses on the Issuer's trading and investment securities portfolio as well as impairment losses on its investments accounted for under the equity method, including its non-controlling equity stake in JSC Bank CenterCredit, a Kazakhstan bank, the initial stake in which the Issuer acquired in 2008. See "*Business – Capital Markets Activities and International Banking – International Banking*."

As a result of volatile conditions and weakness in the Korean and global economies, as well as factors such as the uncertainty surrounding the global financial markets, fluctuations in oil and commodity prices, interest and exchange rate fluctuations, higher unemployment, lower consumer confidence, increases in inflation rates, potential tightening of fiscal and monetary policies and continued tensions with North Korea, the economic outlook for the financial services sector in Korea in 2015 and for the foreseeable future remains uncertain.

Changes in Securities Values, Exchange Rates and Interest Rates

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

	June 29, 2012	Dec. 31, 2012	June 28, 2013	Dec. 31, 2013	June 30, 2014	Dec. 31, 2014
KOSPI	1,854.01	1,997.05	1,863.32	2,011.34	2,002.21	1,915.59
₩/U.S.$ exchange rates[(1)]	1,153.8	1,071.1	1,141.5	1,055.3	1,011.80	1,099.30
Corporate bond rates[(2)]	3.94	3.44	3.54	3.64	3.42	2.87
Treasury bond rates[(3)]	3.30	2.82	2.88	2.86	2.68	2.10

Notes:

(1) Represents the Market Average Exchange Rate.

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

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

Changes in Accounting Policies

Pursuant to an amendment to Korean IFRS 1019, *Employee Benefits*, which is effective beginning in 2013, the Issuer's consolidated financial statements as of and for the years ended December 31, 2013 and 2014 reflect changes in the methodology for recognition and measurement of actuarial gains and losses and expected returns and service costs relating to its employee pension plans. In addition, pursuant to the adoption of Korean IFRS 1110, *Consolidated Financial Statements*, which is effective beginning in 2013, the Issuer's consolidated financial statements as of and for the years ended December 31, 2013 and 2014 include trust accounts for which the Issuer guarantees only the repayment of principal, as well as certain other entities, which were not previously subject to consolidation, while excluding certain other entities that were previously consolidated. Corresponding amounts as of and for the year ended December 31, 2012 have been restated to reflect such changes in the Issuer's audited consolidated financial statements as of and for the years ended December 31, 2013 and 2012 included herein. Consolidated financial information included in this Base Prospectus as of and for the year ended December 31, 2012, unless otherwise indicated, is derived from the Issuer's audited consolidated financial statements as of and for the years ended December 31, 2013 and 2012 included herein.

For the periods prior to the year ended December 31, 2014, pursuant to Korean IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*, if an uncertain tax position satisfied the criteria for provisions, the Issuer measured the best estimate of expenditure for such uncertain tax position. The Issuer's claims for refund of the amounts levied by the tax authority were then treated as contingent assets. However, in 2014, the Issuer retroactively applied the accounting policy in accordance with Korean IFRS 1012, *Income Taxes*, which allows recognition of tax payments as income tax assets when it is probable that the Issuer will receive a tax refund. The Issuer's consolidated financial statements as of and for the year ended December 31, 2013 and for the three months ended March 31, 2014 have been restated to retroactively apply this change while no such restatements have been made in the Issuer's consolidated financial statements as of and for the year ended December 31, 2012 as originally issued. For further information regarding these and other changes to the Issuer's accounting policies and their effect on its consolidated financial statements, see Note 2.1 of the notes to the Issuer's audited consolidated financial statements, included elsewhere in this Base Prospectus.

Critical Accounting Policies

The Issuer's consolidated financial statements as of and for the years ended December 31, 2012, 2013 and 2014 included in this Base Prospectus have been prepared in accordance with Korean IFRS. The Issuer's unaudited interim consolidated financial statements as of March 31, 2015 and for the three months ended March 31, 2014 and 2015 included in this Base Prospectus have been prepared in accordance with Korean IFRS 1034, *Interim Financial Reporting*. The preparation of these financial statements requires the Issuer to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. See Note 2 of the notes to the Issuer's audited consolidated financial statements, included elsewhere in this Base Prospectus for summaries of the Issuer's significant accounting policies that are critical to the portrayal of the Issuer's financial condition since they require the Issuer's management to make difficult, complex or subjective judgments, some of which may relate to inherently uncertain matters, and because of the possibility that future events affecting these estimates may differ significantly from management's current judgment.

Results of Operations

Net Interest Income

The following table shows, for the periods indicated, the principal components of the Issuer's net interest income:

	Year ended December 31			Three months ended March 31		Percentage Change		
	2012[1]	2013[1][2]	2014[2]	2014[2]	2015	2013/ 2012	2014/ 2013	2015 1Q/ 2014 1Q
	(in billions of Won, except percentages)						*(%)*	
Interest income								
Cash and interest earning deposits in other banks	110	107	143	33	31	(3.0)	33.2	(7.8)
Loans	10,972	9,258	8,496	2,147	1,966	(15.6)	(8.2)	(8.4)
Financial investments (debt securities)[3]	1,250	1,085	922	247	202	(13.2)	(15.0)	(18.2)
Other	163	145	142	37	31	(10.6)	(2.2)	(17.1)
Total interest income	12,495	10,595	9,702	2,465	2,229	(15.2)	(8.4)	(9.6)
Interest expense								
Deposits	5,423	4,275	3,842	970	883	(21.2)	(10.1)	(9.0)
Debts	336	261	228	64	44	(22.2)	(12.6)	(30.6)
Debentures	891	824	594	204	107	(7.5)	(27.9)	(47.5)
Other	66	75	66	18	17	14.0	(12.2)	(5.4)
Total interest expense	6,716	5,435	4,731	1,256	1,051	(19.1)	(13.0)	(16.3)
Net interest income	5,779	5,160	4,971	1,209	1,178	(10.7)	(3.7)	(2.6)
Net interest margin[4]	2.39	2.16	2.05	2.04	1.93			

Notes:

(1) The amounts for 2012 and 2013 reflect a change in the Issuer's accounting policies pursuant to the adoption of Korean IFRS 1110, *Consolidated Financial Statements*, which is effective beginning in 2013. Corresponding amounts for 2012 have been restated to retroactively apply such change. See "– *Overview – Changes in Accounting Policies*."

(2) For the periods prior to the year ended December 31, 2014, pursuant to Korean IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*, if an uncertain tax position satisfied the criteria for provisions, the Issuer measured the best estimate of expenditure for such uncertain tax position. The Issuer's claims for refund of the amounts levied by the tax authority were then treated as contingent assets. However, in 2014, the Issuer retroactively applied the accounting policy in accordance with Korean IFRS 1012, *Income Taxes*, which allows recognition of tax payments as income tax assets when it is probable that the Issuer will receive a tax refund. The Issuer's consolidated financial statements as of and for the year ended December 31, 2013 and for the three months ended March 31, 2014 have been restated to retroactively apply this change while no such restatements have been made in the Issuer's consolidated financial statements as of and for the year ended December 31, 2012 as originally issued. See Note 2.1 of the notes to the Issuer's audited consolidated financial statements for the years ended December 31, 2014 and 2013 included elsewhere in this Base Prospectus and "– *Overview – Changes in Accounting Policies*."

(3) Consists of debt securities in the Issuer's available-for-sale and held-to-maturity financial asset portfolios.

(4) The ratio of net interest income to average interest earning assets.

Comparison of the Three Months Ended March 31, 2015 to the Three Months Ended March 31, 2014

Interest income

Interest income decreased 9.6 per cent. from ₩2,465 billion for the three months ended March 31, 2014 to ₩2,229 billion for the three months ended March 31, 2015, primarily as a result of an 8.4 per cent. decrease in interest income from loans. The average yields on the Issuer's interest earning assets decreased by 51 basis points from 4.16 per cent. for the three months ended March 31, 2014 to 3.65 per cent. for the three months ended March 31, 2015, which reflected a decrease in the general level of interest rates in Korea for the first quarter of 2015 compared to the first quarter of 2014. The effect of this decrease was partially offset by a 2.9 per cent. increase in the volume of the Issuer's interest earning assets from ₩240,569 billion for the three months ended March 31, 2014 to ₩247,481 billion for the three months ended March 31, 2015, principally due to an increase in loans.

The 8.4 per cent. decrease in interest on loans from ₩2,147 billion for the three months ended March 31, 2014 to ₩1,966 billion for the three months ended March 31, 2015 was primarily due to:

- a 5 basis point decrease in the average yields on corporate loans from 3.77 per cent. for the three months ended March 31, 2014 to 3.72 per cent. for the three months ended March 31, 2015, which was enhanced by a 0.6 per cent. decrease in the average volume of such loans from ₩101,596 billion for the three months ended March 31, 2014 to ₩101,011 billion for the three months ended March 31, 2015;

- a 46 basis point decrease in the average yields on mortgage loans from 3.77 per cent. for the three months ended March 31, 2014 to 3.31 per cent. for the three months ended March 31, 2015, which was partially offset by a 13.2 per cent. increase in the average volume of such loans from ₩45,903 billion for the three months ended March 31, 2014 to ₩51,957 billion for the three months ended March 31, 2015;

- a 69 basis point decrease in the average yields on other consumer loans from 6.09 per cent. for the three months ended March 31, 2014 to 5.40 per cent. for the three months ended March 31, 2015, which was enhanced by a 17.8 per cent. decrease in the average volume of such loans from ₩31,779 billion for the three months ended March 31, 2014 to ₩26,119 billion for the three months ended March 31, 2015; and

- a 139 basis point decrease in the average yields on home equity loans from 4.83 per cent. for the three months ended March 31, 2014 to 3.44 per cent. for the three months ended March 31, 2015, which was partially offset by a 28.5 per cent. increase in the average volume of such loans from ₩26,643 billion for the three months ended March 31, 2014 to ₩34,230 billion for the three months ended March 31, 2015.

The average yields for corporate loans, mortgage loans, other consumer loans and home equity loans decreased mainly as a result of the decrease in the general level of interest rates in Korea applicable to such loans from the first quarter of 2014 to the first quarter of 2015.

Overall, the average yields on the Issuer's loans decreased by 50 basis points from 4.27 per cent. for the three months ended March 31, 2014 to 3.77 per cent. for the three months ended March 31, 2015, while the average volume of the Issuer's loans increased 3.6 per cent. from ₩207,315 billion for the three months ended March 31, 2014 to ₩214,791 billion for the three months ended March 31, 2015.

Interest on debt securities in the Issuer's financial investments portfolio decreased 18.2 per cent. from ₩247 billion for the three months ended March 31, 2014 to ₩202 billion for the three months ended March 31, 2015 primarily as a result of a 53 basis point decrease in average yields on such debt securities from 3.64 per cent. for the three months ended March 31, 2014 to 3.11 per cent. for the three months ended March 31, 2015. The decrease in average yields on such debt securities was primarily due to the decrease in the general level of interest rates in Korea.

Interest expense

Interest expense decreased 16.3 per cent. from ₩1,256 billion for the three months ended March 31, 2014 to ₩1,051 billion for the three months ended March 31, 2015 primarily due to a 47.5 per cent. decrease in interest expense from debentures and a 9.0 per cent. decrease in interest expense from deposits. The average cost of the Issuer's interest bearing liabilities decreased by 42 basis points from 2.21 per cent. for the three months ended March 31, 2014 to 1.79 per cent. for the three months ended March 31, 2015, which was driven mainly by the decrease in the interest rates in Korea. The effect of this decrease was partially offset by a 3.6 per cent. increase in the average volume of the Issuer's interest bearing liabilities from ₩230,545 billion for the three months ended March 31, 2014 to ₩238,728 billion for the three months ended March 31, 2015, which mainly reflected an increase in demand deposits.

The 9.0 per cent. decrease in interest expense on deposits from ₩970 billion for the three months ended March 31, 2014 to ₩883 billion for the three months ended March 31, 2015 was primarily due to a 27 basis point decrease in the average cost of time deposits from 2.79 per cent. for the three months ended March 31, 2014 to 2.52 per cent. for the three months ended March 31, 2015. The decrease in the average cost of time deposits mainly reflected the decrease in the general level of interest rates in Korea for the first quarter of 2015 compared to the first quarter of 2014.

Overall, the average cost of the Issuer's deposits decreased by 27 basis points from 2.01 per cent. for the three months ended March 31, 2014 to 1.74 per cent. for the three months ended March 31, 2015, while the average volume of the Issuer's deposits increased by 5.3 per cent. from ₩195,454 billion for the three months ended March 31, 2014 to ₩205,840 billion for the three months ended March 31, 2015.

Net interest margin

The Issuer's overall net interest margin decreased from 2.04 per cent. for the three months ended March 31, 2014 to 1.93 per cent. for the three months ended March 31, 2015, as a 2.56 per cent. decrease in the Issuer's net interest income from ₩1,209 billion for the three months ended March 31, 2014 to ₩1,178 billion for the three months ended March 31, 2015 outpaced a 2.9 per cent. increase in the average volume of the Issuer's interest earning assets from ₩240,569 billion for the three months ended March 31, 2014 to ₩247,481 billion for the three months ended March 31, 2015. The increase in the average volume of the Issuer's interest earning assets was outpaced by a 3.6 per cent. increase in the average volume of the Issuer's interest bearing liabilities from ₩230,545 billion for the three months ended March 31, 2014 to ₩238,728 billion for the three months ended March 31, 2015, while the decrease in interest income outpaced the decrease in interest expense, resulting in a decrease in net interest income. The Issuer's net interest spread declined from 1.71 per cent. for the three months ended March 31, 2014 to 1.66 per cent. for the three months ended March 31, 2015. The decline in the Issuer's net interest spread reflected a larger decrease in the average yield of the Issuer's interest earning assets, relative to the decrease in the average cost of the Issuer's interest bearing liabilities, primarily due to the earlier adjustment of interest rates on interest earning assets compared to interest rates on interest bearing liabilities in the context of the lower interest rate environment, as well as the continuing rate-based competition in the Korean banking industry for the marketing of both loan and deposit products.

Comparison of 2014 to 2013

Interest income

Interest income decreased 8.4 per cent. from ₩10,595 billion in 2013 to ₩9,702 billion in 2014, primarily as a result of an 8.2 per cent. decrease in interest on loans. The average yields on the Issuer's interest earning assets decreased by 44 basis points from 4.44 per cent. in 2013 to 4.00 per cent. in 2014, which reflected a decrease in the general level of interest rates in Korea from 2013 to 2014. The effect of this decrease was partially offset by a 1.6 per cent. increase in the volume of the Issuer's interest earning assets from ₩238,645 billion in 2013 to ₩242,507 billion in 2014, principally due to an increase in the Issuer's loan portfolio.

The 8.2 per cent. decrease in interest on loans from ₩9,258 billion in 2013 to ₩8,496 billion in 2014 was primarily due to:

- a 36 basis point decrease in the average yields on corporate loans from 4.45 per cent. in 2013 to 4.09 per cent. in 2014, which was partially offset by a 0.8 per cent. increase in the average volume of such loans from ₩99,332 billion in 2013 to ₩100,098 billion in 2014;

- a 50 basis point decrease in the average yields on mortgage loans from 4.10 per cent. in 2013 to 3.60 per cent. in 2014, which was partially offset by an 8.0 per cent. increase in the average volume of such loans from ₩44,455 billion in 2013 to ₩47,994 billion in 2014;

- a 52 basis point decrease in the average yields on other consumer loans from 6.39 per cent. in 2013 to 5.87 per cent. in 2014, which was enhanced by a 4.3 per cent. decrease in the average volume of such loans from ₩27,953 billion in 2013 to ₩26,741 billion in 2014; and

- a 47 basis point decrease in the average yields on home equity loans from 4.25 per cent. in 2013 to 3.78 per cent. in 2014, which was partially offset by a 5.8 per cent. increase in the average volume of such loans from ₩30,272 billion in 2013 to ₩32,029 billion in 2014.

The average yields for corporate loans, mortgage loans, other consumer loans and home equity loans decreased mainly as a result of the decrease in the general level of interest rates in Korea applicable to such loans from 2013 to 2014. The increase in the average volume of corporate loans was primarily due to the Issuer's efforts to increase its lending portfolio to SMEs in good standing. The decrease in the average volume of other consumer loans was primarily due to increased competition in the consumer credit market in Korea.

Overall, the average yields on the Issuer's loans decreased by 47 basis points from 4.59 per cent. in 2013 to 4.12 per cent. in 2014, while the average volume of the Issuer's loans increased 2.4 per cent. from ₩204,863 billion in 2013 to ₩209,737 billion in 2014.

Interest on debt securities in the Issuer's financial investments portfolio decreased 15.0 per cent. from ₩1,085 billion in 2013 to ₩922 billion in 2014 primarily as a result of a 26 basis point decrease in average yields on such debt securities from 3.74 per cent. in 2013 to 3.48 per cent. in 2014. The decrease in average yields on such debt securities was primarily due to the decrease in the general level of interest rates in Korea for debt securities.

Interest expense

Interest expense decreased 13.0 per cent. from ₩5,435 billion in 2013 to ₩4,731 billion in 2014 primarily due to a 10.1 per cent. decrease in interest expense on deposits and a 27.9 per cent. decrease in interest expense on debentures. The average cost of the Issuer's interest bearing liabilities decreased by 36 basis points from 2.39 per cent. in 2013 to 2.03 per cent. in 2014,

which was driven mainly by the lower interest rate environment in Korea in 2014. The effect of this decrease was partially offset by a 2.0 per cent. increase in the average volume of the Issuer's interest bearing liabilities from ₩227,814 billion in 2013 to ₩232,471 billion in 2014, which mainly reflected an increase in the average volume of deposits.

The 10.1 per cent. decrease in interest expense on deposits from ₩4,275 billion in 2013 to ₩3,842 billion in 2014 was primarily due to a 32 basis point decrease in the average cost of time deposits from 3.02 per cent. in 2013 to 2.70 per cent. in 2014. The decrease in the average cost of time deposits mainly reflected the decrease in the general level of interest rates in Korea from 2013 to 2014. The decrease in the average volume of time deposits was principally due to a decrease in time deposits for corporate customers. Overall, the average cost of the Issuer's deposits decreased by 29 basis points from 2.22 per cent. in 2013 to 1.93 per cent. in 2014, while the average volume of the Issuer's deposits increased by 3.5 per cent. from ₩192,782 billion in 2013 to ₩199,459 billion in 2014.

Net interest margin

The Issuer's overall net interest margin decreased from 2.16 per cent. in 2013 to 2.05 per cent. in 2014, as a 3.7 per cent. decrease in the Issuer's net interest income from ₩5,160 billion in 2013 to ₩4,971 billion in 2014 outpaced a 1.6 per cent. increase in the average volume of the Issuer's interest earning assets from ₩238,645 billion in 2013 to ₩242,507 billion in 2014. The increase in the average volume of the Issuer's interest earning assets was outpaced by a 2.0 per cent. increase in the average volume of the Issuer's interest bearing liabilities from ₩227,814 billion in 2013 to ₩232,471 billion in 2014, while the decrease in interest income outpaced the decrease in interest expense, resulting in a decrease in net interest income. The Issuer's net interest spread declined from 1.84 per cent. in 2013 to 1.74 per cent. in 2014. The decline in the Issuer's net interest spread reflected a larger decrease in the average yield of the Issuer's interest earning assets, relative to the decrease in the average cost of the Issuer's interest bearing liabilities, primarily due to the earlier adjustment of interest rates on interest earning assets compared to interest rates on interest bearing liabilities in the context of the lower interest rate environment, as well as the continuing rate-based competition in the Korean banking industry for the marketing of both loan and deposit products.

Comparison of 2013 to 2012

Interest income

Interest income decreased 15.2 per cent. from ₩12,495 billion in 2012 to ₩10,595 billion in 2013, primarily as a result of a 15.5 per cent. decrease in interest on loans. The average yields on the Issuer's interest earning assets decreased by 74 basis points from 5.18 per cent. in 2012 to 4.44 per cent. in 2013, which reflected a decrease in the general level of interest rates in Korea from 2012 to 2013. The effect of this decrease was enhanced by a 1.1 per cent. decrease in the volume of the Issuer's interest earning assets from ₩241,417 billion in 2012 to ₩238,645 billion in 2013, principally due to a decrease in the Issuer's loan portfolio.

The 15.5 per cent. decrease in interest on loans from ₩10,972 billion in 2012 to ₩9,258 billion in 2013 was primarily due to:

- a 71 basis point decrease in the average yields on corporate loans from 5.16 per cent. in 2012 to 4.45 per cent. in 2013, which was enhanced by a 2.1 per cent. decrease in the average volume of such loans from ₩101,452 billion in 2012 to ₩99,332 billion in 2013;

- a 76 basis point decrease in the average yields on mortgage loans from 4.86 per cent. in 2012 to 4.10 per cent. in 2013, which was partially offset by a 0.1 per cent. increase in the average volume of such loans from ₩44,418 billion in 2012 to ₩44,455 billion in 2013;

- an 89 basis point decrease in the average yields on other consumer loans from 7.28 per cent. in 2012 to 6.39 per cent. in 2013, which was enhanced by a 3.9 per cent. decrease in the average volume of such loans from ₩29,086 billion in 2012 to ₩27,953 billion in 2013; and

- an 82 basis point decrease in the average yields on home equity loans from 5.08 per cent. in 2012 to 4.25 per cent. in 2013, which was partially offset by a 0.3 per cent. increase in the average volume of such loans from ₩30,171 billion in 2012 to ₩30,272 billion in 2013.

The average yields for corporate loans, mortgage loans, other consumer loans and home equity loans decreased mainly as a result of the decrease in the general level of interest rates in Korea applicable to such loans from 2012 to 2013. The decrease in the average volume of corporate loans was primarily due to the Issuer's efforts to improve the asset quality of its corporate loans by applying more stringent standards to the origination of new loans and renewal of existing loans to corporate customers. The decrease in the average volume of other consumer loans was primarily due to lower demand for such loans in Korea.

Overall, the average yields on the Issuer's loans decreased by 77 basis points from 5.36 per cent. in 2012 to 4.59 per cent. in 2013, while the average volume of the Issuer's loans decreased 1.4 per cent. from ₩207,871 billion in 2012 to ₩204,863 billion in 2012.

Interest on debt securities in the Issuer's financial investments portfolio decreased 13.2 per cent. from ₩1,250 billion in 2012 to ₩1,085 billion in 2013 primarily as a result of a 49 basis point decrease in average yields on such debt securities from 4.23 per cent. in 2012 to 3.74 per cent. in 2013. The decrease in average yields on such debt securities was primarily due to the decrease in the general level of interest rates in Korea for debt securities.

Interest expense

Interest expense decreased 19.1 per cent. from ₩6,716 billion in 2012 to ₩5,435 billion in 2013 primarily due to a 21.2 per cent. decrease in interest expense on deposits. The average cost of the Issuer's interest bearing liabilities decreased by 51 basis points from 2.90 per cent. in 2012 to 2.39 per cent. in 2013, which was driven mainly by the lower interest rate environment in Korea in 2013. The effect of this decrease was enhanced by a 1.5 per cent. decrease in the average volume of the Issuer's interest bearing liabilities from ₩231,256 billion in 2012 to ₩227,814 billion in 2013, which mainly reflected a decrease in the average volume of deposits.

The 21.2 per cent. decrease in interest expense on deposits from ₩5,423 billion in 2012 to ₩4,275 billion in 2013 was primarily due to a 66 basis point decrease in the average cost of time deposits from 3.68 per cent. in 2012 to 3.02 per cent. in 2013, which was enhanced by a 4.5 per cent. decrease in the average volume of such deposits from ₩136,289 billion in 2012 to ₩130,147 billion in 2013. The decrease in the average cost of time deposits mainly reflected the decrease in the general level of interest rates in Korea from 2012 to 2013. The decrease in the average volume of time deposits was principally due to a decrease in time deposits for corporate customers. Overall, the average cost of the Issuer's deposits decreased by 57 basis points from 2.79 per cent. in 2012 to 2.22 per cent. in 2013, while the average volume of the Issuer's deposits decreased by 0.7 per cent. from ₩194,139 billion in 2012 to ₩192,782 billion in 2013.

Net interest margin

The Issuer's overall net interest margin decreased from 2.39 per cent. in 2012 to 2.16 per cent. in 2013, as a 10.7 per cent. decrease in the Issuer's net interest income from ₩5,779 billion in 2012 to ₩5,160 billion in 2013 outpaced a 1.1 per cent. decrease in the average volume of the Issuer's interest earning assets from ₩241,417 billion in 2012 to ₩238,645 billion in 2013. The decrease in the average volume of the Issuer's interest earning assets was outpaced by a 1.49 per cent. decrease in the average volume of the Issuer's interest bearing liabilities from ₩231,256 billion in 2012 to ₩227,814 billion in 2013, while the decrease in interest income outpaced a decrease in interest expense, resulting in a decrease in net interest income. The Issuer's net interest spread declined from 2.09 per cent. in 2012 to 1.84 per cent. in 2013. The decline in the Issuer's net interest spread reflected a larger decrease in the average yield of the Issuer's interest earning assets, relative to the decrease in the average cost of the Issuer's interest bearing liabilities, primarily due to the earlier adjustment of interest rates on interest earning assets compared to interest rates on interest bearing liabilities in the context of the lower interest rate environment, as well as the continuing rate-based competition in the Korean banking industry for the marketing of both loan and deposit products.

Provision for Credit Losses

Provision for credit losses includes provision for loan losses, provision for unused loan commitments, provision for acceptances and guarantees, provision for financial guarantee contracts and provision for other financial assets, in each case net of reversal of provisions. For a discussion of the Issuer's loan loss provisioning policy, see "*Assets and Liabilities – Loan Portfolio – Provisioning Policy*."

In accordance with the guidelines of the FSS, if the Issuer's provision for loan losses is deemed insufficient for regulatory purposes, the Issuer compensates for the difference by recording a regulatory reserve for credit losses, which is segregated within retained earnings. See "*Assets and Liabilities – Loan Portfolio – Regulatory Reserve for Credit Losses*."

Comparison of the Three Months Ended March 31, 2015 to the Three Months Ended March 31, 2014

The Issuer's provision for credit losses decreased 43.7 per cent. from ₩222 billion for the three months ended March 31, 2014 to ₩125 billion for the three months ended March 31, 2015, primarily due to a decrease in the provision for loan losses. Such decrease resulted mainly from a general improvement in the overall credit quality of the loan portfolio.

The Issuer's write-offs for retail and corporate loans, net of recoveries, increased 167.3 per cent. from ₩45 billion for the three months ended March 31, 2014 to ₩119 billion for the three months ended March 31, 2015, primarily due to an increase in write-offs and a decrease in recoveries of corporate loans.

The Issuer's reversal of provision for acceptances and guarantees and unused loan commitments increased from ₩11 billion for the three months ended March 31, 2014 to ₩27 billion for the three months ended March 31, 2015, due primarily to a general improvement in the overall credit quality of the loan portfolio.

Comparison of 2014 to 2013

The Issuer's provision for credit losses decreased 16.6 per cent. from ₩1,065 billion in 2013 to ₩888 billion in 2014, primarily due to a decrease in provision for loan losses in respect of the Issuer's corporate loans. Such decrease resulted mainly from an improvement in the overall asset quality of the Issuer's corporate loans reflecting a decrease in delinquency rates.

The Issuer's write-offs for retail and corporate loans, net of recoveries, decreased 14.5 per cent. from ₩1,404 billion in 2013 to ₩1,200 billion in 2014, primarily due to a decrease in write-offs of retail loans.

The Issuer's reversal of provision for acceptances and guarantees and unused loan commitments increased from ₩6 billion in 2013 to ₩20 billion in 2014, due primarily to a general improvement in the overall credit quality of the loan portfolio.

Comparison of 2013 to 2012

The Issuer's provision for credit losses decreased 17.7 per cent. from ₩1,294 billion in 2012 to ₩1,065 billion in 2013, primarily due to a decrease in provision for loan losses in respect of the Issuer's corporate loans. Such decrease resulted mainly from an improvement in the overall asset quality of the Issuer's corporate loans reflecting a decrease in delinquency rates.

The Issuer's write-offs for retail and corporate loans, net of recoveries, increased 1.7 per cent. from ₩1,381 billion in 2012 to ₩1,404 billion in 2013, primarily due to an increase in write-offs of retail loans.

The Issuer's reversal of provision for acceptances and guarantees and unused loan commitments decreased from ₩67 billion in 2012 to ₩6 billion in 2013, due primarily to a decrease in reversal of provision for refund guarantees issued on behalf of shipbuilding companies.

Net Fee and Commission Income

The following table shows, for the periods indicated, the components of the Issuer's net fee and commission income:

	Year ended December 31			Three months ended March 31		Percentage Change		
	2012[1]	2013[1]	2014	2014	2015	2013/ 2012	2014/ 2013	2015 1Q/ 2014 1Q
	(in billions of Won, except percentages)						*(%)*	
Fee and commission income.....	1,437	1,282	1,271	297	336	(10.8)	(0.9)	13.1
Fee and commission expense....	(184)	(177)	(193)	(44)	(50)	(3.9)	9.0	13.6
Net Fee and Commission income	1,253	1,105	1,078	253	286	(11.9)	(2.4)	13.0

Note:

(1) The amounts for 2012 and 2013 reflect a change in the Issuer's accounting policies pursuant to the adoption of Korean IFRS 1110, *Consolidated Financial Statements*, which is effective beginning in 2013. Corresponding amounts for 2012 have been restated to retroactively apply such change. See "– *Overview – Changes in Accounting Policies*."

Comparison of the Three Months Ended March 31, 2015 to the Three Months Ended March 31, 2014

The Issuer's net fee and commission income increased 13.0 per cent. from ₩253 billion for the three months ended March 31, 2014 to ₩286 billion for the three months ended March 31, 2015, as a 13.1 per cent. increase in fee and commission income from ₩297 billion for the three months ended March 31, 2014 to ₩336 billion for the three months ended March 31, 2015 was partially offset by a 13.6 per cent. increase in fee and commission expense from ₩44 billion for the three months ended March 31, 2014 to ₩50 billion for the three months ended March 31, 2015. The 13.1 per cent. increase in fee and commission income was mainly the result of an increase in trust and other fiduciary fees from ₩40 billion for the three months ended March 31, 2014 to ₩78 billion for the three months ended March 31, 2015, which principally reflected an increase in the sale of equity-linked savings products.

The 13.6 per cent. increase in fee and commission expense was attributable primarily to an increase in contributions to external institutions such as the FSS and the KFTC from ₩5 billion for the three months ended March 31, 2014 to ₩6 billion for the three months ended March 31, 2015.

Comparison of 2014 to 2013

The Issuer's net fee and commission income decreased 2.4 per cent. from ₩1,105 billion in 2013 to ₩1,078 billion in 2014, as a 0.9 per cent. decrease in fee and commission income from ₩1,282 billion in 2013 to ₩1,271 billion in 2014 was enhanced by a 9.0 per cent. increase in fee and commission expense from ₩177 billion in 2013 to ₩193 billion in 2014. The 0.9 per cent. decrease in fee and commission income was mainly the result of a decrease in agent activity fees from ₩411 billion in 2013 to ₩372 billion in 2014, which principally reflected a decrease in fees related to bancassurance activities.

The 9.0 per cent. increase in fee and commission expense was attributable primarily to an increase in other fee and commission expense from ₩49 billion in 2013 to ₩69 billion in 2014.

Comparison of 2013 to 2012

The Issuer's net fee and commission income decreased 11.9 per cent. from ₩1,253 billion in 2012 to ₩1,105 billion in 2013, as a 10.8 per cent. decrease in fee and commission income from ₩1,437 billion in 2012 to ₩1,282 billion in 2013 was partially offset by a 3.9 per cent. decrease in fee and commission expense from ₩184 billion in 2012 to ₩177 billion in 2013. The 10.8 per cent. decrease in fee and commission income was mainly the result of a decrease in agent activity fees from ₩550 billion in 2012 to ₩411 billion in 2013, which principally reflected a decrease in fees related to bancassurance activities.

The 3.9 per cent. decrease in fee and commission expense was attributable primarily to a decrease in outsourcing related fees from ₩61 billion in 2012 to ₩55 billion in 2013.

Net Gain on Financial Assets and Liabilities at Fair Value through Profit or Loss

The following table shows, for the periods indicated, the components of the Issuer's net gain on financial assets and liabilities at fair value through profit or loss:

	Year ended December 31,			Three months ended March 31		Percentage Change		
	2012[1]	2013[1]	2014	2014	2015	2013/ 2012	2014/ 2013	2015 1Q/ 2014 1Q
	(in billions of Won, except percentages)						*(%)*	
Net gain on financial assets held-for-trading	325	183	257	53	106	(43.8)	41.0	101.3
Net gain (loss) on derivatives held-for-trading	416	508	99	(11)	5	22.1	(80.5)	(144.9)
Net loss on financial liabilities held-for-trading	(1)	(0)	(0)	(0)	–	(50.7)	(54.3)	(100.0)
Net gain on financial instruments designated at fair value through profit or loss	741	691	356	41	111	(6.8)	(48.4)	168.9

Note:

(1) The amounts for 2012 and 2013 reflect a change in the Issuer's accounting policies pursuant to the adoption of Korean IFRS 1110, *Consolidated Financial Statements*, which is effective beginning in 2013. Corresponding amounts for 2012 have been restated to retroactively apply such change. See "*– Overview – Changes in Accounting Policies*."

Comparison of the Three Months Ended March 31, 2015 to the Three Months Ended March 31, 2014

The Issuer's net gain on financial assets and liabilities at fair value through profit or loss increased 168.9 per cent. from ₩41 billion for the three months ended March 31, 2014 to ₩111 billion for the three months ended March 31, 2015 primarily as a result of a 101.3 per cent. increase in net gain on financial assets held-for-trading from ₩53 billion for the three months ended March 31, 2014 to ₩106 billion for the three months ended March 31, 2015, which was enhanced by a 144.9 per cent. increase from net loss on derivatives held-for-trading of ₩11 billion for the three months ended March 31, 2014 to net gain on derivatives held-for-trading of ₩5 billion for the three months ended March 31, 2015. The increase in net gain on financial assets held-for-trading was principally due to an 81 per cent. increase in net gain on debt securities held-for-trading from ₩56 billion for the three months ended March 31, 2014 to ₩101 billion for the three months ended March 31, 2015. The increase from net loss on derivatives held-for-trading for the three months ended March 31, 2014 to net gain on derivatives held-for-trading for the three months ended March 31, 2015 mainly reflected a 760.1 per cent. increase from net loss on currency derivatives held-for-trading of ₩5 billion for the three months ended March 31, 2014 to net gain on currency derivatives held-for-trading of ₩33 billion for the three months ended March 31, 2015.

Comparison of 2014 to 2013

The Issuer's net gain on financial assets and liabilities at fair value through profit or loss decreased 48.4 per cent. from ₩691 billion in 2013 to ₩356 billion in 2014 primarily as a result of an 80.5 per cent. decrease in net gain on derivatives held-for-trading from ₩508 billion in 2013 to ₩99 billion in 2014, which was offset in part by a 41.0 per cent. increase/decrease in net gain on financial assets held-for-trading from ₩183 billion in 2013 to ₩257 billion in 2014. The increase in net gain on financial assets held-for-trading was principally due to a 55.3 per cent. increase in net gain on debt securities held-for-trading from ₩180 billion in 2013 to ₩279 billion

in 2014. The decrease in net gain on derivatives held-for-trading mainly reflected a 76.2 per cent. decrease in net gain on currency derivatives held-for-trading from ₩515 billion in 2013 to ₩123 billion in 2014.

Comparison of 2013 to 2012

The Issuer's net gain on financial assets and liabilities at fair value through profit or loss decreased 6.8 per cent. from ₩741 billion in 2012 to ₩691 billion in 2013 primarily as a result of a 43.8 per cent. decrease in net gain on financial assets held-for-trading from ₩325 billion in 2012 to ₩183 billion in 2013, which was offset in part by a 22.1 per cent. increase in net gain on derivatives held-for-trading from ₩416 billion in 2012 to ₩508 billion in 2013. The decrease in net gain on financial assets held-for-trading was principally due to a 40.3 per cent. decrease in net gain on debt securities held-for-trading from ₩301 billion in 2012 to ₩180 billion in 2013. The increase in net gain on derivatives held-for-trading mainly reflected a 16.6 per cent. increase in net gain on currency derivatives held-for-trading from ₩442 billion in 2012 to ₩515 billion in 2013.

General and Administrative Expenses

The following table shows, for the periods indicated, the components of the Issuer's general and administrative expenses:

	Year ended December 31			Three months ended March 31		Percentage Change		
	2012[(1)(2)]	2013[(1)(2)]	2014	2014	2015	2013/ 2012	2014/ 2013	2015 1Q/ 2014 1Q
	(in billions of Won, except percentages)						*(%)*	
Employee benefits	2,145	2,218	2,222	569	648	3.4	0.2	13.9
Depreciation and amortisation	271	240	212	50	46	(11.5)	(11.7)	(8.0)
Other general and administrative expenses	860	938	939	222	208	9.1	0.1	(6.3)
General administrative expenses	3,276	3,396	3,373	841	902	3.7	(0.7)	7.3

Notes:

(1) The amounts for 2012 and 2013 reflect a change in the Issuer's accounting policies pursuant to an amendment to Korean IFRS 1019, *Employee Benefits*, which is effective beginning in 2013. Corresponding amounts for 2012 have been restated to retroactively apply such change. See "– *Overview – Changes in Accounting Policies*."

(2) The amounts for 2012 and 2013 reflect a change in the Issuer's accounting policies pursuant to the adoption of Korean IFRS 1110, *Consolidated Financial Statements*, which is effective beginning in 2013. Corresponding amounts for 2012 have been restated to retroactively apply such change. See "– *Overview – Changes in Accounting Policies*."

Comparison of the Three Months Ended March 31, 2015 to the Three Months Ended March 31, 2014

The Issuer's general and administrative expenses increased 7.3 per cent. from ₩841 billion for the three months ended March 31, 2014 to ₩902 billion for the three months ended March 31, 2015, primarily as a result of a 13.9 per cent. increase in employee benefits from ₩569 billion for the three months ended March 31, 2014 to ₩648 billion for the three months ended March 31, 2015, which was partially offset by a 6.3 per cent. decrease in other general and administrative expenses from ₩222 billion for the three months ended March 31, 2014 to ₩208 billion for the three months ended March 31, 2015 and an 8.0 per cent. decrease in depreciation and amortisation from ₩50 billion for the three months ended March 31, 2014 to ₩46 billion for the three months ended March 31, 2015. The increase in employee benefits was principally due to 35.2 per cent. increase

in salaries and short-term employee benefits (welfare expense) from ₩159 billion for the three months ended March 31, 2014 to ₩215 billion for the three months ended March 31, 2015. The decrease in other general and administrative expenses was principally due to a decrease in rental expense.

Comparison of 2014 to 2013

The Issuer's general and administrative expenses decreased 0.7 per cent. from ₩3,396 billion in 2013 to ₩3,373 billion in 2014, primarily as a result of an 11.7 per cent. decrease in depreciation and amortisation expenses to ₩212 billion in 2014 from ₩240 billion in 2013, which was partially offset by a 0.1 per cent. increase in other general and administrative expenses from ₩938 billion in 2013 to ₩939 billion in 2014 and a 0.2 per cent. increase in employee benefits from ₩2,218 billion in 2013 to ₩2,222 billion in 2014. The increase in employee benefits was principally due to 1.7 per cent. increase in salaries and short-term employee benefits from ₩2,027 billion in 2013 to ₩2,062 billion in 2014. The decrease in depreciation and amortisation was principally due to a decrease in the depreciation and amortisation of buildings and structures as well as leasehold improvements.

Comparison of 2013 to 2012

The Issuer's general and administrative expenses increased 3.7 per cent. from ₩3,276 billion in 2012 to ₩3,396 billion in 2013, primarily as a result of a 9.1 per cent. increase in other general and administrative expenses from ₩860 billion in 2012 to ₩938 billion in 2013 and a 3.4 per cent. increase in employee benefits from ₩2,145 billion in 2012 to ₩2,218 billion in 2013, which were partially offset by an 11.5 per cent. decrease in depreciation and amortisation from ₩271 billion in 2012 to ₩240 billion in 2013. The increase in other general and administrative expenses was principally the result of a 222.6 per cent. increase in tax and dues from ₩31 billion in 2012 to ₩100 billion in 2013, reflecting refunds of previously levied education taxes as a result of claims filed by the Issuer in 2012, which were not repeated in 2013. The increase in employee benefits was principally due to a 2.3 per cent. increase in salaries and short-term employee benefits from ₩1,981 billion in 2012 to ₩2,027 billion in 2013. The decrease in depreciation and amortisation was principally due to a decrease in the depreciation and amortisation of commercial real estate properties.

Net Other Operating Expenses

The following table shows, for the periods indicated, the components of the Issuer's net other operating expenses:

	Year ended December 31			Three months ended March 31		Percentage Change		
	2012[(1)]	2013[(1)]	2014[(1)]	2014	2015	2013/ 2012	2014/ 2013	2015 1Q/ 2014 1Q
	(in billions of Won, except percentages)						*(%)*	
Other operating income	1,421	1,727	1,754	328	347	21.5	1.6	5.6
Other operating expenses.....	(2,671)	(2,782)	(2,522)	(446)	(549)	4.2	(9.3)	22.9
Net other operating expenses....	(1,250)	(1,055)	(769)	(118)	(202)	(15.6)	(27.2)	70.9

Note:

(1) The amounts for 2013 and 2014 reflect a change in the Issuer's accounting policies pursuant to the adoption of Korean IFRS 1110, *Consolidated Financial Statements*, which is effective beginning in 2013. Corresponding amounts for 2012 have been restated to retroactively apply such change. See "– *Overview – Changes in Accounting Policies*."

Comparison of the Three Months Ended March 31, 2015 to the Three Months Ended March 31, 2014

The Issuer's net other operating expenses increased 70.9 per cent. from ₩118 billion for the three months ended March 31, 2014 to ₩202 billion for the three months ended March 31, 2015, primarily due to a 22.9 per cent. increase in other operating expenses from ₩446 billion for the three months ended March 31, 2014 to ₩549 billion for the three months ended March 31, 2015, which was partially offset by a 5.6 per cent. increase in other operating income from ₩328 billion for the three months ended March 31, 2014 to ₩347 billion for the three months ended March 31, 2015.

The 5.6 per cent. increase in other operating income was attributable mainly to a 10.0 per cent. increase in gains on foreign exchange transactions from ₩254 billion for the three months ended March 31, 2014 to ₩279 billion for the three months ended March 31, 2015, which was partially offset by a 53.4 per cent. decrease in others from ₩41 billion for the three months ended March 31, 2014 to ₩19 billion for the three months ended March 31, 2015. The increase in gains on foreign exchange transactions, which was mainly the result of the increased number of transactions, was more than offset by a corresponding increase in losses on foreign exchange transactions, which is recorded as part of other operating expenses. On a net basis, the Issuer's net gain on foreign exchange transactions decreased from ₩24 billion for the three months ended March 31, 2014 to ₩11 billion for the three months ended March 31, 2015. The increase in revenue related to available-for-sale financial assets was mainly the result of an increase in gains on sale of available-for-sale financial assets.

The 22.9 per cent. increase in other operating expenses was primarily the result of a 173.8 per cent. increase in impairment on available-for-sale financial assets from ₩24 billion for the three months ended March 31, 2014 to ₩67 billion for the three months ended March 31, 2015. The increase in loss on foreign exchange transactions was partially offset by an increase in gains on foreign exchange transactions, which is recorded as part of other operating income as discussed above.

Comparison of 2014 to 2013

The Issuer's net other operating expenses decreased 27.2 per cent. from ₩1,055 billion in 2013 to ₩769 billion in 2014, primarily due to a 1.6 per cent. increase in other operating income from ₩1,727 billion in 2013 to ₩1,754 billion in 2014 and a 9.3 per cent. decrease in other operating expenses from ₩2,782 billion in 2013 to ₩2,522 billion in 2014.

The 1.6 per cent. increase in other operating income was attributable mainly to a 7.2 per cent. increase in gain on foreign exchange transactions from ₩1,370 billion in 2013 to ₩1,468 billion in 2014, which was partially offset by a 59.5 per cent. decrease in revenue related to available-for-sale financial assets from ₩135 billion in 2013 to ₩55 billion in 2014. The increase in gain on foreign exchange transactions, which was mainly the result of increased exchange rate volatility, was enhanced by a corresponding decrease in loss on foreign exchange transactions, which is recorded as part of other operating expenses. On a net basis, the Issuer's net gain on foreign exchange transactions represents a turnaround from the loss of ₩294 billion in 2013 to the gain of ₩16 billion in 2014. The decrease in revenue related to available-for-sale financial assets was mainly the result of a decrease in gains on sale of available-for-sale financial assets.

The 9.3 per cent. decrease in other operating expenses was primarily the result of an 12.7 per cent. decrease in loss on foreign exchange transactions from ₩1,664 billion in 2013 to ₩1,452 billion in 2014. The decrease in loss on foreign exchange transactions was more than offset by an increase in gain on foreign exchange transactions, which is recorded as part of other operating income as discussed above.

Comparison of 2013 to 2012

The Issuer's net other operating expenses decreased 15.6 per cent. from ₩1,250 billion in 2012 to ₩1,055 billion in 2013, as a 21.5 per cent. increase in other operating income from ₩1,421 billion in 2012 to ₩1,727 billion in 2013 outpaced a 4.2 per cent. increase in other operating expenses from ₩2,671 billion in 2012 to ₩2,782 billion in 2013.

The 21.5 per cent. increase in other operating income was attributable mainly to a 27.0 per cent. increase in gain on foreign exchange transactions from ₩1,079 billion in 2012 to ₩1,370 billion in 2013, as well as a 62.5 per cent. increase in revenue related to available-for-sale financial assets from ₩83 billion in 2012 to ₩135 billion in 2013. The increase in gain on foreign exchange transactions, which was mainly the result of increased exchange rate volatility, was partially offset by a corresponding increase in loss on foreign exchange transactions, which is recorded as part of other operating expenses. On a net basis, the Issuer's net loss on foreign exchange transactions decreased 11.0 per cent. from ₩331 billion in 2012 to ₩294 billion in 2013. The increase in revenue related to available-for-sale financial assets was mainly the result of gains from sales of the Issuer's shares of Hyundai Merchant Marine Co., Ltd. and Kumho Petrochemical Co., Ltd. in 2013.

The 4.2 per cent. increase in other operating expenses was primarily the result of an 18.1 per cent. increase in loss on foreign exchange transactions from ₩1,409 billion in 2012 to ₩1,664 billion in 2013. The increase in loss on foreign exchange transactions, which was principally due to increased exchange rate volatility, was more than offset by a corresponding increase in gain on foreign exchange transactions, which is recorded as part of other operating income as discussed above.

Income Tax Expense (Benefit)

The Issuer's income tax expense is calculated by adding or subtracting changes in deferred income tax liabilities and assets to income tax amounts payable for the period. Deferred income tax assets are recognised for deductible temporary differences, unused tax losses and unused tax credits, while deferred income tax liabilities are recognised for taxable temporary differences. Temporary differences are those between the carrying values of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred income tax assets, including unused tax losses and credits, are recognised only to the extent it is probable that sufficient taxable profit will be available against which such deferred income tax assets can be utilised.

Comparison of the Three Months Ended March 31, 2015 to the Three Months Ended March 31, 2014

Income tax expense decreased 18.3 per cent. from ₩96 billion for the three months ended March 31, 2014 to ₩78 billion for the three months ended March 31, 2015, primarily due to an increase in non-taxable income. The statutory tax rate was 24.2 per cent. for the three months ended March 31, 2014 and 2015. The Issuer's effective tax rate was 14.1 per cent. for the three months ended March 31, 2015 compared to 28.2 per cent. for the three months ended March 31, 2014.

Comparison of 2014 to 2013

Income tax expense decreased 13.0 per cent. from ₩381 billion in 2013 to ₩331 billion in 2014, primarily due to a tax rebate for the income taxes paid in previous years. The statutory tax rate was 24.2 per cent. in 2013 and 2014. The Issuer's effective tax rate was 24.3 per cent. in 2014 compared to 31.4 per cent. in 2013.

Comparison of 2013 to 2012

Income tax expense decreased 13.9 per cent. from ₩442 billion in 2012 to ₩381 billion in 2013, primarily due to a decrease in the Issuer's profit before income tax. The statutory tax rate was 24.2 per cent. in 2012 and 2013. The Issuer's effective tax rate was 31.4 per cent. in 2013 compared to 23.5 per cent. in 2012.

Profit for the Period

As a result of the above, the Issuer's profit for the three months ended March 31, 2015 was ₩476 billion, compared to ₩244 billion for the three months ended March 31, 2014, and the Issuer's profit for 2014 was ₩1,029 billion, compared to ₩831 billion in 2013 and ₩1,440 billion in 2012.

Financial Condition

Assets

The following table sets forth, as of the dates indicated, the principal components of the Issuer's assets:

	Year ended December 31			As of March 31	Percentage Change		
	2012[1]	2013[1][2]	2014[2]	2015	2013/2012	2014/2013	March 31, 2015/2014
	(in billions of Won, except percentages)					*(%)*	
Cash and due from financial institutions	10,029	13,730	13,974	13,196	36.9	1.8	(5.6)
Financial assets at fair value through profit or loss	6,498	7,070	7,520	7,593	8.8	6.4	1.0
Derivative financial assets	1,996	1,719	1,910	1,987	(13.9)	11.1	4.0
Loans	199,415	203,124	211,526	218,179	1.9	4.1	3.1
Financial investments	32,190	30,087	29,259	28,969	(6.5)	(2.8)	(1.0)
Property and equipment	2,938	2,903	2,888	2,858	(1.2)	(0.5)	(1.0)
Assets held for sale	5	21	54	49	320.0	157.1	(9.3)
Other assets[3]	7,976	6,934	8,323	9,298	(13.1)	20.0	11.7
Total assets	261,047	265,588	275,454	282,130	1.7	3.7	2.4

Notes:

(1) The amounts for 2012 and 2013 reflect a change in the Issuer's accounting policies pursuant to the adoption of Korean IFRS 1110, *Consolidated Financial Statements*, which is effective beginning in 2013. Corresponding amounts for 2012 have been restated to retroactively apply such change. See "– *Overview – Changes in Accounting Policies*."

(2) For the periods prior to the year ended December 31, 2014, pursuant to Korean IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*, if an uncertain tax position satisfied the criteria for provisions, the Issuer measured the best estimate of expenditure for such uncertain tax position. The Issuer's claims for refund of the amounts levied by the tax authority were then treated as contingent assets. However, in 2014, the Issuer retroactively applied the accounting policy in accordance with Korean IFRS 1012, *Income Taxes*, which allows recognition of tax payments as income tax assets when it is probable that the Issuer will receive a tax refund. The Issuer's consolidated financial statements as of and for the year ended December 31, 2013 and for the three months ended March 31, 2014 have been restated to retroactively apply this change while no such restatements have been made in the Issuer's consolidated financial statements as of and for the year ended December 31, 2012 as originally

issued. See Note 2.1 of the notes to the Issuer's audited consolidated financial statements for the years ended December 31, 2014 and 2013 included elsewhere in this Base Prospectus and "– *Overview – Changes in Accounting Policies*."

(3) Includes investment in associates, investment property, intangible assets, current income tax assets, deferred income tax assets and other assets.

For further information on the Issuer's assets and liabilities, see "*Assets and Liabilities*."

Comparison of March 31, 2015 to December 31, 2014

The Issuer's total assets increased 2.4 per cent. from ₩275,454 billion as of December 31, 2014 to ₩282,130 billion as of March 31, 2015, principally due to a 3.1 per cent. increase in loans from ₩211,526 billion as of December 31, 2014 to ₩218,179 billion as of March 31, 2015. The effect of these increases was partially offset by a 5.6 per cent. decrease in cash and due from financial institutions from ₩13,974 billion as of December 31, 2014 to ₩13,196 billion as of March 31, 2015.

Comparison of 2014 to 2013

The Issuer's total assets increased 3.7 per cent. from ₩265,588 billion as of December 31, 2013 to ₩275,454 billion as of December 31, 2014, principally due to a 4.1 per cent. increase in loans from ₩203,124 billion as of December 31, 2013 to ₩211,526 billion as of December 31, 2014 and a 1.8 per cent. increase in cash and due from financial institutions from ₩13,730 billion as of December 31, 2013 to ₩13,974 billion as of December 31, 2014. The effect of these increases was partially offset by a 2.8 per cent. decrease in financial investments from ₩30,087 billion as of December 31, 2013 to ₩29,259 billion as of December 31, 2014.

Comparison of 2013 to 2012

The Issuer's total assets increased 1.7 per cent. from ₩261,047 billion as of December 31, 2012 to ₩265,588 billion as of December 31, 2013, principally due to a 1.9 per cent. increase in loans from ₩199,415 billion as of December 31, 2012 to ₩203,124 billion as of December 31, 2013 and a 36.9 per cent. increase in cash and due from financial institutions from ₩10,029 billion as of December 31, 2012 to ₩13,730 billion as of December 31, 2013. The effect of these increases was partially offset by a 6.5 per cent. decrease in financial investments from ₩32,190 billion as of December 31, 2012 to ₩30,087 billion as of December 31, 2013.

Liabilities and Equity

The following table sets forth, as of the dates indicated, the principal components of the Issuer's liabilities and the Issuer's equity:

	As of December 31			As of March 31	Percentage Change		
	2012[1]	2013[1][3]	2014[3]	2015	2013/2012	2014/2013	March 31, 2015/2014
	(in billions of Won, except percentages)				*(%)*		
Liabilities:							
Financial liabilities at fair value through profit or loss	42	40	52	57	(4.8)	30.0	9.7
Derivative financial liabilities	2,041	1,766	1,759	1,880	(13.5)	(0.4)	6.9
Deposits	197,233	200,968	211,611	213,751	1.9	5.3	1.0
Debts	14,632	13,570	14,297	15,361	(7.3)	5.4	7.4
Debentures	15,949	16,213	15,250	14,889	1.7	(5.9)	(2.4)
Provisions	537	540	483	465	0.6	(10.6)	(3.8)
Other liabilities[2]	10,595	11,545	10,060	13,444	9.0	(12.9)	33.6
Total liabilities	241,029	244,642	253,513	259,847	1.5	3.6	2.5
Equity:							
Capital stock	2,022	2,022	2,022	2,022	0.0	0.0	0.0
Capital surplus	5,220	5,220	5,220	5,220	0.0	0.0	0.0
Accumulated other comprehensive income	384	448	571	668	16.7	27.5	16.9
Retained earnings	12,390	13,258	14,128	14,374	7.0	6.6	1.7
Equity attributable to shareholders of the parent entity	20,016	20,947	21,940	22,283	4.7	4.7	1.6
Non-controlling interest equity	1	–	–	–	N/M	–	–
Total equity	20,018	20,947	21,940	22,283	4.6	4.7	1.6
Total liabilities and equity	261,047	265,588	275,454	282,130	1.7	3.7	2.4

Notes:

(1) The amounts for 2012 and 2013 reflect a change in the Issuer's accounting policies pursuant to the adoption of Korean IFRS 1110, *Consolidated Financial Statements*, which is effective beginning in 2013. Corresponding amounts for 2012 have been restated to retroactively apply such change. See "– *Overview – Changes in Accounting Policies*."

(2) Includes deferred income tax liabilities, net defined benefit liabilities, current income tax liabilities and other liabilities.

(3) For the periods prior to the year ended December 31, 2014, pursuant to Korean IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*, if an uncertain tax position satisfied the criteria for provisions, the Issuer measured the best estimate of expenditure for such uncertain tax position. The Issuer's claims for refund of the amounts levied by the tax authority were then treated as contingent assets. However, in 2014, the Issuer retroactively applied the accounting policy in accordance with Korean IFRS 1012, *Income Taxes*, which allows recognition of tax payments as income tax assets when it is probable that the Issuer will receive a tax refund. The Issuer's consolidated financial statements as of and for the year ended December 31, 2013 and for the three months ended March 31, 2014 have been restated to retroactively apply this change while no such restatements have been made in the Issuer's consolidated financial statements as of and for the year ended December 31, 2012 as originally

issued. See Note 2.1 of the notes to the Issuer's audited consolidated financial statements for the years ended December 31, 2014 and 2013 included elsewhere in this Base Prospectus and "– *Overview – Changes in Accounting Policies*."

Comparison of March 31, 2015 to December 31, 2014

The Issuer's total liabilities increased 2.5 per cent. from ₩253,513 billion as of December 31, 2014 to ₩259,847 billion as of March 31, 2015, principally due to a 1.0 per cent. increase in deposits from ₩211,611 billion as of December 31, 2014 to ₩213,751 billion as of March 31, 2015, mainly as a result of an increase in demand deposits. The effect of this increase was partially offset by a 2.4 per cent. decrease in debentures from ₩15,250 billion as of December 31, 2014 to ₩14,889 billion as of March 31, 2015, mainly as a result of a decrease in debentures in Korean Won.

Comparison of 2014 to 2013

The Issuer's total liabilities increased 3.6 per cent. from ₩244,642 billion as of December 31, 2013 to ₩253,513 billion as of December 31, 2014, principally due to a 5.3 per cent. increase in deposits from ₩200,968 billion as of December 31, 2013 to ₩211,611 billion as of December 31, 2014, mainly as a result of an increase in demand deposits. The effect of this increase was enhanced by a 5.4 per cent. increase in debts from ₩13,570 billion as of December 31, 2013 to ₩14,297 billion as of December 31, 2014, mainly as a result of an increase in borrowings.

The Issuer's total equity increased 4.7 per cent. from ₩20,947 billion as of December 31, 2013 to ₩21,940 billion as of December 31, 2014. This increase resulted principally from an increase in the Issuer's retained earnings, which was attributable to the profit the Issuer generated in 2014.

Comparison of 2013 to 2012

The Issuer's total liabilities increased 1.5 per cent. from ₩241,029 billion as of December 31, 2012 to ₩244,642 billion as of December 31, 2013, principally due to a 1.9 per cent. increase in deposits from ₩197,233 billion as of December 31, 2012 to ₩200,968 billion as of December 31, 2013, mainly as a result of an increase in demand deposits. The effect of this increase was partially offset by a 7.3 per cent. decrease in debts from ₩14,632 billion as of December 31, 2012 to ₩13,570 billion as of December 31, 2013, mainly as a result of a decrease in borrowings.

The Issuer's total equity increased 4.6 per cent. from ₩20,018 billion as of December 31, 2012 to ₩20,947 billion as of December 31, 2013. This increase resulted principally from an increase in the Issuer's retained earnings, which was attributable to the profit the Issuer generated in 2013.

Liquidity

The Issuer's primary source of funding has historically been and continues to be deposits. Deposits amounted to ₩197,233 billion, ₩200,968 billion, ₩211,611 billion and ₩213,751 billion as of December 31, 2012, 2013 and 2014 and March 31, 2015, which represented approximately 86.6 per cent., 87.1 per cent., 87.7 per cent. and 87.6 per cent. of the Issuer's total funding, respectively. The Issuer has been able to use customer deposits to finance its operations generally, including meeting a portion of its liquidity requirements. Although the majority of deposits are short-term, it has been the Issuer's experience that the majority of the Issuer's depositors generally roll over their deposits at maturity, thus providing the Issuer with a stable source of funding. However, in the event that a substantial number of the Issuer's depositors do not roll over their deposits or otherwise decide to withdraw their deposited funds, the Issuer would need to place increased reliance on alternative sources of funding, some of which may be more expensive than customer deposits, in order to finance the Issuer's operations. See "*Risk Factors – Risks Relating to Liquidity and Capital Management – The Issuer's funding is highly dependent on short-term*

deposits, which dependence may adversely affect the Issuer's operations." In particular, the Issuer may increase its utilisation of alternative funding sources such as short-term borrowings and cash and cash equivalents (including funds from maturing loans), as well as liquidating the Issuer's positions in financial assets and using the proceeds to fund parts of its operations, as necessary.

The Issuer also obtains funding through debentures and debts to meet its liquidity needs. Debentures represented 7.0 per cent., 7.0 per cent., 6.3 per cent. and 6.1 per cent. of its total funding as of December 31, 2012, 2013 and 2014 and March 31, 2015, respectively. Debts represented 6.4 per cent., 5.9 per cent., 5.9 per cent. and 6.3 per cent. of its total funding as of December 31, 2012, 2013 and 2014 and March 31, 2015, respectively. For further information on the Issuer's sources of funding, see "*Assets and Liabilities*."

The FSC requires each bank in Korea to maintain specific Won and foreign currency liquidity ratios. These ratios require the Issuer to keep the ratio of liquid assets to liquid liabilities above certain minimum levels. For a description of these requirements, see "*Regulation and Supervision – Liquidity*."

The Issuer is exposed to liquidity risk arising from withdrawals of deposits and maturities of its debentures and debts, as well as the need to fund its lending, trading and investment activities and the management of its trading positions. The goal of liquidity management is for the Issuer to be able, even under adverse conditions, to meet all of its liability repayments on time and fund all investment opportunities. For an explanation of how the Issuer manages its liquidity risk, see "*Risk Management – Liquidity Risk Management*."

Commitments and Guarantees

The following table sets forth, on a separate basis, the Issuer's commitments and guarantees as of March 31, 2015. These commitments and guarantees are not included within the Issuer's statements of financial position.

	Payments Due by Period				
	Total	1 Year or Less	1-3 Years	3-5 Years	More Than 5 Years
	(in billions of Won)				
Financial guarantees[(1)]	4,459	1,158	3,218	19	64
Confirmed acceptances and guarantees	5,198	3,111	1,791	294	1
Commitments	59,100	57,060	1,332	366	342
Total	68,757	61,329	6,341	679	407

Note:

(1) Includes ₩3,913 billion of irrevocable commitments to provide contingent liquidity credit lines to special purpose entities for which the Issuer serves as the administrator.

Capital Adequacy

The Issuer is 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 "*Regulation and Supervision – Capital Adequacy*."

The following table sets forth a summary of the Issuer's capital and capital adequacy ratios as of December 31, 2012, 2013 and 2014 and March 31, 2015.

	As of December 31			As of March 31,
	2012[(1)]	**2013**	**2014**	**2015**
	(in billions of Won, except percentages)			
Tier I capital	16,141	18,502	19,621	20,162
Tier I common equity capital	–	18,502	19,621	20,162
Tier II capital	5,251	4,122	3,801	3,336
Total core and supplementary capital	21,391	22,624	23,422	23,498
Risk-weighted assets	148,544	146,743	146,690	143,529
Credit risk	134,084	131,831	132,453	128,926
Market risk	4,694	4,012	3,445	3,390
Operational risk	9,767	10,900	10,792	11,214
Total Tier I and Tier II capital adequacy ratio	14.40	15.42	15.97	16.37
Tier I capital adequacy ratio	10.87	12.61	13.38	14.05
Tier I common equity capital adequacy ratio	N/A	12.61	13.38	14.05
Tier II capital adequacy ratio	3.53	N/A	–	–

Note:

(1) With effect from December 1, 2013, the FSC adopted amended guidelines that implemented capital adequacy requirements in Korea based on Basel III. Amounts and ratios as of December 31, 2012 were computed in accordance with previously applicable guidelines based on Basel II and therefore are not directly comparable to corresponding amounts and ratios as of December 31, 2013, December 31, 2014 and March 31, 2015.

Overview

The Issuer is the largest commercial bank in Korea in terms of total assets (including loans), according to the data compiled by the FSS. As of March 31, 2015, the Issuer had total assets of ₩282,130 billion and total deposits of ₩213,751 billion.

On the asset side, the Issuer provides credit and related financial services to individuals and SMEs and, to a lesser extent, to large corporate customers. On the deposit side, the Issuer provides a full range of deposit products and related services to both individuals and corporations of all sizes.

By their nature, the Issuer's core consumer and SME operations place a high premium on customer access and convenience. The Issuer's network of 1,147 branches as of March 31, 2015, one of the most extensive in Korea, provides the Issuer with access to a large, stable and cost-effective funding source, enables the Issuer to provide its customers with convenient access and gives the Issuer the ability to provide the customer attention and service essential to conducting its business, particularly in an increasingly competitive environment. The Issuer's branch network is further enhanced by automated banking machines and fixed line, mobile telephone and Internet banking. As of March 31, 2015, the Issuer had a customer base of approximately 29 million retail customers, which represented approximately one-half of the Korean population.

The following table shows the principal components of the Issuer's lending business as of the dates indicated, on a separate basis:

	As of December 31						As of March 31,	
	2012		2013		2014		2015	
	(in billions of Won, except percentages)							
Retail	101,278	50.3	103,877	50.7	112,042	52.7	111,753	50.9
Corporate	98,635	49.0	99,700	48.7	99,558	46.8	106,818	48.6
Foreign	1,374	0.7	1,161	0.6	1,146	0.5	1,123	0.5
Total loans	201,287	100.0	204,738	100.0	212,746	100.0	219,693	100.0

The Issuer provides a full range of personal lending products and retail banking services to individual customers, including mortgage loans. The Issuer is the largest private sector mortgage lender in Korea.

Lending to SMEs is the single largest component of the Issuer's non-retail credit portfolio and represents a widely diversified exposure to a broad spectrum of the Korean corporate community, both by type of lending and type of customer, with one of the categories being collateralised loans to SOHO customers that are among the smallest of the SMEs. The volume of the Issuer's loans to SMEs requires a customer-oriented approach that is facilitated by the Issuer's large and geographically diverse branch network.

With respect to large corporate customers, the Issuer continues to seek to maintain and expand quality relationships by providing them with an increasing range of fee-related services.

The legal name of the Issuer is Kookmin Bank. The Issuer is registered in Korea and incorporated with limited liability under the laws of Korea (registration number: 110111-2365321) and operates pursuant to the Bank Act and the Bank of Korea Act, as well as regulations and supervision of the

BOK, the MPC, the FSC and its executive body, the FSS. The Issuer's registered office and corporate headquarters are located at 84, Namdaemoon-ro, Jung-gu, Seoul 100-703, Korea (telephone: +(822) 2073-7114).

Organisational Structure

In September 2008, the Issuer completed a "comprehensive stock transfer" under Article 360-15 of the Korean Commercial Code, whereby KB Financial Group became the holding company of the Issuer and eight additional entities that were originally the Issuer's subsidiaries. See "– *History and Development – Establishment of KB Financial Group*." Currently, the Issuer is a wholly-owned subsidiary of KB Financial Group and the Issuer's operating subsidiaries comprise Kookmin Bank Hong Kong Ltd., Kookmin Bank Int'l Ltd. (London), Kookmin Bank Cambodia PLC and Kookmin Bank (China) Ltd. The following table provides summary information for the Issuer's operating subsidiaries, including their total assets, net income, operating income and shareholder's equity as of and for the year ended December 31, 2014 and the three months ended March 31, 2015:

	As of December 31, 2014			Year ended December 31, 2014	
	Percentage of ownership	**Total assets**	**Equity**	**Operating revenue**	**Profit for the year**
		(in millions of Won, except percentages)			
Kookmin Bank Hong Kong Ltd.	100.00	639,509	140,549	16,495	8,616
Kookmin Bank Int'l Ltd. (London)	100.00	441,292	75,809	11,069	3,466
Kookmin Bank Cambodia PLC	100.00	95,864	21,286	6,021	266
Kookmin Bank (China) Ltd.	100.00	1,259,847	413,696	43,507	7,984

	As of March 31, 2015			Three months ended March 31, 2015	
	Percentage of ownership	**Total assets**	**Equity**	**Operating revenue**	**Profit for the period**
		(in millions of Won, except percentages)			
Kookmin Bank Hong Kong Ltd.	100.00	683,545	142,803	3,587	1,471
Kookmin Bank Int'l Ltd. (London)	100.00	388,298	77,072	2,560	811
Kookmin Bank Cambodia PLC	100.00	92,144	22,179	1,357	777
Kookmin Bank (China) Ltd.	100.00	1,361,780	413,464	10,034	(2,404)

Further information regarding the Issuer's subsidiaries is provided below:

- *Kookmin Bank Hong Kong Ltd.* was established in Hong Kong in July 1995 to provide a broad range of corporate banking services.

- *Kookmin Bank Int'l Ltd. (London)* was established in the United Kingdom in November 1991 to provide a broad range of corporate banking services.

- The Issuer acquired a controlling interest in *Kookmin Bank Cambodia PLC* (formerly Khmer Union Bank) in May 2009, to enable the Issuer to provide various banking services in Cambodia.

- *Kookmin Bank (China) Ltd*. was established in China in November 2012 to provide a broad range of corporate banking services.

History and Development

History of the Former Kookmin Bank

The former Kookmin Bank was established by the Government in 1963 under its original name of Citizens National Bank under the Citizens National Bank Act of Korea with majority government ownership. Under this Act, the Issuer was limited to providing banking services to the general public and to SMEs. In September 1994, Citizens National Bank completed its initial public offering in Korea and listed its shares on the KRX KOSPI Market.

In January 1995, the Citizens National Bank Act of Korea was repealed and replaced by the Repeal Act of the Citizens National Bank Act. Citizens National Bank's status was changed from a specialised bank to a nationwide commercial bank and in February 1995, it changed its name to Kookmin Bank. The Repeal Act allowed the former Kookmin Bank to engage in lending to large businesses.

History of Housing & Commercial Bank

Housing & Commercial Bank ("**H&CB**") was established by the Government in 1967 under the name Korea Housing Finance Corporation. In 1969, Korea Housing Finance Corporation became the Korea Housing Bank pursuant to the Korea Housing Bank Act. H&CB was originally established to provide low and middle income households with long-term, low-interest mortgages in order to help them purchase their own homes, and to promote the increase of housing supply in Korea by providing low-interest housing loans to construction companies. Under the Korea Housing Bank Act, up to 20 per cent. of H&CB's lending (excluding lending pursuant to Government programmes) could be non-mortgage lending. Until 1997 when the Korea Housing Bank Act was repealed, H&CB was the only entity in Korea allowed to provide mortgage loans with a term of longer than 10 years. H&CB also had the exclusive ability to offer housing-related deposit accounts offering preferential rights to subscribe for newly-built apartments.

The Merger of the Former Kookmin Bank and H&CB

Effective November 1, 2001, the former Kookmin Bank and H&CB merged into a new entity named Kookmin Bank. This merger resulted in the Issuer becoming the largest commercial bank by total assets (including loans) in Korea, according to the data compiled by the FSS. American depositary shares ("**ADSs**") representing the Issuer's common stock were listed on the New York Stock Exchange on November 1, 2001 and its common stock was listed on the KRX KOSPI Market on November 9, 2001.

The Merger with Kookmin Credit Card

On May 30, 2003, the Issuer entered into a merger agreement with Kookmin Credit Card, previously a 75 per cent. owned and consolidated subsidiary. On July 23, 2003, the Issuer's board approved the merger with Kookmin Credit Card and on September 5, 2003, the merger was approved by the shareholders of Kookmin Credit Card. On September 30, 2003, the Issuer merged with Kookmin Credit Card.

Establishment of KB Financial Group

KB Financial Group was established on September 29, 2008 pursuant to a "comprehensive stock transfer" under Article 360-15 of the Korean Commercial Code, whereby holders of the common stock of the Issuer and certain of its subsidiaries transferred all of their shares to KB Financial Group, a new financial holding company, and in return received shares of KB Financial Group's common stock. In the stock transfer, each holder of one share of the Issuer's common stock received one share of KB Financial Group's common stock, par value ₩5,000 per share. Holders of the Issuer's ADSs and global depositary shares, each of which represented one share of the Issuer's common stock, received one of KB Financial Group's ADSs for every ADS or global depositary share they owned. In addition, holders of the common stock of KB Investment & Securities Co., Ltd., KB Asset Management Co., Ltd., KB Real Estate Trust Co., Ltd., KB Investment Co., Ltd., KB Futures Co., Ltd., KB Credit Information Co., Ltd. and KB Data Systems Co., Ltd., all of which were the Issuer's subsidiaries, transferred all of their shares to KB Financial Group and, as consideration for such transferred shares, received shares of KB Financial Group's common stock in accordance with the specified stock transfer ratio applicable to each such subsidiary. Following the completion of the stock transfer, the Issuer and the aforementioned subsidiaries of the Issuer became KB Financial Group's wholly-owned subsidiaries. Following the stock transfer, KB Financial Group's common stock was listed on the KRX KOSPI Market on October 10, 2008 and its ADSs were listed on the New York Stock Exchange on September 29, 2008.

In connection with the stock transfer, the Issuer's common stockholders who opposed the stock transfer were entitled to exercise appraisal rights and require the Issuer to repurchase their shares in the event the stock transfer was completed. The purchase price for shares in respect of which appraisal rights were exercised was set at ₩63,293 per share. The Issuer repurchased 38,263,249 shares of its common stock as a result of the exercise of appraisal rights by dissenting stockholders. In addition, prior to the stock transfer, the Issuer executed a share buy back programme, pursuant to which it repurchased 16,840,000 shares of its common stock. Accordingly, as a result of the transfer by the Issuer of such treasury shares and the shares it held in its subsidiaries to KB Financial Group, the Issuer received 73,607,601 shares of KB Financial Group's common stock in the stock transfer, all of which the Issuer subsequently sold.

Spin-off of the Credit Card Business

On September 28, 2010, the board of directors of the Issuer resolved to effect a horizontal spin-off of its credit card business, such that the business would be operated by a newly established sister company of the Issuer that is wholly-owned by KB Financial Group. Pursuant to such resolution, the assets and liabilities of the Issuer which were directly or indirectly related to its credit card business were transferred to a newly established company, KB Card, on February 28, 2011, and all of the shares of common stock of KB Card were distributed to KB Financial Group on March 2, 2011. Pursuant to the Korean Commercial Code, the Issuer will remain jointly and severally liable for the spun-off liabilities of the credit card business and KB Card will be jointly and severally liable for the liabilities of the Issuer existing as of the date of the spin-off, in each case for an indefinite period.

Strategy

The Issuer's strategic focus is to become a world-class banking service provider that ranks among the leaders of the financial industry in Asia and globally. The Issuer plans to solidify its market position as Korea's leading bank, enhance its ability to provide comprehensive financial services to its retail and corporate customers and strengthen its overseas operating platform and network. The Issuer believes its strong market position is an important competitive advantage, which will enable the Issuer to compete more effectively based on convenient delivery, product breadth and differentiation, and service quality while focusing on the Issuer's profitability.

The key elements of the Issuer's strategy are as follows:

Identifying, targeting and marketing to attractive customer segments and providing superior customer value and service to such segments

In recent years, rather than focusing on developing products and services to satisfy the overall needs of the general population, the Issuer has increasingly targeted specific market segments that the Issuer expects to generate superior growth and profitability. The Issuer will continue to implement a targeted marketing approach that seeks to identify the most attractive customer segments and to develop strategies to build market share in those segments. In particular, the Issuer intends to increase its "wallet share" of superior existing customers by using its advanced customer relationship management technology to better identify and meet the needs of its most creditworthy and high net worth customers, on whom the Issuer intends to concentrate its marketing efforts. For example, as part of this strategy, the Issuer operates a "priority customer" programme called KB Star Club. The Issuer selects and classifies customers based on their transaction history and provides such customers with preferential treatment in various areas, including interest rates and transaction fees, depending upon how they are classified. The Issuer also provides private banking services, including personal wealth management services through its exclusive brand "Gold & Wise," to increase its share of the priority customer market and in turn increase its profitability and strengthen its position in retail banking.

As part of this strategy, the Issuer is also focusing on attracting and retaining creditworthy customers by offering more differentiated fee-based products and services that are tailored to meet their specific needs. The development and marketing of the Issuer's products and services are, in part, driven by customer segmentation to ensure the Issuer meets the needs of each customer segment. For instance, the Issuer continues to develop hybrid financial products with enhanced features, including various deposit products and investment products, for which consumer demand has increased in recent years. The Issuer is also focusing on addressing the needs of its customers by providing the highest-quality products and services and developing an open-architecture strategy, which allows the Issuer to sell such products through one of the largest branch networks in Korea. In short, the Issuer aims to offer its customers a convenient one-stop financial services destination where they can meet their traditional retail and corporate banking requirements, as well as find a broad array of fee-based products and services tailored to address more specific banking needs. The Issuer believes such differentiated, comprehensive services and cross-selling will not only enhance customer loyalty but also increase profitability.

One of the Issuer's key customer-related strategies continues to be creating greater value and better service for the Issuer's customers. The Issuer intends to continue improving its customer service, including through:

- *Improved customer relationship management technology*. Management has devoted substantial resources towards the development of the Issuer's customer relationship management system, which is designed to provide the Issuer's employees with the information needed to continually improve the level of service and incentives offered to the Issuer's preferred

customers. The Issuer's system is based on an integrated customer database, which allows for better customer management and streamlines the Issuer's customer reward system. The Issuer has also developed state-of-the-art call centres and online Internet capabilities to provide shorter response times to customers seeking information or to execute transactions. The Issuer's goals are to continually focus on improving customer service to satisfy its customer's needs through continuing efforts to deliver new and improved services and to upgrade the Issuer's customer relationship management system to provide the best possible service to the Issuer's customers in the future.

- *Enhanced distribution channels*. The Issuer also believes it can improve customer retention and usage rates by increasing the range of products and services the Issuer offers and by developing a differentiated, multi-channel distribution network, including branches, ATMs, call centres, mobile-banking and Internet banking. The Issuer believes that its leading market position in the commercial banking area in Korea gives it a competitive advantage in developing and enhancing its distribution capabilities.

Focusing on expanding and improving credit quality in the Issuer's corporate lending business and increasing market share in the corporate financial services market

The Issuer plans to focus on corporate lending as one of the Issuer's core businesses through attracting top-tier corporate customers and providing customised and distinctive products and services to build the Issuer's position as a leading bank in the Korean corporate financial market. To increase the Issuer's market share in providing financial services to the corporate market, the Issuer intends to:

- promote a more balanced and strengthened portfolio with respect to the Issuer's corporate business by developing the Issuer's large corporate customer base and utilising the Issuer's improved credit management operations to better evaluate new large corporate and SME customers;

- develop and sell more varied corporate financial products, consisting of transactional banking products which provide higher margin and less risk;

- generate more fee income from large corporate customers through business-to-business transactions, foreign exchange transactions and derivative and other investment products;

- strengthen the Issuer's marketing system based on the Issuer's accumulated expertise in order to attract top-tier corporate customers;

- focus on enhancing the Issuer's channel network in order to provide the best service by strengthening its corporate customer management; and

- further develop and train the Issuer's core professionals with respect to this market, including through programmes such as the "Career Development Path."

Strengthening internal risk management capabilities

The Issuer believes that ensuring strong asset quality through effective credit risk management is critical to maintaining stable growth and profitability, and risk management will continue to be one of the Issuer's key focus areas. One of the Issuer's highest priorities is to improve the Issuer's asset quality and more effectively price the Issuer's lending products to take into account inherent credit risk in the Issuer's portfolio. The Issuer's goal is to maintain the soundness of the Issuer's credit portfolio, profitability and capital base. To this end, the Issuer intends to continue to

strengthen its internal risk management capabilities by tightening its underwriting and management policies and improving its internal compliance policies. To accomplish this objective, the Issuer has undertaken the following initiatives:

- *Strengthening underwriting procedures with advanced credit scoring techniques*. The Issuer has centralised its credit management operations into its credit group. Through such centralisation, the Issuer aims to enhance its credit management expertise and improve its system of checks-and-balances with respect to its credit portfolio. The Issuer has also improved its ability to evaluate the credit of the Issuer's SME customers through assigning experienced credit officers to the Issuer's regional credit offices. The Issuer also requires one officer to evaluate, review and monitor the outstanding loans and other credits with respect to a customer, which the Issuer believes enhances the expertise and improves the efficiency and accountability of such officer, while enabling the Issuer to maintain a consistent credit policy. The Issuer has also, as a general matter, implemented enhanced credit analysis and scoring techniques, which the Issuer believes will enable it to make better-informed decisions about the credit the Issuer extends and improve the Issuer's ability to respond more quickly to incipient credit problems. The Issuer is also focusing on enhancing its asset quality through improvement of the Issuer's early monitoring systems and collection procedures.

- *Improving internal compliance policies and ensuring strict application in daily operations*. The Issuer has improved its monitoring capabilities with respect to its internal compliance by providing training and educational programmes to its management and employees. The Issuer has also implemented strict compliance policies to maintain the integrity of the Issuer's risk management system.

Cultivating a performance-based, customer-oriented culture that emphasises market best practices

The Issuer believes a strong and dedicated workforce is critical to its ability to offer its customers the highest quality banking services and is integral to its goal of maintaining its position as one of Korea's leading financial service providers. In the past, the Issuer has dedicated significant resources to develop and train its core professionals, and the Issuer intends to continue to enhance the productivity of its employees, including by regularly sponsoring in-house training and educational programs. The Issuer has also been seeking to cultivate a performance-based culture to create a work environment where members of its staff are incentivised to maximise their potential and in which the Issuer's employees are directly rewarded for superior performance. The Issuer intends to maintain a professional workforce whose high quality of customer service reflects its goal to achieve and maintain global best practice standards in all areas of operations.

Branch Network

As of March 31, 2015, the Issuer had 1,147 branches and sub-branches in Korea, which represented one of the largest branch networks among Korean commercial banks. An extensive branch network is important to attracting and maintaining retail customers, who use branches extensively and value convenience. The Issuer believes that its extensive branch network in Korea and retail customer base provide the Issuer with a source of stable and relatively low cost funding. The following table presents the geographical distribution of the Issuer's branch network in Korea as of March 31, 2015:

Area	Number of branches	Percentage
Seoul	420	36.6
Six largest cities (excluding Seoul)	268	23.4
Other	459	40.0
Total	1,147	100.0

In order to support the Issuer's branch network, the Issuer has established an extensive network of ATMs, which are located in branches and in unmanned outlets known as "autobanks." As of March 31, 2015, the Issuer had 9,229 ATMs.

The Issuer has actively promoted the use of these distribution outlets in order to provide a convenient service to customers, as well as to maximise the marketing and sales functions at branch level, reduce employee costs and improve profitability. The following table sets forth information, for the periods indicated, regarding the number of transactions and the fee revenue of the Issuer's ATMs:

	For the year ended December 31			For the three months ended March 31,
	2012	2013	2014	2015
Number of transactions (millions)	640	606	576	138
Fee revenue (in billions of Won)	58	56	56	13

Retail Banking

Due to the Issuer's development as a retail bank and the know-how and expertise the Issuer has acquired from its activities in that market, retail banking has been and will continue to remain one of the Issuer's core businesses. The Issuer's retail banking activities consist primarily of lending and deposit-taking.

Lending Activities

The Issuer offers various loan products that target different segments of the population, with features tailored to each segment's financial profile and other characteristics. The following table sets forth the balances and the percentage of the Issuer's total domestic retail lending represented by the categories of the Issuer's domestic retail loans as of the dates indicated, on a separate basis:

	As of December 31						As of March 31,	
	2012		2013		2014		2015	
	(in billions of Won, except percentages)							
Retail:								
Mortgage and home equity loans	74,047	73.1	77,606	74.7	86,919	77.6	86,714	77.6
Other consumer loans[(1)]	27,231	26.9	26,271	25.3	25,124	22.4	25,038	22.4
Total	101,278	100.0	103,877	100.0	112,043	100.0	111,753	100.0

Note:

(1) Includes overdraft loans.

The Issuer's retail loans consist of:

- *Mortgage loans*, which are loans made to customers to finance home purchases, construction, improvements or rentals, and home equity loans, which are loans made to the Issuer's customers secured by their homes to ensure loan repayment. The Issuer also provides overdraft loans in connection with the Issuer's home equity loans.

- *Other consumer loans*, which are loans made to customers for any purpose (other than mortgage and home equity loans). These include overdraft loans, which are loans extended to customers to cover insufficient funds when they withdraw funds from their demand deposit accounts with the Issuer in excess of the amount in such accounts up to a limit established by the Issuer.

For secured loans, including mortgage and home equity loans, the Issuer's policy is to lend up to 100 per cent. of the adjusted collateral value (except in areas of high speculation designated by the Government where the Issuer generally limits its lending to between 40 per cent. to 60 per cent. of the appraised value of collateral) minus the value of any lien or other security interests that are prior to the Issuer's security interest. In calculating the adjusted collateral value for real estate, the Issuer uses the appraisal value of the collateral multiplied by a factor, generally between 40 per cent. to 80 per cent. (40 per cent. to 60 per cent. in the case of mortgage and home equity loans). This factor varies depending upon the location and use of the real estate and is established in part by taking into account court-supervised auction prices for nearby properties.

A borrower's eligibility for the Issuer's mortgage loans depends on the value of the mortgage property, the appropriateness of the use of proceeds and the borrower's creditworthiness. A borrower's eligibility for home equity loans is determined by the borrower's credit and the value of the property, while the borrower's eligibility for other consumer loans is primarily determined by the borrower's credit. If the borrower's credit deteriorates, it may be difficult for the Issuer to recover the loan. As a result, the Issuer reviews the borrower's creditworthiness, collateral value, credit scoring and third party guarantees when evaluating a borrower. In addition, to reduce the interest rate of a loan or to qualify for a loan, a borrower may provide collateral, deposits or guarantees from third parties.

Mortgage and Home Equity Lending

The housing finance market in Korea is divided into public sector and private sector lending. In the public sector, two government entities, the National Housing Fund and the National Agricultural Cooperative Federation, are responsible for most of the mortgage lending.

Private sector mortgage and home equity lending in Korea has expanded substantially in recent years. The Issuer provides customers with a number of mortgage and home equity loan products that have flexible features, including terms, repayment schedules, amounts and eligibility for loans, and the Issuer offers interest rates on a commercial basis. The maximum term of mortgage loans is 35 years and the majority of the Issuer's mortgage loans have long-term maturities, which may be renewed.

Non-amortising home equity loans have an initial maturity of one year, which may be extended on an annual basis for a maximum of five years. Home equity loans subject to amortisation of principal may have a maximum term of up to 35 years. Any customer is eligible for a mortgage or an individual home equity loan regardless of whether it participates in one of the Issuer's housing related savings programmes and so long as that customer is not barred by regulation from obtaining a loan because of bad credit history. However, customers with whom the Issuer frequently transacts business and who provide the Issuer with significant revenue receive preferential interest rates on loans.

Contrary to prevailing practice in many other countries, a portion of the Issuer's mortgage loans are unsecured (although the use of proceeds from these loans is restricted to the financing of home purchases, and some of these loans are guaranteed by a third party). One reason for this phenomenon is that the Issuer, along with other Korean banks, provides advance loans to borrowers for the down payment of new housing (particularly apartments) that is in the process of being built. Once construction is completed, which may take several years, these mortgage loans become secured by the new housing purchased by these borrowers.

Pricing. The interest rates on the Issuer's retail mortgage loans are generally based on a periodic floating rate (which is based on a base rate determined for three-month, six-month or 12-month periods using the Issuer's Market Opportunity Rate system, which reflects the Issuer's internal cost of funding, further adjusted to account for the Issuer's expenses related to lending). The Issuer's interest rates also incorporate a margin based among other things on the type of security, the credit score of the borrower and the estimated loss on the security. The Issuer can adjust the price to reflect the borrower's current and/or expected future contribution to it. The applicable interest rate is determined at the time of the loan. If a loan is terminated prior to its maturity, the borrower is obligated to pay the Issuer an early termination fee of approximately 0.7 per cent. to 1.4 per cent. of the loan amount in addition to the accrued interest.

The interest rates on the Issuer's home equity loans are determined on the same basis as the Issuer's retail mortgage loans.

Other Consumer Loans

Other consumer loans are primarily unsecured. However, such loans may be secured by real estate, deposits or securities, or guaranteed by a third party. Overdraft loans are also classified as other consumer loans, are primarily unsecured and generally have an initial maturity of one year, which is typically extended automatically on an annual basis and may be extended up to a maximum of five years.

Pricing. The interest rates on the Issuer's other consumer loans (including overdraft loans) are determined on the same basis as on the Issuer's mortgage and home equity loans, except that, for unsecured loans, the borrower's credit score as determined during the Issuer's loan approval process is also taken into account. See "*Risk Management – Credit Risk Management*."

Deposit-taking Activities

Due to the Issuer's extensive nationwide network of branches, together with the Issuer's long history of development and the Issuer's resulting know-how and expertise, as of March 31, 2015, the Issuer had the largest number of retail customers and retail deposits among Korean commercial banks. The total amount of deposits from the Issuer's retail customers amounted to ₩139,076 billion as of March 31, 2015, or 65.1 per cent. of the Issuer's total deposits.

The Issuer offers many deposit products that target different segments of its retail customer base, with features tailored to each segment's financial profile, characteristics and needs, including:

- *Demand deposits*, which either do not accrue interest or accrue interest at a lower rate than time deposits. Demand deposits allow the customer to deposit and withdraw funds at any time and, if they are interest bearing, accrue interest at a variable rate depending on the amount of deposit.

- *Time deposits*, which generally require the customer to maintain a deposit for a fixed term, during which the deposit accrues interest at a fixed rate or a variable rate based on the KOSPI, or to deposit specified amounts on an instalment basis. If the amount of the deposit

is withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered. The term for time deposits typically ranges from one month to five years, and the term for instalment savings deposits ranges from six months to 10 years. Most instalment savings deposits offer fixed interest rates.

- *Certificates of deposit*, the maturities of which typically range from 30 days to 730 days with a required minimum deposit of ₩10 million. Interest rates on certificates of deposit are determined based on the length of the deposit and prevailing market rates. The Issuer's certificates of deposit are sold at a discount to their face value, reflecting the interest payable on the certificate of deposit.

- *Foreign currency deposits*, which accrue interest at an adjustable rate and are available to Korean residents, non-residents and overseas immigrants. The Issuer offers foreign currency time deposits and checking and passbook accounts in 10 currencies.

The Issuer offers varying interest rates on its deposit products depending upon average funding costs, the rate of return on the Issuer's interest earning assets and the interest rates offered by other commercial banks.

The Issuer also offers deposits that provide the holder with preferential rights to housing subscriptions and eligibility for mortgage loans.

In 2002, after significant research and planning, the Issuer launched private banking operations at its headquarters. Shortly thereafter, the Issuer launched a comprehensive strategy with respect to customers with higher net worth, which included staffing appropriate representatives, marketing aggressively, establishing IT systems, selecting appropriate branch locations and readying such branches with the necessary facilities to service such customers. As of March 31, 2015, the Issuer operated 22 private banking centres.

The MPC imposes a reserve requirement on Won currency deposits of commercial banks based generally on the type of deposit instrument. The reserve requirement is currently up to 7.0 per cent. See "*Regulation and Supervision – Liquidity*."

The Depositor Protection Act provides for a deposit insurance system where the KDIC guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of ₩50 million per depositor per bank. See "*Regulation and Supervision – Deposit Insurance System*." The Issuer pays a premium rate of approximately 0.2 per cent. of its average deposits for each quarter. The Issuer paid ₩86 billion in the first quarter of 2015 for such premium.

Corporate Banking

The Issuer lends to and takes deposits from SMEs and, to a lesser extent, large corporate customers. The Issuer also receives fee revenue from "cash management" services offered to corporate customers, which include "firm banking" services such as inter-account transfers, transfers of funds from various branches and agencies of a company (such as insurance premium payments) to the account of the headquarters of such company and transfers of funds from various customers of a company to the main account of such company. Of the Issuer's branch network as of March 31, 2015, eight branches primarily handled large corporate banking.

The following table sets forth the balances and the percentage of the Issuer's total domestic corporate lending represented by its domestic SME loans and large corporate loans as of the dates indicated, on a separate basis, estimated based on the Issuer's internal classifications of corporate borrowers:

	As of December 31						As of March 31,	
	2012		2013		2014		2015	
	(in billions of Won, except percentages)							
Corporate:								
SME loans	69,469	70.4	69,990	70.2	70,516	70.8	72,817	68.2
Large corporate loans	29,166	29.6	29,710	29.8	29,042	29.2	34,001	31.8
Total	98,635	100.0	99,700	100.0	99,558	100.0	106,818	100.0

On the deposit-taking side, the Issuer currently offers its corporate customers several types of corporate deposits. The Issuer's corporate deposit products can be divided into two general categories: (1) demand deposits that have no restrictions on deposits or withdrawals, but which offer a relatively low interest rate; and (2) deposits from which withdrawals are restricted for a period of time, but offer higher interest rates. The Issuer also offers instalment savings deposits, certificates of deposit and repurchase instruments. The Issuer offers varying interest rates on deposit products depending upon the rate of return on the Issuer's income earning assets, average funding costs and interest rates offered by other nationwide commercial banks.

The total amount of deposits from the Issuer's corporate customers amounted to ₩67,633 billion as of March 31, 2015, or 31.6 per cent. of the Issuer's total deposits.

SME Banking

The Issuer's SME banking business has traditionally been and will remain one of the Issuer's core businesses because of both the Issuer's historical development and its accumulated expertise. The Issuer believes that it possesses the necessary elements to succeed in the SME market, including its extensive branch network, its credit rating system for credit approval, its marketing capabilities (which the Issuer believes have provided the Issuer with significant brand loyalty) and its ability to take advantage of economies of scale.

The Issuer uses the term "SMEs" as defined in the Small and Medium Industry Basic Act and related regulations. Under the amended Small and Medium Industry Basic Act which became effective on February 3, 2015 and related regulations, an enterprise must meet each of the following criteria in order to meet the definition of an SME: (i) total assets at the end of the immediately preceding fiscal year must be less than ₩500 billion, (ii) average or annual sales revenue standards as prescribed by the enforcement decree of the Small and Medium Industry Basic Act that are applicable to the enterprise's primary business must be met and (iii) the standards of management independence as prescribed by the enforcement decree of the Small and Medium Industry Basic Act must be met. However, even if an enterprise that qualified as an SME under the Small and Medium Industry Basic Act prior to the amendment thereof no longer meets the definition due to such amendments, such enterprise will continue to be deemed an SME until March 31, 2018. Further, certified social enterprises (as defined in the Social Enterprise Promotion Act of Korea) as well as cooperatives or federations of cooperatives (as defined in the Framework Act on Cooperatives) that satisfy the requirements prescribed by the Small and Medium Industry Basic Act may also qualify as SMEs.

Industry-wide delinquency ratios for Won-denominated loans to SMEs decreased from 2012 to 2014 and increased in the first quarter of 2015. The Issuer's delinquency ratio for loans to SMEs may increase in the future as a result of, among other things, adverse economic conditions in

Korea and globally. See "*Risk Factors – Other Risks Relating to the Issuer's Business – Difficult conditions in the global financial markets could adversely affect the Issuer's results of operations and financial condition*." In addition, in light of the deteriorating financial condition and liquidity position of SMEs in Korea, the Government has in recent years introduced measures intended to encourage Korean banks to provide financial support to SME borrowers. See "*Risk Factors – Risks Relating to the Issuer's SME Loan Portfolio – The Issuer has significant exposure to SMEs, and any financial difficulties experienced by these customers may result in a deterioration of the Issuer's asset quality and have an adverse impact on the Issuer*."

Lending Activities

The Issuer's principal loan products for its SME customers are working capital loans and facilities loans. Working capital loans are provided to finance working capital requirements and include notes discounted and trade financing. Facilities loans are provided to finance the purchase of equipment and the establishment of manufacturing assembly plants. As of March 31, 2015, the Issuer had over 187,000 SME customers on the lending side.

Loans to SMEs may be secured by real estate or deposits or may be unsecured. Working capital loans generally have a maturity of one year, but may be extended for additional terms of up to one year in length for an aggregate term of five years. Facilities loans have a maximum maturity of 15 years.

When evaluating the extension of working capital loans, the Issuer reviews the corporate customer's creditworthiness and capability to generate cash. Furthermore, the Issuer takes credit guaranty letters from other financial institutions and uses time deposits that the borrower has with the Issuer as collateral, and may require additional collateral.

The value of any collateral is defined using a formula that takes into account the appraised value of the property, any prior liens or other claims against the property and an adjustment factor based on a number of considerations including, with respect to property, the value of any nearby property sold in a court-supervised auction during the previous five years. The Issuer revalues any collateral on a periodic basis (generally every year) or if a trigger event occurs with respect to the loan in question.

The Issuer also offers mortgage loans to home builders or developers who build or sell single- or multi-family housing units, principally apartment buildings. Many of these builders and developers are categorised as SMEs. The Issuer offers a variety of such mortgage loans, including loans to purchase property or finance the construction of housing units and loans to contractors used for working capital purposes. Such mortgage loans subject the Issuer to the risk that the housing units will not be sold. As a result, the Issuer reviews the probability of the sale of the housing unit when evaluating the extension of a loan. The Issuer also reviews the borrower's creditworthiness and the adequacy of the intended use of proceeds. Furthermore, the Issuer takes a lien on the land on which the housing unit is to be constructed as collateral. If the collateral is not sufficient to cover the loan, the Issuer also takes a guarantee from the Housing Finance Credit Guarantee Fund as security.

A substantial number of the Issuer's SME customers are SOHOs, which the Issuer currently defines to include sole proprietorships and individual business interests. With respect to SOHOs, the Issuer applies credit risk evaluation models, which not only uses quantitative analysis related to a customer's accounts, personal credit and financial information and due amounts but also requires the Issuer's credit officers to perform a qualitative analysis of each potential SOHO customer. With respect to SOHO loans in excess of ₩1 billion, the Issuer's credit risk evaluation

model also includes a quantitative analysis of the financial statements of the underlying business. The Issuer generally lends to SOHOs on a secured basis, although a small portion of the Issuer's SOHO exposures are unsecured.

Pricing

The Issuer establishes the price for its corporate loan products based principally on transaction risk, the Issuer's cost of funding and market considerations. Transaction risk is measured by such factors as the credit rating assigned to a particular borrower, the size of the borrower and the value and type of collateral. The Issuer's loans are priced based on the "Market Opportunity Rate system," which is a periodic floating rate system which takes into account the current market interest rate.

While the Issuer generally utilises the Market Opportunity Rate system, depending on the price and other terms set by competing banks for similar borrowers, the Issuer may adjust the interest rate it charges to compete more effectively with other banks.

Large Corporate Banking

Large corporate customers include all companies that are not SME customers. The Issuer's articles of incorporation provide that financial services to large corporate customers must be no more than 40 per cent. of the total amount of the Issuer's Won-denominated loans. The Issuer's business focus with respect to large corporate banking is to selectively increase the proportion of high quality large corporate customers. Specifically, the Issuer is carrying out various initiatives to improve the Issuer's customer relationship with large corporate customers and has been seeking to expand the Issuer's service offerings to this segment.

Lending Activities

The Issuer's principal loan products for the Issuer's large corporate customers are working capital loans and facilities loans. Working capital loans generally have a maturity of one year, but may be extended for additional terms ranging from three months to one year in length for an aggregate term of five years. Facilities loans have a maximum maturity of 15 years. The Issuer also offers mortgage loans to large corporate clients who build or sell single- or multi-family housing units.

The Issuer evaluates creditworthiness and collateral for the Issuer's large corporate loans in essentially the same way as it does for SME loans.

Pricing

The Issuer determines pricing of its large corporate loans in the same way as the Issuer determines the pricing of its SME loans. See "– *SME Banking – Pricing*" above.

Capital Markets Activities and International Banking

Through the Issuer's capital markets operations, the Issuer invests and trades in debt and equity securities and, to a lesser extent, engages in derivatives and asset securitisation transactions and makes call loans. The Issuer also provides investment banking services to corporate customers.

Securities Investment and Trading

The Issuer invests in and trades securities for the Issuer's own account in order to maintain adequate sources of liquidity and to generate interest and dividend income and capital gains. As of December 31, 2012, 2013 and 2014 and March 31, 2015, the Issuer's investment portfolio, which consists primarily of held-to-maturity financial assets and available-for-sale financial assets, and the Issuer's trading portfolio had a combined total carrying amount of ₩38,688 billion, ₩37,156 billion, ₩36,779 billion and ₩36,562 billion and represented 14.8 per cent., 14.0 per cent., 13.4 per cent. and 13.3 per cent. of the Issuer's total assets, respectively.

The Issuer's trading and investment portfolios consist primarily of Korean treasury securities and debt securities issued by Government agencies, local governments or certain government-invested enterprises and debt securities issued by financial institutions.

From time to time the Issuer also purchases equity securities for the Issuer's securities portfolios. The Issuer's equity securities consist primarily of marketable beneficiary certificates and equities listed on the KRX KOSPI Market (formerly known as the Stock Market Division of the Korea Exchange) or the KRX KOSDAQ Market of the Korea Exchange (the "**KRX KOSDAQ Market**") (formerly known as the KOSDAQ Market Division of the Korea Exchange).

The following table sets forth the carrying amounts of the securities in the Issuer's trading and investment portfolios as of the dates indicated:

	As of December 31			As of March
	2012	2013	2014	31, 2015
		(in billions of Won)		
Financial assets held for trading				
Debt securities:				
Government and public bonds	1,178	1,760	2,035	1,918
Financial bonds	3,505	3,156	3,581	3,791
Corporate bonds	1,291	1,470	1,204	1,212
Asset-backed securities	85	282	282	227
Others	113	204	267	296
Equity securities:				
Stocks	174	93	60	49
Beneficiary certificates	111	64	40	42
Others	40	40	51	57
Total financial assets held for trading	6,498	7,069	7,520	7,593
Financial investments				
Available-for-sale financial assets				
Debt securities:				
Government and public bonds	5,894	6,528	4,214	3,192
Financial bonds	6,859	5,201	6,260	7,804
Corporate bonds	4,698	3,509	4,743	4,198
Asset-backed securities	1,399	1,193	1,198	1,299
Equity securities:				
Stocks	1,628	1,690	1,788	1,799
Equity investments	89	74	46	43
Beneficiary certificates	670	879	884	860
Total available-for-sale financial assets	21,238	19,075	19,134	19,195
Held-to-maturity financial assets				
Debt securities:				
Government and public bonds	3,750	3,685	2,725	2,678
Financial bonds	1,286	770	1,047	1,209
Corporate bonds	5,639	6,189	5,880	5,402
Asset-backed securities	278	367	472	485
Total held-to-maturity financial assets	10,952	11,011	10,124	9,774
Total financial investments	32,190	30,086	29,259	28,969

Derivatives Trading

The Issuer provides and trades a range of derivatives products, including:

- Won interest rate swaps, relating to Won interest rate risks;
- cross-currency swaps, forwards and options relating to foreign exchange risks; and
- stock price index options linked to the KOSPI index.

The following table shows the estimated fair value of the Issuer's derivatives as of the dates indicated:

	As of December 31							
	2012		2013		2014		As of March 31, 2015	
	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Estimated Fair Value Assets	Estimated Fair Value Liabilities
	(in billions of Won)							
Foreign exchange derivatives[(1)]	845	942	937	990	762	663	678	599
Interest rate derivatives[(1)]	1,097	1,031	764	724	1,119	1,085	1,300	1,274
Equity derivatives	51	64	17	42	29	9	7	7
Others[(1)]	4	4	0	9	0	2	3	1
Total	1,996	2,041	1,718	1,765	1,910	1,759	1,988	1,881

Note:

(1) Includes those for trading purposes and hedging purposes.

The Issuer's derivative operations focus on addressing the needs of the Issuer's corporate clients to hedge their risk exposure and to hedge the Issuer's risk exposure that results from such client contracts. The Issuer also engages in, and may in the future engage in, derivative trading activities such as foreign currency swaps to hedge the interest rate and foreign currency risk exposure that arise from the Issuer's own assets and liabilities. In addition, the Issuer engages in proprietary trading of derivatives within the Issuer's regulated open position limits.

Asset Securitisation Transactions

The Issuer is active in the Korean asset-backed securities market. Based on the Issuer's diverse experience with respect to product development and management capabilities relating to asset securitisation, the Issuer offers customers a wide range of financial products to reinforce the Issuer's position as a leading bank with respect to the asset securitisation market.

Call Loans

The Issuer makes call loans and borrows call money in the short-term money market. Call loans are defined as short-term lending among banks and financial institutions either in Won or in foreign currencies with maturities of 90 days or less. Typically, call loans have maturities of one day.

Investment Banking

The Issuer has focused on selectively expanding its investment banking activities in order to increase its fee income and diversify its revenue base. The main focus of the Issuer's investment banking operations is project finance and financial advisory services. The Issuer's principal investment banking services include:

- project finance and financial advisory services for social overhead capital projects such as highway, port, power, water and sewage projects;
- financing and financial advisory services for real estate development projects;
- structured finance; and
- financing for mergers and acquisitions.

International Banking

The Issuer engages in various international banking activities, including foreign exchange services and derivatives dealing, import and export-related services, offshore lending, syndicated loans and foreign currency securities investment. These services are provided primarily to the Issuer's domestic customers and overseas subsidiaries and affiliates of Korean corporations. The Issuer also raises foreign currency funds through its international banking operations.

The table below sets forth certain information regarding the Issuer's foreign currency assets and borrowings:

	As of December 31			As of March
	2012	2013	2014	31, 2015
	(in billions of Won)			
Total foreign currency assets	15,020	15,577	16,427	17,513
Foreign currency borrowings:				
Debts	7,535	7,003	7,124	6,889
Debentures	2,842	2,980	2,890	2,928
Total borrowings	10,377	9,983	10,014	9,817

The table below sets forth the Issuer's overseas branches and representative offices in operation as of the date of this Base Prospectus:

Branches

Kookmin Bank (China) Ltd., Beijing Branch	China
Kookmin Bank (China) Ltd., Guangzhou Branch	China
Kookmin Bank (China) Ltd., Harbin Branch	China
Kookmin Bank (China) Ltd., Suzhou Branch	China
Kookmin Bank, Osaka Branch	Japan
Kookmin Bank, Tokyo Branch	Japan
Kookmin Bank, Auckland Branch	New Zealand
Kookmin Bank, New York Branch	United States
Kookmin Bank, Ho Chi Minh City Branch	Vietnam

Representative Offices

Kookmin Bank, Mumbai Representative Office	India
Kookmin Bank, Yangon Representative Office.....	Myanmar
Kookmin Bank, Hanoi Representative Office.....	Vietnam

The Issuer's overseas branches and subsidiaries principally provide Korean companies and nationals in overseas markets with trade financing, local currency funding and foreign exchange services, in conjunction with the operations of the Issuer's headquarters.

In March 2008, the Issuer entered into agreements to acquire shares of JSC Bank CenterCredit, a Kazakhstan bank, and acquired an initial equity stake of 29,972,840 common shares (equal to 23.0 per cent. of the then outstanding voting shares) for approximately ₩528 billion in August 2008. Pursuant to the terms of such agreements, the Issuer acquired an aggregate of 14,163,836 additional common shares of JSC Bank CenterCredit in November and December 2008. In addition, in September 2009, the Issuer entered into agreements with International Finance Corporation and certain shareholders of JSC Bank CenterCredit pursuant to which the Issuer acquired 3,886,574 additional common shares and 36,561,465 non-voting convertible preferred shares of JSC Bank CenterCredit in January and February 2010. As of March 31, 2015, the Issuer held 41.93 per cent. of the outstanding common shares of JSC Bank CenterCredit.

In May 2009, the Issuer acquired 132,600 common shares of Khmer Union Bank, a Cambodian bank, for approximately ₩10 billion. As a result, the Issuer acquired 51 per cent. of the voting rights in Khmer Union Bank, which was renamed Kookmin Bank Cambodia PLC. In December 2010 and July 2012, the Issuer acquired an additional 37,602 common shares and 125,592 common shares of Kookmin Bank Cambodia PLC, respectively. As of March 31, 2015, the Issuer held 100.0 per cent. of the outstanding common shares of Kookmin Bank Cambodia PLC.

Trustee and Custodian Services Relating to Investment Trusts and Other Functions

The Issuer acts as a trustee for financial investment companies with a collective investment licence, which invest in investment assets using funds raised by the sale of beneficiary certificates of investment trusts to investors. The Issuer also acts as custodian for financial institutions and as fund administrator for financial institutions with respect to various investments, as well as acting as settlement agent in connection with such services. The Issuer receives a fee for acting in these capacities and generally performs the following functions:

- holding assets for the benefit of the investment trusts or institutional investors;
- receiving and making payments in respect of such investments;
- acting as settlement agent in respect of such investments on behalf of the investment trust or institutional investors, in the domestic and overseas markets;
- providing reports on assets held in custody;
- providing certain foreign exchange services for overseas investment and foreign investors; and
- providing fund-related administration and accounting services.

Other Business

Trust Account Management Services

Money Trust Management Services

The Issuer provides trust account management services for unspecified money trusts, which are trusts the assets of which the Issuer generally has broad discretion in investing. The Issuer receives fees for its trust account management services consisting of basic fees that are based upon a percentage of the net asset value of the assets under management and, for certain types of trust account operations, performance fees that are based upon the performance of the trust account operations. In 2013, the Issuer's basic fees ranged from 0.1 per cent. to 2.0 per cent. of total assets under management depending on the type of trust account. The Issuer also charges performance fees with respect to certain types of trust account products. The Issuer receives penalty payments when customers terminate their trust accounts prior to the original contract maturity.

The Issuer provides trust account management services for various types of money trusts. The money trusts the Issuer manages are generally trusts with a fixed maturity. Approximately 7.4 per cent. of the Issuer's money trusts also provide periodic payments of dividends which are added to the assets held in such trusts and not distributed.

Under Korean law, the assets of the Issuer's trust accounts are segregated from the Issuer's banking account assets and are not available to satisfy the claims of any of the Issuer's potential creditors. The Issuer is, however, permitted to deposit surplus funds generated by trust assets into the Issuer's banking accounts in certain circumstances as set forth under the Trust Act of Korea.

As of March 31, 2015, the total balance of the Issuer's money trusts was ₩31,585 billion (as calculated in accordance with Statement of Korea Accounting Standard No. 5004, *Trust Accounts*, and the Enforcement Regulations of Financial Investment Services under the Financial Investment Services and Capital Markets Act ("**FSCMA**"), which the Issuer refers to as an "**SKAS basis**").

As for unspecified money trust accounts, the Issuer has investment discretion over all money trusts, which are pooled and managed jointly for each type of trust account. Specified money trust accounts are established on behalf of individual customers who direct the Issuer's investment of trust assets.

The following table shows the balances of the Issuer's money trusts by type as of the dates indicated:

	As of December 31			As of March 31,
	2012	2013	2014	2015
	(in billions of Won)			
Principal and interest guaranteed trusts[(1)]	0.2	0.2	0.2	0.2
Principal guaranteed trusts[(1)]	2,919	3,070	3,187	3,198
Performance trusts[(1)(2)]	18,066	20,842	25,854	28,387
Total	20,985	23,912	29,041	31,585

Notes:

(1) Calculated on an SKAS basis.

(2) Trusts which are primarily non-guaranteed.

Prior to 2013, the Issuer consolidated trust accounts for which it guaranteed both the repayment of the principal amount and a fixed rate of interest, while it did not consolidate those trust accounts for which it guaranteed only the repayment of the principal amount. Pursuant to a change in Korean IFRS, commencing in 2013, the Issuer also consolidates trust accounts for which it guarantees only the repayment of the principal amount.

As of March 31, 2015, the trust assets the Issuer managed consisted principally of securities investments and loans from the trust accounts. As of March 31, 2015, on an SKAS basis, the Issuer's trust accounts had invested in securities in the aggregate amount of ₩17,761 billion, of which ₩15,748 billion was debt securities and derivative-linked securities. Securities investments consist of Government-related debt securities, corporate debt securities, including bonds and commercial paper, equity securities, derivative-linked securities and other securities. Loans made by the Issuer's trust account operations are similar in type to the loans made by the Issuer's bank account operations. As of March 31, 2015, on an SKAS basis, the Issuer's trust accounts had made loans in the principal amount of ₩138 billion (excluding loans from the trust accounts to the Issuer's banking accounts of ₩1,230 billion), which accounted for 0.44 per cent. of the Issuer's money trust assets. Loans by the Issuer's money trusts are subject to the same credit approval process as loans from the Issuer's banking accounts. As of March 31, 2015, substantially all of the loans from the Issuer's money trust accounts were collateralised or guaranteed.

The Issuer's money trust accounts also invest, to a lesser extent, in equity securities, including beneficiary certificates issued by financial investment companies with a collective investment licence. On an SKAS basis, as of March 31, 2015, equity securities in the Issuer's money trust accounts amounted to ₩2,013 billion, which accounted for 6.37 per cent. of the Issuer's money trust assets. Of this amount, ₩1,963 billion was from specified money trusts and ₩50 billion was from unspecified money trusts.

The Issuer continues to offer pension-type money trusts that provide a guarantee of the principal amount of the investment. On an SKAS basis, as of March 31, 2015, the balance of the money trusts for which the Issuer guaranteed the principal was ₩3,184 billion.

If the income from a money trust for which the Issuer provides a guarantee is less than the amount of the payments the Issuer has guaranteed, the Issuer will need to pay the amount of the shortfall with funds from special reserves maintained with respect to trust accounts followed by basic fees from that money trust and funds from the Issuer's general banking operations. In 2012, 2013 and 2014 and the first three months of 2015 the Issuer made no payments from the Issuer's banking accounts to cover shortfalls in the Issuer's guaranteed trusts.

Property Trust Management Services

The Issuer also offers property trust management services, where the Issuer manages non-cash assets in return for a fee. Non-cash assets include mostly securities, but can also include other liquid receivables and real estate. Under these arrangements, the Issuer renders custodial services for the property in question and collects fee income in return.

In 2014, the Issuer's property trust fees ranged from 0.001 per cent. to 0.3 per cent. of total assets under management depending on the type of trust accounts. On an SKAS basis, as of March 31, 2015, the aggregate balance of the Issuer's property trusts increased to ₩2,066 billion, compared to ₩1,879 billion as of December 31, 2014.

Management of the National Housing Fund

The National Housing Fund is a Government fund that provides financial support to low-income households in Korea by providing mortgage financing and construction loans for projects to build small-sized housing. The operations of the National Housing Fund include providing and managing National Housing Fund loans, issuing National Housing Fund bonds and collecting subscription savings deposits.

In February 2013, the Ministry of Land, Infrastructure and Transport (formerly the Ministry of Land, Transport and Maritime Affairs) designated the Issuer as one of the managers of the National Housing Fund. During the five years preceding such designation, the Issuer chose not to participate in the bidding process to become a designated manager of the National Housing Fund and only managed pre-existing Fund accounts. In return for managing such pre-existing Fund accounts, the Issuer received quarterly fund management fees, calculated based on activity levels for the relevant quarter.

The financial accounting for the National Housing Fund is entirely separate from the Issuer's financial accounting, and the non-performing loans and loan losses of the National Housing Fund, in general, do not impact the Issuer's financial condition. Regulations and guidelines for managing the National Housing Fund are issued by the Minister of Land, Infrastructure and Transport pursuant to the Housing Act.

Bancassurance

The Government's liberalisation of the bancassurance market in Korea has allowed the Issuer to offer insurance products of other institutions since September 2003. The Issuer currently markets a wide range of bancassurance products and hopes to develop additional fee-based revenues by expanding its offering of these products. As of March 31, 2015, the Issuer's bancassurance business had alliances with 17 life insurance companies (including its affiliate, KB Life Insurance) and nine non-life insurance companies and offered 65 different products through the Issuer's branch network.

Other Distribution Channels

The following table sets forth information, for the periods indicated, on the number of users and transactions of the other distribution channels for the Issuer's retail and corporate banking customers, which are discussed below:

	As of December 31			For the three months ended March 31,
	2012	2013	2014	2015
Internet banking:				
Number of users[(1)] (thousands).....	14,049	15,634	16,768	17,126
Number of transactions (thousands).....	4,117,653	5,024,132	4,569,185	1,187,431
Smartphone banking (KB Star Banking):				
Number of users[(2)] (thousands).....	5,461	8,002	9,484	9,888
Number of transactions (thousands).....	3,377,862	6,554,649	7,504,638	960,216
Phone banking:				
Number of users[(3)] (thousands).....	4,766	4,870	4,915	4,925
Number of transactions (thousands).....	213,941	183,434	165,130	39,441

Notes:

(1) Number of users is defined as the total cumulative number of persons who have registered through the Issuer's branch offices to use the Issuer's Internet banking services.

(2) Number of users is defined as the total cumulative number of persons who have registered through the Issuer's branch offices to use the Issuer's smartphone banking (KB Star Banking) services.

(3) Number of users is defined as the total cumulative number of persons who have registered through the Issuer's branch offices to use the Issuer's phone banking services.

Internet Banking

The Issuer's goal is to consolidate the Issuer's position as a market leader in online banking. The Issuer's Internet banking services currently include:

- basic banking services, including fund transfers, balance and transaction enquiries, pre-set automatic transfers, product enquiries, online bill payments and foreign exchange services;
- processing of loan applications, which allows the Issuer to quickly process and approve online loan applications;
- electronic certification services, which permit the Issuer's Internet banking service users to authenticate transactions on a confidential basis through digital signatures; and
- wealth management and advisory services, including financial planning and real estate information services.

Phone Banking

The Issuer offers a variety of phone banking services, including inter-account fund transfers, balance and transaction enquiries, customer service enquiries and bill payments. The Issuer also has call centres, which the Issuer primarily uses to:

- advise clients with respect to deposits and loans and to provide the Issuer's customers a way to report any emergencies with respect to their accounts;

- allow the Issuer's customers to conduct transactions with respect to their accounts, such as balance and transfer enquiries, transfers or payments, opening or closing accounts and processing loans through automated systems;

- conduct telemarketing to the Issuer's customers or potential customers to advertise products or services through phone, fax or text messaging; and

- provide automated banking services, mobile services or other services relating to affinity programmes.

Mobile and Smartphone Banking

The Issuer's mobile and smartphone banking services allow customers to use mobile phones and devices, such as smartphones, to conduct a number of financial transactions, including basic banking and investment activities. There are currently three major mobile phone service providers in Korea – SK Telecom, KT and LG U+, and the Issuer provides its services in association with all three. The Issuer's mobile and smartphone banking services currently include:

- basic banking services, including fund transfers, balance and transaction enquiries, credit card transaction enquiries, bill payments and foreign exchange services;

- investment services, including investing in savings deposits that are designed specifically for and offered only to smartphone banking customers;

- processing of loan applications and bancassurance services; and

- mobile stock trading, through which mobile banking customers can use their devices to trade stocks.

Other Channels

The Issuer provides cash management services, which include automatic transfers, connection services to other financial institutions, real-time firm banking, automatic fund concentration and transmittal of trading information. The Issuer has continued to develop its firm banking services and, as of March 31, 2015, the Issuer provided cash management services to over 48,000 large corporations and SMEs.

Competition

The Issuer competes principally with other nationwide commercial banks in Korea, as well as regional banks, development banks, specialised banks and branches of foreign banks operating in Korea and instalment finance corporations for mortgage loan products. The Issuer also competes for customer funds with other types of financial service institutions, including savings institutions (such as mutual savings and finance companies and credit unions and credit cooperatives), investment institutions (such as merchant banking corporations), life insurance companies and

financial investment companies. Competition in the domestic banking industry is generally based on the types and quality of the products and services offered, including the size and location of retail networks, the level of automation and interest rates charged and paid.

Competition has increased significantly in the Issuer's traditional core businesses, retail banking and SME banking, contributing to some extent to the asset quality deterioration in retail and SME loans. As a result, the Issuer's margins on lending activities may decrease in the future.

In addition, general regulatory reforms in the Korean financial industry have increased competition among banks and financial institutions in Korea. As the reform of the financial sector continues, foreign financial institutions, some with greater resources than the Issuer, have entered, and may continue to enter, the Korean market either by themselves or in partnership with existing Korean financial institutions and compete with the Issuer in providing financial and related services.

In addition, the Korean commercial banking sector is undergoing significant consolidation. The number of nationwide commercial banks in Korea has decreased from 16 as of December 31, 1997, to seven banks and five financial holding companies as of December 31, 2014. Furthermore, 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, Standard Chartered Bank's acquisition of Korea First Bank in April 2005, Chohung Bank's merger with Shinhan Bank in April 2006, Hana Financial Group's acquisition of a controlling interest in Korea Exchange Bank in February 2012 and the proposed merger of Hana Bank into Korea Exchange Bank in the second half of 2015. The Issuer expects that consolidation in the financial industry will continue. Other financial institutions may seek to acquire or merge with such other entities, and the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for the Issuer. The Issuer and its parent, KB Financial Group, intend to review potential acquisition opportunities as they arise. The Issuer cannot guarantee that the it will not be involved in any future mergers or acquisitions.

For additional information, see "*Risk Factors – Risks Relating to Competition*."

Information Technology

The Issuer is implementing various IT system-related initiatives and upgrades. The Issuer believes that continuous improvement of its IT systems is crucial in supporting its operations and management and providing high-quality customer service. Accordingly, the Issuer continues to upgrade and improve its systems through various activities, including projects to develop next-generation banking systems, further strengthen system security and timely develop and implement various new IT systems and services that support its business operations and risk management activities.

The Issuer's mainframe-based banking IT systems are designed to ensure continuity of services even where there is a failure of the host data centre due to a natural disaster or other accidents by utilising backup systems in disaster recovery data centres. In addition, through the implementation of Parallel Sysplex, a "multi-CPU system," the Issuer's banking systems are designed and operated to be able to process transactions without material interruption in the event of CPU failure. In 2010, the Issuer launched a next-generation banking IT system that is designed to ensure greater reliability in financial transactions and allow more efficient development of new financial products. The Issuer also launched a new disaster recovery system to ensure continuity of operations. In addition, the Issuer implemented new technologies, including Multi-Channel Integration and Enterprise Application Integration systems, to standardise its IT system and better manage IT system operational risk.

In 2011, the Issuer launched a mobile weblink to provide online banking services for smartphone users. In addition, the Issuer implemented virtual storage technology for its server systems to achieve a more flexible and cost-effective information storage capability.

The integrity and the ability of the Issuer's IT systems to withstand potential catastrophic events (such as natural calamities and internal system failures), are crucial to the Issuer's continuing operations. The Issuer currently tests its disaster recovery systems on a quarterly basis. For additional information, see "*Risk Management – Operational Risk Management*".

Property, Plant and Equipment

The Issuer's registered office and corporate headquarters are located at 84, Namdaemoon-ro, Jung-gu, Seoul 100-703, Korea. The following table presents information regarding certain of the Issuer's properties in Korea:

Type of facility/building	Location	Area (square meters)
Registered office and corporate headquarters	84, Namdaemoon-ro, Jung-gu, Seoul 100-703	1,749
Headquarters building	36-3, Yeoido-dong, Yeongdeungpo-gu, Seoul 150-758	5,354
Training institute	Ilsan	207,659
Training institute	Daecheon	4,158
Training institute	Sokcho	15,584
Training institute	Cheonan	196,649
IT Centre	Yeoido, Seoul	5,928
IT Centre	Yeoido, Seoul	2,006
IT Centre	Gangseo-gu, Seoul	13,116
IT Centre	Seongbuk-gu, Seoul	4,748

As of March 31, 2015, the Issuer had a countrywide network of 1,147 branches and sub-branches.

Approximately one-quarter of these facilities are housed in buildings owned by the Issuer, while the remaining branches are leased properties. Lease terms are generally from two to three years and seldom exceed five years. There are additional properties owned or leased by the Issuer's subsidiaries in Hong Kong, Cambodia, China and the United Kingdom, and branches in Tokyo and Osaka in Japan, Auckland in New Zealand, New York in the United States and Ho Chi Minh City in Vietnam, as well as representative offices in Mumbai in India, Yangon in Myanmar and Hanoi in Vietnam. The Issuer does not own any material properties outside of Korea.

Employees

The following table sets forth information, for the periods indicated, regarding the Issuer's employees:

	As of December 31			As of March 31,
	2012	2013	2014	2015
Full-time employees[(1)]	16,358	16,618	20,483	20,747
Contractual employees	5,713	5,129	916	456
Managerial employees	11,383	11,539	11,648	11,729
Members of Korea Financial Industry Union	17,149	17,123	16,940	17,117

Note:

(1) Excluding executive officers.

The Issuer considers its relations with its employees to be satisfactory. Every year, the Issuer's union and the Issuer's management negotiate and enter into a new collective bargaining agreement and negotiate annual wage adjustments.

The Issuer's compensation packages consist of base salary and base bonuses. The Issuer also provides performance-based compensation to employees and management. Executive officers, heads of regional headquarters and employees in positions that require professional skills, such as fund managers and dealers, are compensated depending on their individual annual performance evaluation. The Issuer has also implemented a profit-sharing system in order to enhance the performance of its employees. Under this system, the Issuer pays bonuses to its employees, in addition to the base salary and depending on the Issuer's annual performance.

The Issuer provides a wide range of benefits to its employees, including its executive directors. These benefits include medical insurance, employment insurance, workers compensation, employee and spouse life insurance, free medical examinations, child tuition and fee reimbursement, disabled child financial assistance and reimbursement for medical expenses.

In accordance with the National Pension Act, the Issuer contributes 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, the Issuer has 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. The Issuer's retirement pension plan is in the form of a defined benefit plan and a defined contribution plan. The defined benefit plan 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. The defined contribution plan, in which the employer's contribution is determined in advance based on one-twelfth of an employee's total annual pay, is managed directly by the employees. Under Korean law, the Issuer may not terminate the employment of full-time employees except under certain limited circumstances.

In June 2009, KB Financial Group established an employee stock ownership plan. All of the Issuer's employees are eligible to participate in this plan. Members of KB Financial Group's employee stock ownership association have pre-emptive rights to acquire up to 20 per cent. of the shares issued in public offerings by KB Financial Group pursuant to the FSCMA.

Employees of the Issuer have been eligible to participate in its employee stock ownership plan, which will be terminated once all of KB Financial Group's common stock held by the plan (which the plan received following the transfer of the Issuer's shares held by it as a result of the comprehensive stock transfer pursuant to which KB Financial Group was established) has been distributed to the relevant employees of the Issuer at the request of such employees following the expiration of the required holding periods. As of March 31, 2015, the Issuer's employee stock ownership association held 799,534 shares of KB Financial Group common stock.

Legal Proceedings

Excluding the legal proceedings discussed below, the Issuer is not a party to any legal or administrative proceedings and no proceedings are known by the Issuer to be contemplated by governmental authorities or third parties, which, if adversely determined, may have a material adverse effect on the Issuer's financial condition or results of operations.

During the first half of 2007, the National Tax Service of Korea completed a tax audit in respect of the Issuer for the fiscal years 2002, 2003, 2004 and 2005, as a result of which the Issuer was assessed ₩190 billion (including residence tax) for tax deficiencies. In addition, during the second half of 2007, the National Tax Service of Korea assessed additional income taxes for prior years amounting to ₩292 billion (including residence tax) for tax deficiencies. The Issuer paid the entire amount of such additional assessments in 2007, but filed an appeal with respect to tax assessments made in 2007 amounting to ₩482 billion (including residence tax) with the National Tax Tribunal, which dismissed the appeal in March 2010. In June 2010, the Issuer filed an appeal with the Seoul Administrative Court, which ruled in favour of the Issuer on April 1, 2011. On April 19, 2011, the National Tax Service of Korea appealed this case to the Seoul High Court, which ruled in favour of the Issuer on January 12, 2012. On January 30, 2012, the National Tax Service of Korea appealed this case to the Supreme Court, which ruled in favour of the Issuer on January 15, 2015.

Since November 2008, certain of the Issuer's customers have filed lawsuits against it in connection with its sales of foreign currency derivatives products known as "KIKO" (which stands for "knock-in knock-out"), which are intended to operate as hedging instruments against fluctuations in the exchange rate between the Won and the U.S. dollar. Due to the significant depreciation of the Won against the U.S. dollar in 2008 and 2009, customers who have purchased KIKO products from the Issuer are required to make large payments to it. Twelve lawsuits were filed against the Issuer alleging that the contracts under which the relevant KIKO products were sold should be invalidated and that the Issuer should return payments received thereunder. Eight of the lawsuits were ruled in favour of the Bank by the Seoul District Court and not appealed. In two of the lawsuits, rulings were issued in favour of the Issuer by the Seoul High Court in February 2013 and November 2014 and not appealed. In one of the lawsuits, the Supreme Court of Korea ruled in favour of the Issuer in May 2014. The aggregate amount of the one remaining claim, as of April 3, 2015, was approximately ₩0.7 billion. Additional lawsuits, as well as motions for preliminary injunctions, may be filed against the Issuer with respect to KIKO products, and the final outcome of such litigation remains uncertain.

In January 2008, the Korea Fair Trade Commission instituted certain amendments to standard loan policy conditions for mortgage loan agreements to require banks to be responsible for the payment of mortgage registration expenses when issuing mortgage loans. Subsequently, the Korea Federation of Banks and 16 banks, including the Issuer, filed a lawsuit against the Korea Fair Trade Commission to prevent the implementation of such amendments. In August 2010, the Supreme Court ruled in favour of the Korea Fair Trade Commission. Since such ruling in August 2010, certain of the Issuer's customers have filed 133 lawsuits against the Issuer, as of March 31, 2015, alleging that it should return the mortgage registration expenses paid by such customers under mortgage loan agreements that did not reflect the amendments instituted by the Korea Fair Trade Commission in January 2008. As of March 31, 2015, 132 such lawsuits had been concluded, three lawsuits were pending in the relevant trial courts and one lawsuit was appealed and pending in the appellate court. The aggregate amount of claimed damages in the one remaining lawsuit as of March 31, 2015, was approximately ₩0.7 billion. Additional lawsuits may be filed against the Issuer with respect to its mortgage loans, and the final outcome of such litigation remains uncertain.

In July 2010, Fairfield Sentry Limited ("**Fairfield**"), which is currently in liquidation and whose assets were directly or indirectly invested with Bernard L. Madoff Investment Securities LLC ("**BLMIS**"), filed a lawsuit in the Supreme Court of the State of New York against the Issuer, which acted as a trustee bank for its clients who invested in Fairfield. Fairfield seeks restitution of approximately U.S.$42 million paid to the Issuer in connection with share redemptions on the ground that such payments were made by mistake, based on inflated values resulting from BLMIS' fraud. The case is currently pending at such court. Fairfield has filed similar actions against numerous other fund investors to seek recovery of redemption payments.

In May 2012, the trustee appointed for the liquidation of BLMIS filed a lawsuit against the Issuer in the United States Bankruptcy Court for the Southern District of New York. The trustee seeks recovery of approximately U.S.$42 million, which amount is alleged to be equal to the amount of funds that were redeemed from Fairfield between June 2004 and January 2006 by the Issuer. The trustee alleges that Fairfield was a "feeder fund" that invested in BLMIS and redemptions from such BLMIS feeder fund are avoidable and recoverable under the U.S. Bankruptcy Code and New York law. The case is currently pending at such court. The trustee has filed similar clawback actions against numerous other institutions.

In November 2012, the Issuer filed a lawsuit against the Export-Import Bank of Korea and other creditor financial institutions comprising the creditors' committee of a Korean shipbuilding company which is a borrower of the Issuer and is currently in workout. The Issuer voted against extending new credit to such borrower and exercised its appraisal rights. The Issuer is seeking ₩103 billion as compensation for damages and payment of the purchase price of debt held by the Issuer. In November 2012, the Export-Import Bank of Korea and other creditor financial institutions of the borrower filed a counter lawsuit against the Issuer seeking ₩46 billion in damages in connection with the borrower's debt restructuring plan. In August 2014, the Seoul Central District Court ruled partially in favour of the Issuer in its lawsuit against the Export-Import Bank of Korea and other creditor financial institutions of the borrower, but ruled against the Issuer in the counter lawsuit brought against the Issuer. Both cases have been appealed to the Seoul High Court, where they are currently pending.

In June 2012, Korea Lottery Service Inc. ("**KLS**") filed a lawsuit against the Issuer, seeking ₩1 billion in damages allegedly arising from a service agreement entered into between KLS and the Issuer in connection with the Issuer's appointment as one of the official providers of lottery services in Korea. KLS claims that it suffered loss of profits because the service agreement it entered into with the Issuer was for seven years, while the Issuer's appointment with the Government, which was not renewed, was for five years. In March 2015, KLS revised the amount of claimed damages in the lawsuit to ₩108 billion. The case is currently pending in the Seoul Central District Court.

Commencing in November 2013, the Issuer has been subject to a number of investigations by the FSS and other governmental authorities with respect to alleged issues with the Issuer's internal controls and possible legal violations by the Issuer and its employees.

- In November 2013, the Issuer filed a complaint against the former head and two former employees of its Tokyo Branch for allegedly extending illegal loans under borrowed names. Each of the FSS and the Financial Services Agency of Japan launched an investigation into the allegations.

- In November 2013, the FSS launched an investigation into alleged embezzlement of funds by employees at the Issuer's headquarters, who have since been dismissed, through the presentation for payment of forged Government housing bonds.

- In May 2014, the FSS launched an investigation into a dispute between the Issuer and its holding company, KB Financial Group, regarding the replacement of the Issuer's main computer system.

In August 2014, the Financial Supervisory Agency of Japan suspended the Issuer from conducting new transactions at its branches in Japan for four months from September 2014 to January 2015. In August 2014, the FSS imposed disciplinary sanctions on the Issuer and a number of its officers, directors and employees, including the then chief executive officer of the Issuer. In September 2014, the FSC imposed a disciplinary sanction on the then chief executive officer of KB Financial

Group. The chief executive officers of the Issuer and KB Financial Group have since resigned from their posts and have been replaced. In September 2014, the Financial Supervisory Service completed its investigation into the Issuer with respect to such allegations.

The Issuer cannot predict the outcome of such investigations. In addition, further investigations may be launched by governmental authorities or civil claims may be filed against the Issuer with respect to the alleged legal violations by the Issuer and its employees. While the Issuer's management is not able to estimate the possible penalties and losses that may result from these investigations at this time, an adverse determination by the FSS or other governmental authorities in these investigations may result in regulatory sanctions and significant financial liability as well as reputational harm to the Issuer.

ASSETS AND LIABILITIES

The tables below set out selected financial highlights regarding the Issuer's assets and liabilities, on a separate basis, except as otherwise indicated.

Loan Portfolio

Loan Types

The following table presents, on a separate basis, loans by type as of the dates indicated. Except where specified otherwise, all loan amounts stated below are before deduction of allowances for loan losses. Total loans reflect the Issuer's loan portfolio, including past due amounts, on a separate basis.

	As of December 31			As of March 31,
	2012	2013	2014	2015
		(in billions of Won)		
Domestic:				
Corporate				
SME	69,469	69,990	70,516	72,817
Large corporate	29,166	29,710	29,042	34,001
Retail				
Mortgage and home equity	74,047	77,606	86,919	86,714
Other consumer	27,231	26,271	25,124	25,038
Total domestic	199,913	203,577	211,600	218,570
Foreign	1,374	1,161	1,146	1,123
Total gross loans	201,287	204,738	212,746	219,693

Twenty Largest Exposures by Borrower

As of March 31, 2015, on a separate basis, the Issuer's 20 largest exposures totalled ₩10,290 billion and accounted for 4.7 per cent. of its total exposures. The following table sets forth, on a separate basis, the Issuer's total exposures to these top 20 borrowers or issuers as of March 31, 2015:

	Loans						
Company[(1)]	**Won Currency**	**Foreign Currency**	**Equity Securities**	**Debt Securities**	**Guarantees and Acceptances**	**Total Exposures**	**Amounts Classified as Impaired Loans**
				(in billions of Won)			
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	3	273	–	–	883	1,159	–
Mizuho Bank, Ltd. Seoul Branch	–	774	–	–	–	774	–
Samsung Heavy Industries Co., Ltd.	–	3	–	–	770	773	–
Meritz Securities Co., Ltd.	–	682	–	–	–	682	–
Korea Investment and Securities Co., Ltd.	–	670	–	–	–	670	–
Hyundai Heavy Industries	–	334	–	–	265	598	–
Hyundai Steel Company	416	119	–	–	52	588	–
Daewoo International Corporation	–	329	–	–	195	524	–
Eugene Investment and Securities Co., Ltd.	–	519	–	–	–	519	–
Samsung Securities	–	450	–	–	–	450	–
Hyundai Securities Co., Ltd.	–	443	–	–	–	443	–
Mirae Asset Securities Co., Ltd.	–	398	–	–	–	398	–
Hyundai Capital Service Inc.	280	–	–	114	–	394	–
LG Electronics Inc.	390	–	–	–	–	390	–
HMC Investment Securities	–	351	–	–	–	351	–
HI Investment and Securities Co., Ltd.	–	349	–	–	–	349	–
Hanwha	270	6	–	–	42	318	–
Korean Air Lines Co., Ltd.	0	67	–	–	243	310	–
Hyundai Mipo Dockyard	–	9	–	–	292	302	–
KIA Motors Corp.	150	137	6	5	0	298	–
Total	1,509	5,913	6	119	2,742	10,290	–

Note:

(1) Excludes exposures to Government-owned or -controlled enterprises or financial institutions, including BOK, Korea Housing Finance Corporation, Korea Land & Housing Corporation, KDIC and Korea Development Bank.

As of March 31, 2015, 15 of these top 20 borrowers or issuers were companies belonging to the 41 largest *chaebols* in Korea designated as such by the FSS based on their outstanding exposures.

Exposure to *Chaebols*

As of March 31, 2015, on a separate basis, 8.7 per cent. of the Issuer's total exposure was to the 41 largest *chaebols* in Korea designated as such by the FSS based on their outstanding exposures. The following table shows, on a separate basis, the Issuer's total exposures to the 10 *chaebol* groups to which it has the largest exposure as of March 31, 2015:

	Loans						
Chaebol	Won Currency	Foreign Currency	Equity Securities[1]	Debt Securities	Guarantees and Acceptances	Total Exposures	Amounts Classified as Impaired Loans
			(in billions of Won)				
Samsung	287	990	1	213	1,227	2,718	–
Hyundai Motors	945	516	7	218	763	2,449	–
Hyundai Heavy Industries	42	768	1	–	607	1,418	–
POSCO	202	329	396	163	207	1,297	–
Daewoo Shipbuilding & Marine Engineering	21	273	–	–	884	1,178	–
SK	150	560	–	119	332	1,160	–
Hanwha	717	245	–	–	115	1,077	–
LG	593	179	0	51	33	856	–
Hyundai	61	558	–	–	–	620	–
GS	129	90	2	102	216	540	2
Total	3,146	4,509	406	866	4,385	13,313	2

Loan Concentration by Industry

The following table presents, on a separate basis, the aggregate balance of the Issuer's domestic and foreign corporate loans, by industry concentration, as of December 31, 2012, 2013 and 2014 and March 31, 2015:

	As of December 31						As of March 31,	
	2012		2013		2014		2015	
Industry	Amount	%	Amount	%	Amount	%	Amount	%
			(in billions of Won, except percentages)					
Services	38,526	38.5	38,140	37.8	38,907	38.7	39,993	37.06
Manufacturing	31,040	31.1	30,853	30.6	32,327	32.1	33,569	31.11
Wholesale and retail	15,054	15.0	13,806	13.7	13,109	13.0	13,362	12.38
Financial institutions	6,943	7.0	10,583	10.5	9,081	9.0	13,169	12.20
Construction	4,559	4.6	4,243	4.2	3,663	3.6	3,863	3.58
Public sector	521	0.5	655	0.7	714	0.7	729	0.68
Others	3,313	3.3	2,512	2.5	2,864	2.9	3,221	2.99
Total	99,956	100.0	100,792	100.0	100,666	100.0	107,906	100.0

Maturity Analysis

The Issuer typically rolls over its working capital loans and consumer loans (other than those payable in instalments) after it conducts its normal loan review in accordance with its loan review procedures. Working capital loans may generally be extended on an annual basis for an aggregate term of five years and consumer loans may generally be extended for another term of up to 12 months for an aggregate term of 10 years.

The following table sets out, on a separate basis, the scheduled maturities (time remaining until maturity) of the Issuer's loan portfolio as of March 31, 2015. The amounts disclosed are before deduction of allowances for loan losses:

	1 Year or Less	Over 1 Year but not More than 5 Years	Over 5 Years	Total
		(in billions of Won)		
Domestic:				
Corporate				
SMEs	52,280	15,334	5,204	72,817
Large corporate	25,521	5,627	2,852	34,001
Total corporate	77,801	20,961	8,056	106,818
Retail				
Mortgage and home equity	7,098	6,167	73,449	86,714
Other consumer	16,469	5,358	3,211	25,038
Total retail	23,568	11,525	76,660	111,753
Total domestic	101,369	32,486	84,716	218,570
Foreign	974	112	37	1,123
Total gross loans	102,342	32,598	84,753	219,693

Interest Rate Sensitivity

The following table shows, on a separate basis, the total amount of loans due after one year which have fixed interest rates and variable or adjustable interest rates as of March 31, 2015:

	As of March 31, 2015
	(in billions of Won)
Fixed rate[(1)]	12,652
Variable or adjustable rates[(2)]	104,699
Total gross loans	117,351

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 loans for which the interest rate is not fixed for the entire term.

For additional information regarding the Issuer's management of interest rate risk, see "*Risk Management – Market Risk Management*."

Credit Exposures to Companies in Workout, Restructuring or Rehabilitation

Workout is a voluntary procedure through which the Issuer, together with the borrower and other creditors, restructure a borrower's credit terms. Previously, workouts were regulated under the Old CRPA (as defined in "*Korean Legal Considerations*"), which expired on December 31, 2013. In

December 2013, the National Assembly of Korea adopted the CRPA (as defined in "*Korean Legal Considerations*"), which became effective on January 1, 2014. Workouts that had been initiated under the Old CRPA are also governed by the CRPA effective from January 1, 2014. Under the CRPA, which is similar to the Old CRPA, all creditor financial institutions of a financially troubled borrower are required to participate in a creditors' committee which is authorised to prohibit such creditor financial institutions from exercising their rights against the borrower, commencing workout procedures or approving a reorganisation plan prepared by the borrower. Any decision of the creditors' committee requires the approval of creditor financial institutions holding not less than 75 per cent. of the total debt outstanding of a borrower. An additional approval of creditor financial institutions holding not less than 75 per cent. of the secured debt is required with respect to the borrower's debt restructuring. Once approved, any decision made by the creditors' committee is binding on all the creditor financial institutions of the borrower. Creditor financial institutions that voted against commencement of workout, debt restructuring or granting of new credit have the right to request the creditor financial institutions that voted in favour of such matters to purchase their claims at a mutually agreed price. In the event that the parties are not able to agree on the terms of purchase, a coordination committee consisting of experts would determine the terms. The creditor financial institutions that oppose a decision made by the coordination committee may request a court to change such decision. The CRPA is scheduled to expire on December 31, 2015.

Upon approval of the workout plan, a credit exposure is initially classified as precautionary or lower and thereafter cannot be classified higher than precautionary with limited exceptions. If a corporate borrower is in workout, restructuring or rehabilitation, the Issuer takes the status of the borrower into account in valuing the Issuer's loans to and collateral from that borrower for purposes of establishing the Issuer's allowances for credit losses.

Korean law also provides for corporate rehabilitation proceedings, which are court-supervised procedures to rehabilitate an insolvent company. Under these procedures, a restructuring plan is adopted at a meeting of interested parties, including creditors of the company. Such restructuring plan is subject to court approval.

As of March 31, 2015, on a separate basis, the Issuer's loans and guarantees to companies that were in workout, restructuring or rehabilitation amounted to ₩879 billion or 0.4 per cent. of the Issuer's total loans and guarantees, most of which were classified as impaired.

The following table shows, on a separate basis, the Issuer's ten largest exposures that were in workout, restructuring or rehabilitation as of March 31, 2015:

Company	Loans		Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposures	Amounts Classified As Impaired Loans
	Won Currency	Foreign Currency					
	(in billions of Won)						
Orient Shipyard Co., Ltd.	53	3	–	–	65	121	56
Kumho Industrial Co., Ltd.	57	–	25	–	11	93	58
Dongmoon Construction Co., Ltd.	64	–	–	–	–	64	64
Samho International Co., Ltd.	44	–	15	–	–	59	43
Keangnam Enterprises Ltd. ...	46	–	–	–	1	47	46
Dongil Construction Co., Ltd.	42	–	–	–	–	42	41
Hyundai Cement Co., Ltd.	1	–	32	–	–	33	1
Hong Won Paper Mfg Co., Ltd.	9	5	–	–	2	16	14
SolarPark Korea Co., Ltd.	13	–	–	–	–	13	13
Kukje Machinery Co., Ltd.	4	3	4	–	–	11	7
Total	333	11	76	–	79	499	343

Provisioning Policy

The Issuer establishes allowances for loan losses with respect to loans to absorb such losses. The Issuer assesses individually significant loans on a case-by-case basis and other loans on a collective basis. In addition, if the Issuer determines that no objective evidence of impairment exists for a loan, it includes such loan in a group of loans with similar credit risk characteristics and assesses them collectively for impairment regardless of whether such loan is significant. For individually significant loans, allowances for loan losses are recorded if objective evidence of impairment exists as a result of one or more events that occurred after initial recognition. For collectively assessed loans, the Issuer bases the level of allowances for loan losses on its evaluation of the risk characteristics of such loans, taking into account such factors as historical loss experience, the financial condition of the borrowers and current economic conditions. If additions or changes to the allowances for loan losses are required, then the Issuer records a provision for loan losses, which is included in impairment losses on credit loss and treated as a charge against current income. Credit exposures that the Issuer deems to be uncollectible, including actual loan losses, net of recoveries of previously charged-off amounts, are charged directly against the allowances for loan losses.

The Issuer considers the following loans to be impaired loans:

- loans that are past due by 90 days or more;
- loans that are subject to legal proceedings related to collection;
- loans to a borrower that has received a warning from the Korea Federation of Banks indicating that such borrower has exhibited difficulties in making timely payments of principal and interest;
- loans to corporate borrowers that are rated C or D according to the Issuer's internal credit ratings for large companies or SMEs;

- loans for which account-specific provisions have been made resulting from a significant perceived decline in credit quality; and

- loans with respect to which the amount of principal and interest payable has been materially decreased due to restructuring.

The actual amount of incurred loan losses may vary from loss estimates due to changing economic conditions or changes in industry or geographic concentrations. The Issuer has procedures in place to monitor differences between estimated and actual incurred loan losses, which include detailed periodic assessments by senior management of both individual loans and loan portfolios and the use of models to estimate incurred loan losses in those portfolios.

The Issuer regularly evaluates the adequacy of the overall allowances for loan losses and the Issuer believes that the allowances for loan losses reflect its best estimate of probable loan losses as of each balance sheet date.

Loan Aging Schedule

The following table shows, on a separate basis, the Issuer's loan aging schedule (excluding accrued interest) as of the dates indicated:

As of December 31	Normal Amount	%	Amount Past Due 1-3 Months	%	Amount Past Due 3-6 Months	%	Amount Past Due 6 Months or More	%	Total Amount
				(in billions of Won, except percentages)					
2012	199,290	99.0	652	0.4	400	0.2	944	0.4	201,287
2013	203,152	99.2	478	0.2	299	0.1	809	0.5	204,737
2014	211,534	99.4	493	0.2	239	0.1	480	0.2	212,746
As of March 31									
2015	218,327	99.4	446	0.2	409	0.2	511	0.2	219,693

Non-performing Loans

Non-performing loans are defined as loans that are past due by 90 days or more. These loans are generally classified as substandard or below based on the FSC's asset classification criteria. See "– *Regulatory Reserve for Credit Losses*" below.

The following table shows, on a separate basis, certain details of the Issuer's total non-performing loan portfolio as of the dates indicated:

	As of December 31			As of March 31,
	2012	2013	2014	2015
	(in billions of Won, except percentages)			
Total non-performing loans	1,345	1,109	719	920
As a percentage of total loans	0.7	0.5	0.3	0.4

The Issuer has also issued securities backed by non-performing loans and collateralised bond obligations. Some of these transactions involve transfers of loans through securitisations where control of the loans has not been surrendered and, therefore, are not treated as sale transactions. Instead, the assets remain on the Issuer's balance sheet with the securitisation proceeds treated as secured borrowings.

Analysis of Non-performing Loans

The following table sets forth, on a separate basis, the Issuer's total non-performing loans by type of borrower as of the dates indicated:

	As of December 31						As of March 31,	
	2012		2013		2014		2015	
	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)							
Domestic:								
Corporate								
SMEs	533	39.6	485	43.7	293	40.8	416	45.2
Large corporate	37	2.8	102	9.2	81	11.2	135	14.7
Total corporate	570	42.4	587	52.9	374	52.0	551	59.9
Retail								
Mortgage and home equity	624	46.4	394	35.5	207	28.8	231	25.1
Other consumer	133	9.9	103	9.3	95	13.2	98	10.6
Total retail	757	56.3	497	44.8	302	42.0	329	35.8
Total domestic	1,327	98.7	1,084	97.7	676	93.9	881	95.7
Foreign	18	1.4	25	2.3	44	6.1	40	4.3
Total non-performing loans	1,345	100.0	1,109	100.0	719	100.0	920	100.0

Top 20 Non-performing Loans

As of March 31, 2015, the Issuer's 20 largest non-performing loans accounted for, on a separate basis, 30.9 per cent. of its total non-performing loan portfolio. The following table shows, on a separate basis, certain information regarding the Issuer's 20 largest non-performing loans as of March 31, 2015:

	Industry	Gross Principal Outstanding	Allowances for Loan Losses
		(in billions of Won)	
Borrower A	Services	63	7
Borrower B	Manufacturing	54	30
Borrower C	Services	25	3
Borrower D	Manufacturing	22	2
Borrower E	Manufacturing	18	0
Borrower F	Services	16	3
Borrower G	Manufacturing	12	5
Borrower H	Manufacturing	10	1
Borrower I	Manufacturing	9	9
Borrower J	Services	8	1
Borrower K	Public	7	1
Borrower L	Wholesale/Retail trade	7	4
Borrower M	Services	6	5
Borrower N	Construction	6	6
Borrower O	Manufacturing	5	3

	Industry	Gross Principal Outstanding	Allowances for Loan Losses
		(in billions of Won)	
Borrower P	Services	5	0
Borrower Q	Construction	5	3
Borrower R	Services	5	0
Borrower S	Services	4	1
Borrower T	Manufacturing	4	4
Total		291	88

Non-performing Loan Strategy

One of the Issuer's primary objectives is to prevent the Issuer's loans from becoming non-performing. Through the Issuer's corporate credit rating systems, the Issuer believes that it has reduced its risks relating to future non-performing loans. The Issuer's credit rating systems are designed to prevent the Issuer's loan officers from extending new loans to borrowers with high credit risks based on the borrower's credit rating. The Issuer's early warning system is designed to bring any sudden increase in a borrower's credit risk to the attention of the Issuer's loan officers, who then closely monitor such loans. See "*Risk Management – Credit Risk Management – Credit Risk Management and Monitoring*."

Notwithstanding the above, if a loan becomes non-performing, an officer at the branch level responsible for monitoring non-performing loans will commence a due diligence review of the borrower's assets, send a notice either demanding payment or stating that the Issuer will take legal action and prepare for legal action.

At the same time, the Issuer will also initiate its 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 corporate loans subject to normalisation efforts based on the cash flow situation of the borrower.

Once the details of a non-performing loan are identified, the Issuer pursues early solutions for recovery. While the overall process is the responsibility of the Issuer's Credit Management & Analysis Group, actual recovery efforts on non-performing loans are handled at the operating branch level.

Methods for resolving non-performing loans include the following:

- non-performing loans are managed by the operating branches until such loans are charged off;
- a demand note is dispatched by mail if payment is generally one month past due;
- calls and visits are made by the operating branches to customers encouraging them to make payments;

- borrowers who are past due on payments of interest and principal are registered on the Korea Federation of Banks' database of non-performing loans;

- for unsecured loans, the loans are transferred to KB Credit Information for collection on a case-by-case basis;

- for secured loans, actions to enforce or protect the security interests (including foreclosure and auction of the collateral) are commenced within four months of such loans becoming past due; and

- charged off loans are given to KB Credit Information for collection, except for loans where the cost of collection exceeds the possible recovery or where the statute of limitations for collection has expired.

If a loan becomes non-performing, it is managed by an operating branch until such loan is charged off. However, in order to promote speedy recovery on loans subject to foreclosures and litigation, the Issuer's policy is to permit the branch responsible for handling these loans to request one of the Issuer's regional head offices for assistance with litigation proceedings and proceedings related to foreclosure and auction of the collateral.

In addition to making efforts to collect on these non-performing loans, the Issuer also undertakes measures to reduce the level of the Issuer's non-performing loans, which include:

- selling the Issuer's non-performing loans to third parties, including the Korea Asset Management Corporation; and

- entering into asset securitisation transactions with respect to the Issuer's non-performing loans.

The Issuer generally expects to suffer a partial loss on loans that it sells or securitises, to the extent such sales and securitisations are recognised under Korean IFRS as sale transactions.

Pursuant to a memorandum of understanding among the FSS and seven banks, including the Issuer, a private equity fund was established in June 2011 to acquire approximately ₩1.2 trillion of non-performing bank loans to construction companies in workout, restructuring or rehabilitation. The general partner of the fund is United Asset Management Corp. and the limited partners consist of the seven banks and other investors. The fund purchases non-performing bank loans at market price and the funds required to purchase such loans are contributed or lent by the same banks that sell such loans to the fund. In June 2011, the Issuer agreed to make a capital commitment of ₩148 billion and provide a ₩109 billion revolving loan facility to the fund. From June through December 2011, the Issuer contributed the entire amount of its capital commitment to the fund in connection with its purchase of ₩148 billion of non-performing loans from the Issuer. In September 2012, the Issuer agreed to increase its capital commitment to ₩241 billion. From September through December 2012, the Issuer contributed ₩44 billion to the fund. In December 2013, the Issuer's revolving loan facility to the fund was decreased to ₩55 billion. The Issuer has made no additional capital commitments to the fund in 2014 or the first quarter of 2015.

Allocation and Analysis of Allowances for Loan Losses

The following table presents, on a separate basis, the allocation of the Issuer's allowances for loan losses by loan type as of the dates indicated. The ratio represents, on a separate basis, the percentage of allowances for loan losses in each category to total allowances for loan losses.

	As of December 31						As of March 31,	
	2012		2013		2014		2015	
	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)							
Domestic								
Corporate								
SME	1,192	41.5	994	41.9	790	41.3	801	41.3
Large corporate	977	34.1	760	32.0	610	31.9	645	33.3
Total corporate	2,169	75.7	1,754	73.9	1,400	73.3	1,446	74.6
Retail								
Mortgage and home equity	122	4.3	92	3.9	47	2.5	45	2.3
Other consumer	558	19.4	479	20.2	430	22.2	414	21.4
Total retail	680	23.7	571	24.1	476	24.9	460	23.7
Total domestic	2,849	99.4	2,325	98.0	1,877	98.2	1,906	98.4
Foreign[(1)]	15	0.6	47	2.0	34	1.8	31	1.6
Total allowances for loan losses	2,864	100.0	2,373	100.0	1,911	100.0	1,937	100.0

Note:

(1) Consists primarily of loans to corporations.

The following table analyses, on a separate basis, the Issuer's allowances for loan losses and loan loss experience for each of the periods indicated:

	As of December 31			As of March 31,
	2012	2013	2014	2015
	(in billions of Won, except percentages)			
Balance at the beginning of the period	3,061	2,864	2,373	1,911
Amounts charged against income	1,316	1,057	877	147
Sale	(103)	(83)	(68)	2
Gross charge-offs:				
Domestic:				
Corporate				
SME	932	641	725	112
Large corporate	261	454	328	21
Retail				
Mortgage and home equity	62	134	149	3
Other consumer	391	447	371	71
Foreign:	0	2	17	1
Total gross charge-offs	(1,646)	(1,678)	(1,590)	(207)

	As of December 31			As of March 31,
	2012	2013	2014	2015
	(in billions of Won, except percentages)			
Recoveries:				
Domestic:				
Corporate				
SME	149	146	263	46
Large corporate	9	0	0	0
Retail				
Mortgage and home equity	6	22	32	11
Other consumer	96	103	98	30
Foreign:	3	2	1	0
Total recoveries	263	273	394	88
Net charge-offs	(1,383)	(1,405)	(1,196)	(119)
Other charges	(27)	(59)	(75)	(4)
Balance, at the end of the period	2,864	2,373	1,911	1,937
Ratio of net charge-offs during the period to average loans outstanding during the period	0.7	0.7	0.6	0.10

Regulatory Reserve for Credit Losses

If the Issuer's allowances for credit losses are deemed insufficient for regulatory purposes, the Issuer is required to compensate for the difference by recording a regulatory reserve for credit losses, which is segregated within the Issuer's retained earnings. Regulatory reserve for credit losses are not available for distribution to shareholders as dividends. The level of regulatory reserve for credit losses required to be recorded is equal to the amount by which the Issuer's allowances for credit losses are less than greater of (x) the amount of expected loss calculated using the internal ratings-based approach under Basel II and as approved by the FSS and (y) the required amount of credit loss reserve calculated based on standards prescribed by the FSC. As of March 31, 2015, the Issuer's regulatory reserve for credit losses was ₩1,868 billion.

The following tables set forth the FSC's guidelines for the classification of loans and the minimum percentages of the outstanding principal amount of the relevant loans or balances that the credit loss reserve must cover:

Loan Classification	Loan Characteristics
Normal	Credits extended to customers that, based on the Issuer's consideration of their business, financial position and future cash flows, do not raise concerns regarding their ability to repay the credits.
Precautionary	Credits extended to customers that, based on the Issuer's 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	(i) Credits extended to customers that, based on the Issuer's 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

Loan Classification	Loan Characteristics
	(ii) the portion that the Issuer expects to collect of total loans (a) extended to customers that have been in arrears for three months or more, (b) 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 (c) extended to customers who have outstanding loans that are classified as "doubtful" or "estimated loss."
Doubtful	Credits exceeding the amount that the Issuer expects to collect of total credits to customers that: (i) based on the Issuer's 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 (ii) have been in arrears for three months or more but less than 12 months.
Estimated loss	Credits exceeding the amount that the Issuer expects to collect of total credits to customers that: (i) based on the Issuer's consideration of their business, financial position and future cash flows, are judged to be accounted as a loss, as the inability to repay became certain due to serious deterioration in their ability to repay; (ii) have been in arrears for 12 months or more; or (iii) 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.

Loan Classifications	Corporate	Consumer
Normal	0.85% or above	1% or above
Precautionary	7% or above	10% or above
Substandard	20% or above	20% or above
Doubtful	50% or above	55% or above
Estimated loss	100%	100%

Loan Charge-Offs

Basic Principles

The Issuer attempts to minimise loans to be charged off by adhering to a sound credit approval process based on credit risk analysis prior to extending loans and a systematic management of outstanding loans. However, if charge-offs are necessary, the Issuer charges off loans subject to its charge-off policy at an early stage in order to maximise accounting transparency, to minimise any waste of resources in managing loans which have a low probability of being collected and to reduce the Issuer's non-performing loan ratio.

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, compulsory execution, disorganisation, 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; and
- the portion of loans classified as "estimated loss," net of any recovery from collateral, which is deemed to be uncollectible.

Procedure for Charge-Off Approval

In order to charge off corporate loans, an application for a charge-off must be submitted to the Credit Management Department promptly after the corporate loan is classified as estimated loss or deemed uncollectible. The Credit Management Department refers the charge-off application to the Issuer's Branch Audit Department for their review to ensure compliance with the Issuer's internal procedures for charge-offs. Then, the Credit Management Department, after reviewing the application to confirm that it meets relevant requirements, seeks an approval from the FSS for the Issuer's charge-offs, which is typically granted. Once the Issuer receives approval from the FSS, the Issuer must also obtain approval from its senior management to charge off those loans. For accounting purposes, the Issuer recognises charge-offs of corporate loans under Korean IFRS prior to approval from the FSS.

With respect to unsecured retail loans, the Issuer follows a different process to determine which unsecured retail loans should be charged off, based on the length of time those loans are past due. The Issuer charges off unsecured retail loans deemed to be uncollectible under Korean IFRS.

Treatment of Loans Charged Off

Once loans are charged off, the Issuer classifies them as charged-off loans and removes them from its balance sheet. These loans are managed based on a different set of procedures. The Issuer continues its collection efforts in respect of these loans although loans may be charged off before the Issuer begins collection efforts in some circumstances.

If a collateralised loan is overdue, the Issuer will, typically within one year from the time that such loan became overdue (or after a longer period in certain circumstances), petition a court to foreclose and sell the collateral through a court-supervised auction. If a debtor ultimately fails to repay and the court grants its approval for foreclosure, the Issuer will sell the collateral, net of expenses incurred from the auction.

Credit Rehabilitation Programmes for Delinquent Consumer Borrowers

In light of the rapid increase in delinquencies in credit card and other consumer credit in recent years, and concerns regarding potential social issues posed by the growing number of individuals with bad credit, the Government has implemented a number of measures intended to support the rehabilitation of the credit of delinquent consumer borrowers. These measures may affect the amount and timing of the Issuer's collections and recoveries on its delinquent consumer credits.

For example, in March 2009, the FSC requested Korean banks, including the Issuer, to establish a "preworkout programme," including a credit counselling and recovery service, for retail borrowers with outstanding short-term debt. Under the pre-workout programme, which has been in operation since April 2009, maturity extensions and/or interest rate reductions are provided for retail borrowers with total loans of ₩1.5 billion or less (consisting of no more than ₩500 million of unsecured loans and ₩1 billion of secured loans) who are in arrears on their payments for more than 30 days but less than 90 days or for retail borrowers with an annual income of ₩40 million or less who have been in arrears on their payments for more than 30 days on an aggregate basis for the 12 months prior to their application.

In March 2013, in order to support low income consumer borrowers experiencing difficulty in repaying their unsecured long-term debt, the FSC announced the establishment of a "National Happiness Fund" to provide one-time relief to such borrowers by:

- purchasing from creditors unsecured loans of individual borrowers not exceeding ₩100 million in principal amount in the aggregate, which loans have been in arrears for a period of six months or more as of February 28, 2013 and, if requested by the borrower, reducing the balance of such loans by up to 50 per cent. and/or extending the maturity of such loans to up to 10 years based on the borrower's expected ability to repay;

- purchasing from certain creditors student loans of individual borrowers, which loans have been in arrears for a period of six months or more as of February 28, 2013 and, if requested by the borrower, restructuring the balance and/or extending the maturity of such loans based on the borrower's expected ability to repay or extending the maturity of such loans until the borrower is employed; and

- for individuals with annual income of ₩40 million or less with loans of a principal amount not exceeding ₩30 million in the aggregate and with an interest rate of 20 per cent. or higher, facilitating the refinancing of such loans at lower interest rates, provided that such loans have not been in default during the six months prior to the application for relief.

A large number of Korean financial institutions and private lenders, including the Issuer, have signed a memorandum of understanding with the National Happiness Fund to sell eligible loans to the fund. The price and volume of such loans to be sold are subject to further negotiations between the National Happiness Fund and such financial institutions and lenders. The National Happiness Fund accepted applications from individual borrowers to participate in such relief programmes until October 2013 and until January 2014 for individual borrowers of student loans from the Korea Student Aid Foundation.

Investment Portfolio

Investment Policy

The Issuer invests in and trades Won-denominated and, to a lesser extent, foreign currency-denominated securities for its own account to:

- maintain the stability and diversification of the Issuer's assets;

- maintain adequate sources of back-up liquidity to match the Issuer's funding requirements; and

- supplement income from the Issuer's core lending activities.

In making securities investments, the Issuer takes into account a number of factors, including macroeconomic trends, industry analysis and credit evaluation in determining whether to make particular investments in securities.

The Issuer's investments in securities are also subject to a number of guidelines, including limitations prescribed under the Financial Holding Company Act and the Bank Act. Under these regulations, the Issuer must limit its investments in equity securities and bonds with a maturity in excess of three years (other than monetary stabilisation bonds issued by the BOK and national government bonds) to 60.0 per cent. of its total Tier I and Tier II capital amount (less any capital deductions). Generally, the Issuer is also prohibited from acquiring more than 15.0 per cent. of the shares with voting rights issued by any other corporation subject to certain exceptions. Pursuant to the Bank Act, a bank and its trust accounts are prohibited from acquiring the shares of a major shareholder (for the definition of "major shareholder," see "*Regulation and Supervision – Legal and Regulatory Framework in Korea – Financial Exposure to Any Individual Customer and Major Shareholder*") of that bank in excess of an amount equal to 1 per cent. of the sum of the bank's Tier I and Tier II capital (less any capital deductions). Further information on the regulatory environment governing the Issuer's investment activities is set out in "*Regulation and Supervision – Legal and Regulatory Framework in Korea – Liquidity*" and "*Regulation and Supervision – Legal and Regulatory Framework in Korea – Restrictions on Shareholdings in Other Companies*."

The following table sets out the definitions of the four categories of securities the Issuer holds:

Category	**Classification**
Financial assets held for trading	Financial assets bought and held for trading.
Financial assets designated at fair value through profit or loss	Financial assets which were not bought and held for trading but are otherwise designated as at fair value through profit or loss.
Available-for-sale financial assets	Non-derivative financial assets not classified as held-to-maturity, at fair value through profit or loss or loans and receivables.
Held-to-maturity financial assets	Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity.

The Issuer also holds limited balances of venture capital securities, non-marketable and restricted equity securities and derivative instruments.

Carrying Amount and Fair Value

The following table sets out, on a consolidated basis, the carrying amount and fair value of securities in the Issuer's securities portfolio as of the dates indicated:

	As of December 31						As of March 31,	
	2012		2013		2014		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in billions of Won)							
Available-for-sale financial assets:								
Equity securities	2,387	2,387	2,643	2,643	2,718	2,718	2,702	2,702
Debt securities								
Korean treasury securities and government agency securities	5,894	5,894	6,528	6,528	4,214	4,214	3,192	3,192
Debt securities issued by financial institutions	6,859	6,859	5,201	5,201	6,260	6,260	7,804	7,804
Corporate debt securities	4,698	4,698	3,509	3,509	4,743	4,743	4,198	4,198
Asset-backed securities	1,399	1,399	1,193	1,193	1,198	1,198	1,299	1,299
Total available-for-sale financial assets	21,238	21,238	19,075	19,075	19,134	19,134	19,195	19,195
Held-to-maturity financial assets:								
Debt securities								
Korean treasury securities and government agency securities	3,750	7,989	3,685	3,847	2,725	2,903	2,678	2,872
Debt securities issued by financial institutions	1,286	2,481	770	779	1,047	1,057	1,209	1,228
Corporate debt securities	5,639	709	6,189	6,344	5,880	6,053	5,402	5,587
Asset-backed securities	278	281	367	368	472	474	485	487
Total held-to-maturity financial assets	10,952	11,460	11,011	11,338	10,124	10,487	9,774	10,175
Financial assets held for trading:								
Equity securities	285	285	157	157	100	100	91	91
Debt securities								
Korean treasury securities and government agency securities	1,178	1,178	1,760	1,760	2,035	2,035	1,918	1,918
Debt securities issued by financial institutions	3,505	3,505	3,156	3,156	3,581	3,581	3,791	3,791
Corporate debt securities	1,291	1,291	1,470	1,470	1,204	1,204	1,212	1,212
Asset-backed securities	85	85	282	282	282	282	227	227
Others	113	113	204	204	267	267	296	296
Others	40	40	40	40	51	51	57	57
Total financial assets held for trading	6,498	6,498	7,069	7,069	7,520	7,520	7,593	7,593
Total Securities	38,688	39,196	37,156	37,482	36,778	37,142	36,562	36,962

Maturity Analysis

For information regarding the scheduled maturities of the Issuer's securities portfolio and other financial assets as of March 31, 2015, see Note 4.3.3 of the notes to the Issuer's unaudited interim consolidated financial statements included elsewhere in this Base Prospectus.

Concentrations of Risk

As of March 31, 2015, the Issuer held, on a consolidated basis, the following securities of individual issuers where the aggregate carrying amount of those securities exceeded 10 per cent. of the Issuer's total equity at such date. As of March 31, 2015, the Issuer's total equity, on a consolidated basis, was ₩22,283 billion.

	Carrying Amount	Fair Value
	(in billions of Won)	
Name of issuer:		
Korean government	7,393	7,586
BOK	3,565	3,566
KDIC	2,322	2,342
Total	13,280	13,494

The BOK and the KDIC are controlled by the Government.

Funding

The Issuer obtains funding for its lending activities from a variety of sources, both domestic and foreign. The Issuer's principal source of funding is customer deposits. In addition, the Issuer acquires funding through long-term borrowings (comprising debentures and debts), short-term borrowings, including borrowings from the BOK, and call money.

The Issuer's primary funding strategy has been to achieve low-cost funding by increasing the average balances of low-cost retail deposits, in particular demand deposits and time deposits. The Issuer also has focused its marketing efforts on higher net worth individuals, who account for a significant portion of the assets in its retail deposit base.

The Issuer's borrowings consist of issuances of debentures and debt from financial institutions, the Government and Government-affiliated funds. The majority of the Issuer's debt is long-term, with maturities ranging from one year to 30 years.

Deposits

Although the majority of the Issuer's deposits are short-term, it has been the Issuer's experience that the majority of the Issuer's depositors generally roll over their deposits at maturity, providing the Issuer with a stable source of funding.

The following table shows, on a consolidated basis, the average balances of the Issuer's deposits and the average rates paid on such deposits for the periods indicated:

	For the years ended December 31						For the three months ended March 31,	
	2012		2013		2014		2015	
	Average balance[(1)]	Average Rate Paid	Average balance[(1)]	Average Rate Paid	Average balance[(1)]	Average Rate Paid	Average balance[(1)]	Average Rate Paid
	(in billions of Won, except percentages)							
Demand deposits:								
Non-interest bearing	3,276	–	3,440	–	3,565	–	3,723	–
Interest bearing	56,115	0.60	60,847	0.47	67,596	0.42	75,073	0.38
Time deposits	136,289	3.68	130,147	3.02	130,171	2.70	129,040	2.52
Certificates of deposit	1,735	3.86	1,788	3.02	1,692	2.72	1,727	2.35
Average total deposits	197,415	2.74	196,222	2.18	203,024	1.89	209,563	1.71

Note:

(1) Average balances are based on daily balances.

Time Deposits and Certificates of Deposit

The following table presents, on a consolidated basis, the remaining maturities of the Issuer's time deposits and certificates of deposit which had a fixed maturity in excess of ₩100 million as of March 31, 2015:

	Time Deposits	Certificates of Deposit	Total
	(in billions of Won)		
Maturing within three months	22,480	617	23,097
After three but within six months	16,951	368	17,319
After six but within 12 months	22,085	588	22,673
After 12 months	3,078	–	3,078
Total	64,594	1,573	66,167

Long-Term Borrowings

The aggregate amount of contractual maturities of all long-term borrowings (comprising debentures and debt) of the Issuer, on a consolidated basis, as of March 31, 2015 was as follows:

	As of March 31, 2015
	(in billions of Won)
Due in March 31, 2016	4,705
Due in March 31, 2017	7,047
Due in March 31, 2018	1,846
Due in March 31, 2019	657
Due in March 31, 2020	332
Thereafter	4,237
Gross long-term borrowings	18,824
Fair value adjustments	60
Deferred financing costs	(1)
Discount	(11)
Total long-term borrowings, net	18,872

Short-Term Borrowings

The following table presents, on a consolidated basis, information regarding the Issuer's short-term borrowings (borrowings with an original maturity of one year or less) for the periods indicated:

	As of and for the year ended December 31			As of and for the three months ended March 31,
	2012	2013	2014	2015
	(in billions of Won, except percentages)			
Call money:				
Period-end balance	2,597	2,568	2,822	3,984
Average balance[1]	4,647	4,532	4,036	3,286
Maximum balance[2]	4,903	5,593	5,415	3,984
Average interest rate[3]	2.35	2.10	1.86	1.39
Period-end interest rate	0.15-4.19	0.17-5.20	0.16-1.98	0.15-1.73
Borrowings from the BOK:[4]				
Period-end balance	782	558	1,003	1,119
Average balance[1]	745	649	763	1,070
Maximum balance[2]	953	917	1,048	1,119
Average interest rate[3]	1.48	1.08	0.92	0.85
Period-end interest rate	1.25	0.50-1.00	0.50-1.00	0.50-1.00
Other short-term borrowings:[5]				
Period-end balance	6,173	3,518	6,898	6,240
Average balance[1]	8,428	4,672	5,420	6,645
Maximum balance[2]	9,617	5,566	7,399	7,018
Average interest rate[3]	1.82	0.71	1.11	1.24
Period-end interest rate	0.50-6.06	0-4.81	0-4.81	0-4.09

Notes:

(1) Average balances are based on daily balances.

(2) Maximum balances are based on month-end balances.

(3) Average interest rates for the period are calculated by dividing the total interest expense by the average amount borrowed.

(4) Borrowings from the BOK generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies. These short-term borrowings were secured by securities totaling ₩1,094 billion as of March 31, 2015.

(5) Other short-term borrowings include securities sold under repurchase agreement, bills sold, borrowings and debentures. Other short term borrowings have maturities of one year or less.

RISK MANAGEMENT

Overview

As a financial services provider, the Issuer is exposed to various risks related to its lending and trading businesses, its funding activities and its operating environment. The Issuer's goal in risk management is to ensure that it identifies, measures, monitors and controls the various risks that arise, and that its organisation adheres strictly to the policies and procedures which it has established to address these risks. Under the Issuer's internal regulations pertaining to its capital adequacy ratio and internal standards for risk appetite and economic capital under Basel III, the Issuer identifies the following eight separate categories of risk inherent in its business activities: credit risk, market risk, operational risk, interest rate risk, liquidity risk, credit concentration risk, reputation risk and strategic risk. Of these, the principal risks to which the Issuer is exposed are credit risk, market risk, liquidity risk and operational risk, and it strives to manage these and other risks within acceptable limits.

Organisation

The Issuer delegates risk management authority to its Risk Management Committee. The Risk Management Committee measures and monitors the various risks faced by the Issuer and reports to the Issuer's board of directors regarding decisions that it makes on risk management issues. The Risk Management Committee also makes certain strategic risk-related decisions regarding the operations of the Issuer, such as allocating credit risk limits, setting total exposure limits and market risk-related limits and determining which market risk derivatives instruments the Issuer can trade. The major activities of the Risk Management Committee include:

- determining and monitoring risk policies, guidelines, limits and tolerance levels and the level of risk in accordance with policies established by KB Financial Group;

- reviewing and analysing the Issuer's risk profile;

- setting limits for and adjusting the risk capital allocation plan and risk levels for each business unit within the Issuer; and

- monitoring compliance with the group-wide risk management policies and practices at the business unit and entity level.

The Risk Management Committee is supported by the Risk Management Council, which serves as the executive decision making body for the Issuer's risk management operations. At the operational level, the Issuer's Risk Management Department and the Credit Management & Analysis Group work closely with its business groups to implement risk management strategies, policies and procedures in accordance with the directives set forth by KB Financial Group's Group Risk Management Committee and the risk management strategies determined by the Issuer's Risk Management Committee.

Credit Risk Management

Credit risk is the risk of expected and unexpected losses in the event of borrower or counterparty defaults. Credit risk management aims to improve asset quality and generate stable profits while reducing risk through diversified and balanced loan portfolios. The Issuer determines the creditworthiness of each type of borrower or counterparty through reviews conducted by its credit experts and through its credit rating systems, and the Issuer sets a credit limit for each borrower or counterparty.

The Issuer assesses and manages all credit exposures. The Issuer measures expected losses and economic capital on assets (whether on- or off-balance sheet) that are subject to credit risk management and uses expected losses and economic capital as management indicators. The Issuer manages credit risk by allocating credit risk economic capital limits. In addition, the Issuer controls credit concentration risk exposure by applying and managing total exposure limits to prevent excessive risk concentration to particular industries or borrowers. Credit exposures that the Issuer assesses and manages include loans to borrowers and counterparties, investments in securities, letters of credit, bankers' acceptances, derivatives and commitments. The Issuer's risk appetite, which is the ratio of its required economic capital to its estimated available book capital, is approved by KB Financial Group's Group Risk Management Committee once a year. Thereafter, the Issuer calculates economic capital every month for each business group and bank-wide based on attributed economic capital in accordance with the risk appetite as approved by the Group Risk Management Committee. The Issuer measures and reports profiles of credit risk on a bank-wide level and by business group regularly to relevant business groups and senior management, including the Risk Management Council and the Risk Management Committee.

The Issuer uses expected default rates and recovery rates to determine the expected loss rate of a borrower or counterparty. The Issuer uses the expected loss rate to make credit related decisions, including pricing, loan approval and establishment of standards to be followed at each level of decision making. These rates are calculated using information gathered from its internal database. With respect to large corporate borrowers, the Issuer also uses information provided by external credit rating services to calculate default rates and recovery rates.

The Issuer's credit risk management processes include:

- establishing credit policy;
- credit evaluation and approval;
- industry assessment;
- total exposure management;
- collateral evaluation and monitoring;
- credit risk assessment;
- early warning and credit review; and
- post-credit extension monitoring.

Credit Evaluation

The Issuer evaluates the ability of all loan applicants to repay their debts before it approves any loans, except for loans fully guaranteed by letters of guarantee issued by the Credit Guarantee Fund and the Korea Technology Credit Guarantee Fund, for loans fully secured by deposits and for other loans similarly guaranteed or secured. The Issuer assigns each borrower or guarantor a credit rating based on the judgment of its experts or scores calculated using the appropriate credit rating system. Factors that the Issuer considers in assigning credit ratings include both financial factors and non-financial factors, such as its perception of a borrower's reliability, management and operational risk and risk relating to the borrower's industry. The credit rating process differs according to the type, size and characteristics of a borrower.

The Issuer uses its internally developed credit rating systems to rate potential borrowers. As the characteristics of each customer segment differ, the Issuer uses several credit rating systems for its customers. The nature of the credit rating system used for a particular borrower depends on whether the borrower is an individual, SOHO, SME or large company. For large companies, the Issuer has 17 credit ratings, ranging from AAA to D. For SMEs, the Issuer has 15 credit ratings ranging from AA to D. For retail customers, the Issuer has 13 credit ratings ranging from grade 1 to grade 13.

Based on the credit rating of a borrower, the Issuer applies different credit policies, which affect factors such as credit limit, loan period, loan pricing, loan classification and provisioning. The Issuer also uses these credit ratings in evaluating its bank-wide risk management strategy. Factors the Issuer considers in making this evaluation include the profitability of each company or transaction, performance of each business unit and portfolio management. The Issuer monitors the credit status of borrowers and collects information to adjust its ratings appropriately. If the Issuer changes a borrower's credit rating, the Issuer will also change the credit policies relating to that borrower and it may also change the policies underlying its loan portfolio.

Retail Loan Approval Process

Mortgage Loans and Secured Retail Loans

The Issuer's processing centre staff reviews mortgage loans and retail loans secured by real estate or guarantees. Branch staff employees forward loan applications to processing centres. However, in the case of loans secured by deposits with the Issuer, its branch staff approves such loans. The Issuer makes lending decisions based on its assessment of the value of the collateral, debt service capability and the borrower's score generated from its credit scoring systems.

For mortgage loans and loans secured by real estate, the Issuer evaluates the value of the real estate offered as collateral using a database the Issuer has developed that contains information about real estate values throughout Korea. The Issuer also uses information from a third party provider about the real estate market in Korea, which gives the Issuer up-to-date market value information for Korean real estate. In addition, the Issuer's processing centre staff employees review the value of real estate provided by the evaluation system to ensure there are no significant discrepancies. The Issuer bases decisions regarding the approval of such loans primarily on the results of its credit rating systems. For more details on the approval process relating to mortgage loans, see "*Certain Information Regarding the Cover Pool – Origination of the Mortgage Loans*."

For loans secured by deposits, the Issuer will generally grant loans up to 95 per cent. of the deposit amount if the Issuer holds the deposit.

With respect to mortgage loans and secured retail loans, the Issuer screens customers based on various items on its checklist that indicate whether the customer may have deteriorating credit using internal information and rating information from credit bureaus. The Issuer also evaluates debt service capability for eligible customers pursuant to certain checklist items, such as type of residence, profession, family information, annual income, age, credit card overdue information, transaction history (with both the Issuer and other financial institutions) and other relevant credit information.

The Issuer generally decides whether to evaluate a loan application within three to five days after recording the relevant information in its credit scoring systems.

Unsecured Retail Loans

The Issuer reviews applications for unsecured retail loans in accordance with its credit scoring systems. These automated systems evaluate loan applications and determine an appropriate pricing for the loan. The major benefits of using a credit scoring system are that it yields uniform results regardless of the user, that it can be used effectively by employees who do not necessarily have extensive experience in credit evaluation and that it can be updated easily to reflect changing market conditions by adjusting how each factor is weighted. The staff at the Issuer's processing centres review the results of the credit scoring system based on information input by its branch staff and, if approved, issue the loan.

The Issuer's credit scoring systems take into account factors including borrower's income, assets, profession, age, transaction history (with both the Issuer and other financial institutions) and other relevant credit information. The systems rank each borrower in an appropriate grade and that grade is used as a factor in deciding whether to approve loans as well as to determine loan amounts.

The Issuer generally bases its decisions on the results of its credit scoring systems to evaluate applications. However, a credit officer may overturn the results of the Issuer's credit scoring systems in certain circumstances.

Corporate Loan Approval Process

The Issuer approves corporate loans at different levels of its organisation depending on the size and type of the loan, the credit risk level assessed by the credit rating system, whether the loan is secured by collateral and, if secured, the value of the collateral. The lowest level of authority is the branch staff employee, who can approve small loans and loans that have the lowest range of credit risk. Larger loans and loans with higher credit risk are approved by higher levels of authority depending on where they fall in a matrix of loan size and credit risk. Depending on the size and terms of any particular loan or the credit risk relating to a particular borrower, more than one entity may review the application, although generally loan applications are reviewed only by the entity having corresponding authority to approve the loan.

The Issuer evaluates all of its corporate borrowers by using credit rating systems, except for applicants whose borrowings are fully secured by deposits or applicants who have obtained third-party guarantees from the Government or certain other very highly rated guarantors. See "– *Credit Evaluation*" above.

For SOHOs with total outstanding loans of less than ₩1 billion, the Issuer has put in place a SOHO credit rating system which adopts simplified credit evaluation modelling procedures and has the same structure and process as the credit rating system for individual retail borrowers. This system consists of a scoring model, a qualitative credit assessment ("**QCA**") model and a preliminary examination checklist. The scoring model analyses information with respect to the customer's personal information and bank transaction history, as well as information from credit bureaus. The preliminary examination checklist is based on information regarding the customer's credit delinquencies and history of write-offs. This system classifies customers into 13 possible credit ratings.

For SOHOs with total outstanding loans of ₩1 billion or more, the Issuer has put in place a separate credit rating system known as "**SOHO CRS**". For other SMEs, the Issuer has put in place a similar credit rating system known as "**CRS**". For large corporations, the Issuer has put in place a similar credit rating system known as "**LCRS**". For financial institutions, certain non-profit organisations and public institutions, the Issuer has put in place a similar credit rating system known as "**FNP CRS**". The SOHO CRS, the CRS, the LCRS and the FNP CRS models consist of the following three parts:

- *Financial Model*. The financial model uses the borrower's current status and trend of financial ratios calculated using its financial statements. The financial model classifies potential borrowers into one of three size categories and one of five types of industry. This model incorporates logistic regression and statistical methods, which use financial ratios such as stability ratio, cash flow ratio, profitability ratio and turnover ratio, to make credit determinations.

- *Non-financial Model*. The non-financial model uses various qualitative and quantitative factors, such as future repayment capability, market prospects, management capability and business capability, to evaluate borrowers. The factors that are evaluated and the weighting given to each factor vary by type of industry and size of company.

- *Default Signal Check Model*. The default signal check model checks the consistency of the preliminary rating. This model checks various factors, including financial ratios with low scores, any non-quantitative factors that may cause a corporate default and any information arising from past experience, to determine the likelihood of a future default. The results of the default signal check model may be used to cap a borrower's credit grade.

In addition to the three parts outlined above, the SOHO CRS also includes a "CEO Evaluation Model," which analyses information with respect to personal information and bank transaction history of the individual owner of such SOHO.

The Issuer often refers to corporate information gathered or ratings assigned by external credit rating agencies, such as Korea Information Service, National Information & Credit Evaluation Inc. and Korea Management Consulting & Credit Rating Corporation, in order to improve the accuracy of the Issuer's credit ratings.

Total Exposure Management

The Issuer establishes and manages total exposure limits for corporations, *chaebols* and industries, as well as certain SMEs, in order to optimise the use of credit availability and avoid excessive risk concentration. The Issuer establishes total exposure limits for large corporations to which it has exposures (in the form of securities or loans) of over ₩30 billion, SMEs to which the Issuer has exposures (in the form of securities or loans) of over ₩20 billion and *chaebols* designated by the FSS or by the Issuer, by reviewing factors such as their industry, size, cash flows, financial ratios and credit ratings, while establishing exposure limits for industries by peer group, as defined by the Issuer, by reviewing the sales growth rate and risk concentration for each industry. The guidelines used to set these total exposure limits are approved by the Issuer's Risk Management Council after review by the Credit Risk Management Subcommittee.

The Issuer's maximum exposure limit is within 25.0 per cent. of its Tier I and Tier II capital for a single *chaebol*, and within 10.0 per cent. of its Tier I and Tier II capital for an individual large corporation.

The Issuer manages and controls exposure limits on a daily basis. The principal system that the Issuer uses for this purpose is the Total Exposure Management System. This system allows the Issuer to monitor and control its total exposure to large corporations, *chaebols* and industries. The Issuer monitors its exposure to large corporations to which the Issuer has an exposure of ₩30 billion or more, individual corporations to which the Issuer has an exposure of more than ₩20 billion, and also its exposure to the 65 *chaebols* which comprise the 42 largest *chaebols* in Korea designated as such by the FSS based on their outstanding exposures as well as 23 *chaebols* selected for monitoring by the Senior Executive Vice President of the Risk Management Division. The Issuer also monitors its exposure to industries by peer groups. The Issuer's Total Exposure Management System integrates all of its credit– related risk including credit extended by its

overseas branches and affiliates. The assets subject to the system include all Won-denominated and foreign currency denominated loans, all assets in trust accounts except specified money trusts, guarantees, trade-related credits, commercial paper, corporate bonds and other securities and derivatives.

Collateral Evaluation and Monitoring System

The Issuer uses the Collateral Evaluation and Monitoring System to manage the liquidation value of collateral it holds. The Collateral Evaluation and Monitoring System is a computerised collateral management system that can be accessed from its headquarters and its branches. Using this system, the Issuer can more accurately assess the actual liquidation value of collateral, determine the recovery rate on its loans and use this information in setting the Issuer's credit risk management and loan policies. The Issuer can monitor the value of all the collateral a borrower provides and the value of that collateral based on its liquidation value. When appraising the value of real estate collateral, which makes up the largest part of the Issuer's collateral, the Issuer consults a regularly updated database provided by a third party that tracks the prices at which various types of real estate in various regions of Korea are sold. The Issuer appraises the value of collateral when it makes a loan, when the loan is due for renewal and when events occur that may change the value of the collateral.

Credit Risk Management and Monitoring

The Issuer's Credit Risk Department manages and regulates the Issuer's loan portfolio policies. The Credit Risk Department also analyses and monitors the Issuer's loan portfolios and monitors the Issuer's compliance with the applicable limits for credit risk. Moreover, the Credit Risk Department separately manages high-risk products, such as real estate project financing loans and over-the-counter derivative products, by setting appropriate limits.

Credit Review

The Issuer's credit review function is independent of the business groups which manage its assets. The Issuer's Credit Review Department:

- reviews the Issuer's internal credit regulations, policies and systems;
- analyses the credit status of selected loan assets and verifies the appropriateness of the credit evaluations/approvals made by branches and headquarters; and
- evaluates the corporate credit risk of potentially insolvent companies.

More specifically, the Credit Review Department continuously reviews the financial condition of selected borrowers with respect to their current debt, collateral, business, transactions with related parties and debt service capability. Based on its review, the Issuer may adjust the borrower's credit rating, its lending policy or asset quality classification of the loan provided to the borrower, depending on the applicable circumstances. The Issuer also regularly reviews other aspects of the lending process, including industries and regions in which its borrowers operate and the quality of its domestic and overseas assets. The Issuer's industry reviews focus on growth, stability, competition and ability to adapt to a changing environment. Based on the results of a particular industry review, the Issuer may revise the total exposure limit assigned to that industry and the lending policy for each company within that industry. When a review takes place, the Issuer may adjust not only credit ratings of its borrowers based on a variety of factors, but also asset quality classification, credit limits and applied interest rates or its credit policies. Credit review results are reported to the Issuer's chief risk officer and the Risk Management Committee on a quarterly basis.

The Credit Review Department also conducts on-site reviews of selected branches and related credit analysis centres which are experiencing increasing delinquency ratios and bad debts. During these visits, the loan processes are examined and improvement plans and appropriate follow-up measures are recommended.

Also, based on guidelines provided by the FSS to all Korean banks, the Issuer operates a corporate credit risk assessment programme to facilitate the identification of weak companies and possible commencement of corporate restructuring. Through this programme, the Issuer, together with other banks, is able to detect symptoms of financially troubled companies at an early stage, assess related credit risk and support the normalisation of companies that are likely to turnaround through a workout process, or seek to liquidate those companies that are not likely to recover.

The Credit Review Department also analyses issues related to credit risk and provides information necessary for the formulation of effective credit policies and strategies and for effective credit risk management.

Market Risk Management

The major risk to which the Issuer is exposed is interest rate risk on debt instruments and interest bearing securities and, to a lesser extent, stock price risk and foreign exchange risk. The financial instruments that expose the Issuer to these risks are securities and financial derivatives. The Issuer is not exposed to commodity risk, the other recognised form of market risk, as it currently does not engage in commodities trading. The Issuer is also exposed to interest rate risk and liquidity risk in its banking book. The Issuer divides market risk into risks arising from trading activities and risks arising from non-trading activities.

The Issuer's Risk Management Council establishes overall market risk management principles. It has delegated the responsibility for the market risk management for trading activities to the Market Risk Management Subcommittee, which is chaired by its chief risk officer. This subcommittee meets on a regular basis each month and as required to respond to developments in the market and the economy. Based on the policies approved by the Risk Management Council, the Market Risk Management Subcommittee reviews and approves reports as required that include trading profits and losses, position reports, limit utilisation, sensitivity analysis and value at risk ("**VaR**") analysis results for the Issuer's trading activities.

The Asset Liability Management Committee is responsible for day-to-day interest rate and liquidity risk management of non-trading activities. It meets on a regular basis and as required to respond to developments in the market and the economy. Members of the Asset Liability Management Committee, acting through the Issuer's Financial Planning Department, review the Issuer's interest rate and liquidity gap position monthly, formulate a view on interest rates, establishing strategies with respect to deposit and lending rates, and review the business profile and its impact on asset and liability management.

To ensure adequate interest rate and liquidity risk management, the Issuer has assigned the responsibilities for its asset and liability management risk control to its Risk Management Department in its Risk Management Group, which monitors and reviews the asset and liability management risk procedures and activities of its Financial Planning Department and independently reports to the management on the related issues.

Market Risk Management for Trading Activities

The Issuer's trading activities consist of:

- trading activities for its own account to realise short-term trading profits in Won-denominated debt and equities markets and foreign exchange markets based on the Issuer's 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 the Issuer's customers and to hedge market risk incurred from those activities.

The Issuer uses derivative instruments to hedge its market risk and, to a limited extent, to make profits by trading derivative products within acceptable risk limits. The principal objective of its hedging strategy is to manage the Issuer's market risk within established limits. The Issuer uses the following hedging instruments to manage relevant risks:

- to hedge interest rate risk arising from its trading activities, the Trading Department occasionally uses interest rate futures (Korea Treasury Bond Futures) and interest rate swaps;

- to hedge stock price risk arising from its trading activities, the Trading Department selectively uses stock index futures;

- to hedge interest rate risk and foreign exchange risk arising from its foreign currency-denominated asset and liability positions as well as its trading activities, the Trading Department and the Fund Management Department use interest rate swaps, cross-currency interest rate swaps, foreign exchange forwards and futures, Euro-dollar futures and currency options; and

- to change the interest rate characteristics of certain assets and liabilities after the original investment or funding, the Issuer uses swaps. For example, depending on the market situation, the Issuer may choose to obtain fixed rate funding instead of floating rate funding if it believes that the terms are more favourable, which the Issuer can achieve by entering into interest rate swaps.

The Issuer generally manages its market risk at the portfolio level. To control its exposure to market risk, the Issuer uses EC limits set by its Risk Management Council for itself and its groups and departments, VaR, position and stop loss limits set by the Risk Management Council for itself and its groups, and VaR, position, stop loss and sensitivity limits (PVBP, Delta, Gamma, Vega) set by the Issuer's Market Risk Management Subcommittee for its departments. The Issuer prepared its risk control and management guidelines for derivative trading based on the regulations and guidelines promulgated by the FSS.

In addition, the Issuer has implemented internal processes which include a number of key controls designed to ensure that fair value is measured appropriately, particularly where a fair value model is internally developed and used to price a significant product. For example, each year the Risk Management Department reviews the existing pricing and valuation models, with a focus on their underlying modelling assumptions and restrictions, to assess the appropriateness of their continued use. In consultation with the Trading Department, the Risk Management Department recommends potential valuation models to the Fair Value Evaluation Committee. Upon approval by the Fair Value Evaluation Committee, the selected valuation models are reported to the Market Risk Management Subcommittee.

The Issuer monitors market risk arising from trading activities of its business groups and departments. The market risk measurement model the Issuer uses for both its Won-denominated trading operations and foreign currency-denominated trading operations is implemented through its integrated market risk management system, called Adaptiv, which enables the Issuer to generate consistent VaR numbers for all trading activities.

VaR analysis. The Issuer uses VaR to measure market risk. VaR is a statistically estimated maximum amount of loss that could occur over a given period of time at a given level of confidence. VaR is a commonly used market risk management technique. However, this approach does have some shortcomings. VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses can be different depending on the assumptions made at the time of calculation. In addition, the time periods used for the model, generally one or 10 days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or are too long, the VaR results may understate or overstate the potential loss. Different VaR methodologies and distributional assumptions could produce a materially different VaR. VaR is most appropriate as a risk measure for trading positions in liquid capital markets and will understate the risk associated with severe events, such as a period of extreme illiquidity.

The Issuer uses a 99 per cent. single tail confidence level to measure VaR, which means the actual amount of loss may exceed the VaR, on average, once out of 100 business days. Until 2011, the Issuer used the "variance covariance method" or parametric VaR ("**PVaR**") methodology to measure its daily VaR, which took into account the diversification effects among different risk categories as well as within the same risk category. In 2012, the Issuer received authorisation from the FSC to use a historical simulation VaR ("**HSVaR**") methodology, which the Issuer believes to be more accurate and responsive in reflecting market volatilities, to measure market risk. The Issuer's ten-day HSVaR method, which is computed using a full valuation and is computationally intensive, uses an archive of historical price data and the VaR for a portfolio is estimated by creating a hypothetical time series of returns on that portfolio, obtained by running the portfolio through actual 10-day historical data and computing the changes that would have occurred in each 10-day period.

The following table shows the Issuer's 10-day HSVaRs (at a 99 per cent. confidence level for a 10-day holding period) as of the dates indicated for interest risk, stock price risk and foreign exchange risk relating to the Issuer's trading activities. The following figures were calculated on a consolidated basis.

	As of December 31			As of March 31,
	2012	2013	2014	2015
	(in billions of Won)			
Risk Categories:				
Interest risk	8.3	17.0	10.1	11.3
Stock price risk	4.9	1.1	0.9	1.4
Foreign exchange risk	11.2	5.3	10.8	10.5
Less: diversification	(12.7)	(6.9)	(8.8)	(9.6)
Diversified VaR for overall trading activities	11.7	16.4	13.0	13.6

In the first three months of 2015, the average, high, low and ending amounts of 10-day HSVaR (at a 99 per cent. confidence level for a 10-day holding period) for the Issuer relating to its trading activities were as follows.

	Trading activities VaR for the first three months ended March 31, 2015			
	Average	Minimum	Maximum	As of March 31, 2015
		(in billions of Won)		
Interest risk	10.9	10.0	11.8	11.3
Stock price risk	1.6	0.9	3.9	1.4
Foreign exchange risk	11.0	10.2	12.0	10.5
Less: diversification	–	–	–	(9.6)
Diversified VaR for overall trading activities	12.9	11.7	14.5	13.6

In 2014, the average, high, low and ending amounts of 10-day HSVaR (at a 99 per cent. confidence level for a 10-day holding period) for the Issuer relating to its trading activities were as follows.

	Trading activities VaR for 2014			
	Average	Minimum	Maximum	As of December 31, 2014
		(in billions of Won)		
Interest risk	12.9	7.7	19.8	10.1
Stock price risk	1.6	0.7	3.9	0.9
Foreign exchange risk	12.0	5.1	14.7	10.8
Less: diversification	–	–	–	(8.8)
Diversified VaR for overall trading activities	15.4	10.1	23.6	13.0

In 2013, the average, high, low and ending amounts of 10-day HSVaR (at a 99 per cent. confidence level for a 10-day holding period) for the Issuer relating to its trading activities were as follows.

	Trading activities VaR for 2013			
	Average	Minimum	Maximum	As of December 31, 2013
		(in billions of Won)		
Interest risk	16.3	7.4	24.9	17.0
Stock price risk	3.5	0.9	7.1	1.1
Foreign exchange risk	9.3	5.3	13.6	5.3
Less: diversification	–	–	–	(7.0)
Diversified VaR for overall trading activities	17.3	10.9	22.2	16.4

In 2012, the average, high, low and ending amounts of 10-day HSVaR (at a 99 per cent. confidence level for a 10-day holding period) for the Issuer relating to its trading activities were as follows.

	Trading activities VaR for 2012			
	Average	Minimum	Maximum	As of December 31, 2012
	(in billions of Won)			
Interest risk	20.1	8.3	29.3	8.3
Stock price risk	4.2	0.5	8.7	4.9
Foreign exchange risk	26.6	9.6	39.2	11.2
Less: diversification	–	–	–	(12.7)
Diversified VaR for overall trading activities	20.6	10.6	28.7	11.7

Standardised Method. Market risk for positions not measured by VaR are measured using the standardised method for measuring market risk-based required equity capital specified by the FSS, which takes into account certain risk factors. Under the standardised method, the required equity capital is measured using the risk-weighted values for each risk factor. The method used to measure the market risk-based required equity capital for each risk factor is as follows:

- Interest rate risk:
  - o General market risk: General market risk relates to the risk of losses from macroscopic events which could have an impact on interest rates, stock prices, exchange rates, and market prices of general commodities. General market interest rate risk of a debt security is calculated on its net position, taking into consideration the remaining maturity and coupon rate.
  - o Specific risk: Specific risk relates to the risk of loss from changes in credit risk of issuers of debt securities or equities, excluding changes in general market prices. Specific interest rate risk of a debt security is measured by multiplying the interest rate position appraised, based on the market price of such security, by the risk-weighted value applicable to the type of debt security, credit rating and the remaining maturity.
- Equity risk: General and specific equity risks are calculated by multiplying the bought or sold position by the relevant risk-weighted values.
- Foreign exchange risk: Foreign exchange risk is measured by multiplying the larger of the absolute values among the net bought or sold positions of each currency by the relevant risk-weighted values.
- Option risk: Option risk is measured using the delta, gamma and vega of the option.

The standardised method is used to measure the market risk of the positions for which the FSS has not approved the use of the VaR method. In addition, the Issuer uses the standardised method for positions which are held by subsidiaries or for which measuring VaR is difficult due to the lack of daily position data.

Starting from January 1, 2012, the market risks of trading positions held by bond-type private equity funds that are consolidated in the Issuer's financial statements are measured using VaR, whereas the standardised method was used to measure such market risks up to December 31, 2011. Accordingly, the required equity capital measured using the standardised method included the market risks of trading positions held by bond type private equity funds prior to 2012 but no longer includes such market risks of bond-type private equity funds from 2012 onwards. The following table shows the Issuer's required equity capital measured using the standardised method

as of December 31, 2012, 2013 and 2014 and March 31, 2015, in each case excluding the market risks of trading positions held by bond-type private equity funds in accordance with the new methodology adopted in 2012.

	As of and for the year ended December 31			As of March 31,
	2012	2013	2014	2015
	(in billions of Won)			
Risk Categories:				
Interest risk	1.7	0.9	0.8	0.5
Stock price risk	4.6	0.1	1.1	0.9
Foreign exchange risk	9.1	9.2	9.4	9.4
Total	15.4	10.2	11.3	10.8

Back Testing. The Issuer conducts back testing on a daily basis to validate the adequacy of its market risk model. In back testing, the Issuer compares both the actual and hypothetical profit and loss with the VaR calculations and analyses any results that fall outside its predetermined confidence interval of 99 per cent.

Stress testing. In addition to VaR, which assumes normal market situations, the Issuer uses stress testing to assess its market risk exposure to abnormal market fluctuations. Abnormal market fluctuations include significant declines in the stock market and significant increases in the general level of interest rates. This is an important way to supplement VaR, as VaR is a statistical expression of possible loss under a given confidence level and holding period. It does not cover potential loss if the market moves in a manner that is outside the Issuer's normal expectations. Stress testing projects the anticipated change in value of holding positions under certain scenarios assuming that no action is taken during a stress event to change the risk profile of a portfolio. According to its stress testing, the Issuer estimates that as of March 31, 2015, its trading portfolio could have lost ₩288.2 billion for an assumed short-term extreme decline of approximately 25 per cent. in the equity market and an approximate 64 basis point increase in interest rates of Korea Treasury Bonds under an abnormal stress environment.

The Issuer monitors the impact of market turmoil or any abnormality by conducting stress tests and confirming that the results are within the Issuer's market risk limits. If the impact is large, the Issuer's chief risk officer may request that the Issuer's portfolio be restructured or other appropriate action be taken.

Interest Risk

Interest risk from trading activities arises mainly from the Issuer's trading of Won-denominated debt securities. Its trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. As its trading accounts are marked-to-market daily, the Issuer manages the interest risk related to its trading accounts using market value-based tools such as VaR and sensitivity analysis. As of March 31, 2015, the VaR of the Issuer's interest risk from trading was ₩11.3 billion and the weighted average duration, or weighted average maturity, of its Won-denominated debt securities at fair value through profit or loss was approximately 2.30 years.

Foreign Exchange Risk

Foreign exchange risk arises because the Issuer has assets and liabilities that are denominated in currencies other than Won, as well as off-balance sheet items such as foreign exchange forwards and currency swaps.

Prior to August 2010, assets and liabilities denominated in U.S. dollars, Japanese yen, and Euro typically accounted for the majority of the Issuer's foreign currency assets and liabilities. Beginning in August 2010, the Kazakhstan Tenge has accounted for a large portion of the Issuer's foreign currency assets and liabilities, although its impact has decreased since 2013 due to impairment losses on the Issuer's equity stake in JSC Bank CenterCredit, a Kazakhstan Bank. Until August 2010, the Bank's investment in JSC Bank CenterCredit was fully hedged against currency risk. However, in August 2010, the Issuer decided to discontinue such currency hedge as the value of the Won had remained relatively stable against the Tenge for a prolonged period of time.

The difference between the Issuer's foreign currency assets and liabilities is offset against forward foreign exchange positions, currency options and currency swaps to obtain its net foreign currency open position. The Risk Management Council and Market Risk Management Subcommittee oversee the Issuer's foreign exchange exposure for both trading and non-trading purposes by establishing a limit for this net foreign currency open position, together with stop loss limits. VaR limits are established on a combined basis for its domestic operations and foreign branches.

The following table shows the Issuer's separate net open positions as of December 31, 2012, 2013 and 2014 and March 31, 2015. Positive amounts represent long positions and negative amounts represent short positions.

	As of December 31			As of March 31,
	2012	2013	2014	2015
	(in billions of Won)			
Currency:				
U.S.$	(72.0)	(135)	(174.7)	(185.5)
Japanese yen	(8.3)	(17.3)	(1.8)	(1.7)
Euro	(4.8)	(5.5)	(1.1)	(0.7)
Tenge	314.5	82.5	56.5	55.3
Others	25.4	22.9	34.6	30.2
Total	254.8	(52.4)	(86.5)	(102.4)

Equity Price Risk

Equity price risk results from the Issuer's equity derivatives trading portfolio in Won since the Issuer does not have any trading exposure to shares denominated in foreign currencies other than foreign equity index futures.

The equity derivatives trading portfolio in Won consists of exchange-traded stocks and equity derivatives under strict limits on diversification as well as position limits and stop loss limits.

The Risk Management Council and Market Risk Management Subcommittee sets annual and monthly stop loss limits that are monitored by the Risk Management Department. In order to ensure timely action, the stop loss limit of individual securities is monitored by the Issuer's middle office.

As of March 31, 2015, the Issuer's equity trading position was ₩91 billion.

Derivative Market Risk

The Issuer's derivative trading includes interest rate and cross-currency swaps, foreign exchange forwards, stock index and interest rate futures and currency options. These activities consist primarily of the following:

- arbitrage transactions to make profit from short-term discrepancies between the spot and forward derivative markets or within the derivative markets;

- sales of tailor-made derivative products that meet various needs of the Issuer's corporate customers and related transactions to reduce the Issuer's exposure resulting from those sales;

- taking positions in limited cases when the Issuer expects short-swing profits based on its market forecasts; and

- trading to hedge the Issuer's interest rate and foreign currency risk exposure as described above.

Market risk from trading derivatives is not significant since the Issuer's derivative trading activities are primarily driven by arbitrage and customer deals with very limited open trading positions.

Market Risk Management for Non-Trading Activities

Interest Rate Risk

The Issuer's principal market risk from non-trading activities is interest rate risk. Interest rate risk arises due to mismatches in the maturities or re-pricing periods of these rate-sensitive assets and liabilities. The Issuer measures interest rate risk for Won and foreign currency assets and liabilities in its bank accounts (including derivatives) and its principal guaranteed trust accounts. Most of the Issuer's interest-earning assets and interest bearing liabilities are denominated in Won and its foreign currency-denominated assets and liabilities are mostly denominated in U.S. dollars.

The Issuer's principal interest rate risk management objectives are to generate stable net interest revenues and to protect its asset value against interest rate fluctuations. The Issuer principally manages this risk for its non-trading activities by analysing and managing maturity and duration gaps between its interest-earning assets and interest bearing liabilities. Although the Issuer has used hedging instruments only on a limited basis for interest rate risk management for its non-trading assets and liabilities, to date the Korean financial market has not been sufficiently developed for this purpose. The Issuer expects to increase its use of derivatives to hedge this risk in the near future as the Korean financial market becomes more sophisticated.

Interest rate gap analysis measures expected changes in net interest revenues by calculating the difference in the amounts of interest-earning assets and interest bearing liabilities at each maturity and interest resetting date. The Issuer performs interest rate gap analysis for Won-denominated and foreign currency-denominated assets and trust assets on a monthly basis or more frequently when deemed necessary.

Interest Rate Gap Analysis. The Issuer performs interest rate gap analysis based on interest rate re-pricing maturities of assets and liabilities. However, for some of the Issuer's assets and liabilities with either no maturities or unique characteristics, the Issuer uses or assumes certain maturities, including the following examples:

- With respect to asset maturities, the Issuer assumes remaining maturities of prime rate-linked loans with remaining maturities of over one year to be one year and uses the actual maturities for prime rate-linked loans with remaining maturities of less than one year.

- With respect to liability maturities, the Issuer differentiates "noncore" and "core" demand deposits using the last 36 months' average balance of demand deposits. The Issuer assumes "non-core" demand deposits to have remaining maturities of one month or less and "core" demand deposits to have remaining maturities between one month and five years.

The following table shows the Issuer's consolidated interest rate gap for Won-denominated accounts and foreign currency-denominated accounts as of March 31, 2015:

	As of March 31, 2015					
	0-3 Months	**3-6 Months**	**6-12 Months**	**1-3 Years**	**Over 3 Years**	**Total**
	(in billions of Won, except percentages)					
Won-denominated interest earning assets:						
Loans	76,803	50,134	42,756	11,269	14,842	195,805
Securities	3,691	2,441	4,103	13,118	2,933	26,286
Others	13,951	143	436	736	73	15,339
Total	94,446	52,718	47,296	25,122	17,848	237,430
Interest bearing liabilities:						
Deposits	79,301	33,349	53,461	21,825	17,385	205,321
Borrowings	5,106	2	0	0	150	5,258
Others	11,467	1,112	1,323	4,944	3,148	21,994
Total	95,874	34,463	54,784	26,769	20,683	232,573
Sensitivity gap	(1,429)	18,255	(7,488)	(1,647)	(2,834)	4,857
Cumulative gap	(1,429)	16,827	9,338	7,691	4,857	
% of total assets	(0.6)	7.1	3.9	3.2	2.0	
Foreign currency-denominated interest earning assets:						
Loans	8,076	2,041	1,177	73	9	11,376
Securities	179	35	47	338	189	788
Others	894	243	681	553	0	2,371
Total	9,150	2,318	1,905	964	198	14,535
Interest bearing liabilities:						
Deposits	1,938	2,715	449	138	50	5,289
Borrowings	4,066	1,085	730	93	15	5,989
Others	3,383	55	671	884	3	4,996
Total	9,387	3,855	1,850	1,115	68	16,274
Sensitivity gap	(237)	(1,536)	55	(151)	130	(1,739)
Cumulative gap	(237)	(1,773)	(1,718)	(1,869)	(1,739)	
% of total assets	(1.6)	(12.2)	(11.8)	(12.9)	(12.0)	

Duration Gap Analysis. The Issuer also performs duration gap analysis to measure and manage interest rate risk. Duration gap analysis is a more long-term risk indicator than interest rate gap analysis, as interest rate gap analysis focuses more on accounting income as opposed to the market value of the assets and liabilities. The Issuer emphasises duration gap analysis because, in the long run, its principal concern with respect to interest rate fluctuations is the net asset value rather than

net interest revenue changes. For duration gap analysis the Issuer uses or assumes the same maturities for different assets and liabilities that it uses or assumes for the Issuer's interest rate gap analysis.

The following table shows, on a separate basis, duration gaps and net asset value changes when interest rates decrease by one percentage point as of the specified dates.

Date	Asset Duration	Liability Duration	Duration Gap	Net Asset Value Change
	(in years)	*(in years)*	*(in years)*	*(in billions of Won)*
Won – denominated				
June 30, 2014	0.733	0.801	(0.035)	78
December 31, 2014	0.762	0.838	(0.044)	102
March 31, 2015	0.810	0.856	(0.001)	(3)
Foreign currency – denominated				
June 30, 2014	0.298	0.341	(0.066)	9
December 31, 2014	0.303	0.307	(0.033)	4
March 31, 2015	0.342	0.323	(0.025)	(3)

The Issuer sets interest rate risk limits using historical interest rate volatility of financial bonds and duration gaps with respect to expected asset and liability positions based on its annual business plans. The Risk Management Department submits interest rate gap analysis, duration gap analysis and interest rate risk limit compliance reports monthly to the Issuer's Risk Management Council and quarterly to the Issuer's Risk Management Committee.

The following table summarises the Issuer's interest rate risk, taking into account asset and liability durations as of March 31, 2015.

	As of March 31, 2015					
	0-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Total
	(in billions of Won, except percentages)					
Won – denominated:						
Asset position	94,446	52,718	47,296	25,122	17,848	237,430
Liability position	95,874	34,463	54,784	26,769	20,683	232,573
Gap	(1,429)	18,255	(7,488)	(1,647)	(2,834)	4,857
Average maturity (year)	0.245	0.489	0.972	2.831	5.393	
Interest rate volatility (%)	(0.54)	0.58	(0.60)	(0.68)	(0.80)	–
Amount at risk	(9)	(45)	34	5	96	81
Foreign currency – denominated:						
Asset position	9,150	2,318	1,905	964	198	14,535
Liability position	9,387	3,855	1,850	1,115	68	16,274
Gap	(237)	(1,536)	55	(151)	130	(1,739)
Average maturity (year)	0.249	0.495	0.974	2.813	5.248	
Interest rate volatility (%)	(0.09)	(0.05)	0.04	0.31	0.60	
Amount at risk	(0)	0	(0)	0	3	3

Foreign Exchange Risk

The Issuer manages foreign exchange rate risk arising from its non-trading operations together with such risks arising from its trading operations. See "– *Market Risk Management for Trading Activities – Foreign Exchange Risk*."

Liquidity Risk Management

Liquidity risk is the risk of insolvency or loss due to a disparity between the inflow and outflow of funds resulting from, for example, maturity mismatches, obtaining funds at a high price or disposing of securities at an unfavourable price due to lack of available funds. The Issuer manages its liquidity in order to meet its financial liabilities from withdrawals of deposits, redemption of matured debentures and repayments at maturity of borrowed funds. The Issuer also requires sufficient liquidity to fund loans, to extend other credits and to invest in securities. The Issuer's liquidity management goal is to meet all its liability repayments on time and fund all investment opportunities even under adverse conditions. To date, the Issuer has not experienced significant liquidity risk.

The Issuer maintains liquidity by holding sufficient quantities of assets that can be liquidated to meet actual or potential demands for funds from depositors and others. The Issuer also manages liquidity by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds the Issuer believes it could raise by issuing securities. The Issuer seeks to minimise its liquidity costs by managing its liquidity position on a daily basis and by limiting the amount of cash at any time that is not invested in interest-earning assets or securities.

The Issuer maintains diverse sources of liquidity to facilitate flexibility in meeting its funding requirements. The Issuer funds its operations principally by accepting deposits from retail and corporate depositors, accessing the call loan market (a short-term market for loans with maturities of less than 90 days), issuing debentures and borrowing from the BOK and others. The Issuer uses the majority of funds it raises to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

For Won-denominated assets and liabilities, the Issuer manages liquidity using a cash flow structure based on holding short-term liabilities and long-term assets. Generally, the average initial contract maturity of the Issuer's new Won-denominated time deposits was within a year, while during the same period most of its new loans and securities had maturities over one year.

The Issuer manages liquidity risk within the limits set on Won and foreign currency accounts in accordance with the regulations of the FSC. The FSC requires Korean banks, including the Issuer, to maintain a Won liquidity coverage ratio of not less than 80 per cent. from January 1, 2015 to December 31, 2015, with such minimum liquidity coverage ratio to increase in increments of 5 per cent. per annum to 100.0 per cent. by 2019, and a foreign liquidity ratio of at least 85.0 per cent. The FSC defines the Won liquidity coverage ratio as the ratio of highly liquid assets to total net cash outflows over a one-month period.

The Issuer's Treasury Department is responsible for daily liquidity risk management of the Issuer's Won and foreign currency exposure. The Treasury Department reports monthly plans for funding and operations to the Asset Liability Management Committee, which discusses factors such as interest rate movements and maturity structures of the Issuer's deposits, loans and securities.

The following tables show the Issuer's liquidity status for Won and foreign currency accounts as of March 31, 2015 in accordance with FSC regulations:

Won accounts:

	1 Month or Less
	(in billions of Won, except percentages)
Assets (A)	62,757
Liabilities (B)	49,857
Liquidity gap	12,900
Liquidity ratio (A/B)	125.87

	7 Days or Less	1 Month or Less	3 Months or Less
	(in millions of U.S.$, except percentages)		
Foreign currency assets (A)	5,929	10,103	15,820
Foreign currency liabilities (B)	4,597	8,780	13,852
Maturity gap (C)	1,332	1,323	1,968
Cumulative gap	1,332	1,323	1,968
Total assets (D)	37,099	37,099	37,099
Liquidity gap ratio (%) (C/D)	3.59	3.57	114.21[(1)]
Limits	(3)	(10)	85

Note:

(1) Liquidity ratio (%) (A/B).

The Risk Management Department in the Issuer's Risk Management Group reports whether the Issuer is complying with these limits monthly to the Risk Management Council and quarterly to the Risk Management Committee.

Operational Risk Management

Overall Status

There is no complete consensus on the definition of operational risk in the banking industry. The Issuer defines operational risk broadly to include all financial and non-financial risks, other than credit risk, market risk, interest rate risk and liquidity risk, that may arise from its operations that could negatively impact its capital, including the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events as defined under Basel II. The Issuer's operational risk management objectives include not only satisfying regulatory requirements, but also providing internal support through the growth of a strong risk management culture, reinforcement of internal controls, improvement of work processes and provision of timely feedback to management members and staff throughout the Issuer.

The Issuer uses an operational risk management framework meeting the Basel II Advanced Measurement Approach, or AMA, under which the Issuer:

- calculates its operational risk VaR on a quarterly basis using the "loss distribution approach VaR" and "scenario based VaR" methodology, and monitors operational risk in terms of Key Risk Indicators ("**KRI**") using tolerance levels for each indicator;
- executes integrated compliance and operational risk Control Self Assessments ("**CSAs**"), that enhance the effect on internal controls, which the Issuer's employees are able to access and use for process improvement;
- collects and analyses internal and external loss data;
- conducts scenario analysis to evaluate exposure to high-severity events;
- manages certain insurance-related activities relating to insurance strategies established to mitigate operational risk;
- examines operational risks arising in connection with the development of, changes in or discontinuance of products, policies or systems;
- uses a detailed business continuity plan covering all of its operations and locations to prepare against unexpected events, including an alternate back-up site for use in disaster events as well as annual full-scale testing of such site;
- refines bank-wide operational risk policies and procedures;
- provides appropriate training and support to business line operational risk managers; and
- reports overall operational risk status to the Issuer's senior management.

Each of the Issuer's relevant business units has primary responsibility for the management of its own operational risk. In addition, the Operational Risk Unit, which is part of the Issuer's Risk Management Department, monitors bank-wide operational risk. The Issuer also has internal control managers in all of its subsidiaries, departments and branches who periodically conduct CSAs and monitor KRIs. Through this method, the Issuer is able to ensure proper monitoring and measurement of operational risk in each of its business units.

Legal Risk

The Issuer considers legal risk as a part of its operational risk. The uncertainty of the enforceability of the obligations of its customers and counterparties creates legal risk. Changes in laws and regulations could also adversely affect the Issuer. Legal risk is higher in new areas of business where the law is often untested in the courts, although legal risk can also increase in the Issuer's traditional business to the extent that the legal and regulatory landscape in Korea is changing and many new laws and regulations governing the banking industry remain untested. The Issuer's Compliance Supporting Department seeks to minimise legal risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorised and consulting legal advisers.

IT System Operational Risk

The integrity of the Issuer's IT systems, and its ability to withstand potential catastrophic events, is crucial to the Issuer's continuing operations. Accordingly, the Issuer is continuing to strengthen its disaster recovery capabilities. In order to minimise operational risks relating to its IT systems, the Issuer has implemented a multi-CPU system that runs multiple CPUs simultaneously on-site and ensures system continuity in case any of the CPUs fail. This system backs up the Issuer's data systems at an off-site location on a real-time basis to ensure that its operations can be carried out normally and without material interruption in the event of CPU failure. Also, in order to protect the Issuer's Internet banking services from system failures and cyber attacks, the Issuer processes its Internet transactions through three separate data processing centres.

The Issuer currently tests its disaster recovery systems on a quarterly basis, with the comprehensive testing including branches and the main IT centre's disaster recovery system. The Issuer's disaster recovery capabilities involve a number of other operations, including call centre transactions. Internally, the Issuer's IT Service Operations Department monitors all of its computerised network processes and its IT systems. This department monitors and reports on any unusual delays or irregularities reported by the Issuer's branches. In addition, the IT Planning Department is responsible for the daily monitoring of the Issuer's entire information security system.

In 2009, the Issuer obtained ISO 27001 certification, which relates to information security. In 2011, the Issuer also obtained ISO 20000 certification, which relates to IT service management, and BS 25999 certification, which relates to business continuity management. The Issuer is the first Korean bank to have obtained all three such international certifications.

Director and Senior Management

The Issuer's board of directors has ultimate responsibility for the management of the Issuer's affairs. The Issuer's Articles of Incorporation provide for a board of no more than 30 directors, of which three or more must be non-executive directors and non-executive directors must comprise more than half of the board of directors. The Issuer currently has two executive directors and four non-executive directors. The Issuer elects its directors at a general meeting of shareholders by a majority vote of those present or represented at such meeting as long as the affirmative votes represent at least a quarter of the Issuer's total issued and outstanding shares with voting rights.

The term of office for each of the Issuer's executive directors is three years and for each of the Issuer's non-executive directors is two years for the initial term and one year for any subsequent term, provided that, if a director's term of office expires after the end of a fiscal year but before the convening of the general shareholders' meeting concerning the said fiscal year, his/her term of office shall be extended until the end of the general shareholders' meeting. The Issuer's directors may serve consecutive terms and are subject to the Korean Commercial Code, the Bank Act and related regulations.

In respect of the members of the Issuer's board of directors and senior management, there are no potential conflicts between their duties to the Issuer and their other duties or private interests.

The business address of all of the directors is the Issuer's registered office at 84, Namdaemoon-ro, Jung-gu, Seoul 100-703, Korea.

Executive Directors

The table below sets forth the names, years of birth and positions of the Issuer's executive directors as of the date of this Base Prospectus.

Name	Year of Birth	Position	Director Since	End of Term
Jong Kyoo Yoon	1955	President and CEO	November 21, 2014	November 20, 2017
Hong Lee	1958	Senior Executive Vice President; Sales Group	November 21, 2014	November 20, 2017

Non-executive Directors

The non-executive directors are outside directors elected from among those persons who do not have a special relationship with the Issuer that would interfere with the exercise of their independent judgment. The Issuer's non-executive directors are selected based on the candidates' talents and skills in diverse areas, such as law, finance, economics, management and accounting. The table below sets forth the names, years of birth and positions of the Issuer's non-executive directors as of the date of this Base Prospectus.

Name	Year of Birth	Position	Director Since	End of Term
Joong Woong Kim	1941	Non-executive Director	April 26, 2012	April 25, 2015
Hee Bok Kang	1946	Non-executive Director	September 27, 2013	September 26, 2015
Myung Sup Song	1956	Non-executive Director	September 27, 2013	September 26, 2015
In Ho Cho.....	1956	Non-executive Director	April 24, 2014	April 23, 2016

Executive Officers

The table below sets forth the names, years of birth and positions of the Issuer's executive officers (other than its executive directors) as of the date of this Base Prospectus.

Name	Year of Birth	Position
Moon Ho Kang.....	1957	Senior Executive Vice President; Credit Group
Jeong Lim Park	1963	Senior Executive Vice President; Risk Management Group
Oh Sung Lee.....	1959	Senior Executive Vice President; Shared Service Group
Ki Heon Kim.....	1955	Senior Executive Vice President; Information Technology Group
Pyoung Seob Oh.....	1960	Senior Managing Director; Customer Service Group
Yong Deok Lee.....	1960	Senior Managing Director; SME/SOHO Service Group
Jeong Ki Kim	1958	Senior Managing Director; Wealth Management Group
Kwi Sang Jun	1960	Senior Managing Director; Corporate Banking Group
In Hur.....	1961	Senior Managing Director; Strategy & Finance Planning Group
Ki Hwan Kim	1963	Senior Managing Director; Consumer Protection Group
Jong Heon Kim.....	1966	Managing Director; Information Security Division
Chang Won Kim.....	1961	Managing Director; Trust Division
Sang Hyo Lee.....	1960	Chief Compliance Officer; Compliance Supporting Department

Compensation

The aggregate remuneration paid and benefits in kind paid by the Issuer to its president and chief executive officer, its other executive directors, its non-executive directors and its executive officers for the year ended December 31, 2014 was ₩6,722 million. In addition, for the year ended December 31, 2014, the Issuer set aside ₩359 million for allowances for severance and retirement benefits for the Issuer's president and chief executive officer, the other executive directors and the Issuer's executive officers.

Committee of the Board of Directors

The Issuer currently has the following committees that serve under the board:

- the Audit Committee;
- the Risk Management Committee;
- the Evaluation & Compensation Committee;
- the Management Strategy Committee;
- the Non-executive Director Nominating Committee; and
- the Audit Committee Member Nominating Committee.

Each committee member is appointed by the board of directors, except for members of the Audit Committee, who are elected at the general meeting of shareholders.

Audit Committee

The Audit Committee currently consists of two non-executive directors, Hee Bok Kang and Myung Sup Song. The chairperson of the Audit Committee is Hee Bok Kang. The Audit Committee oversees the Issuer's financial reporting and approves the appointment of the Issuer's independent registered public accounting firm. The committee also reviews the Issuer's financial information, auditor's examinations, key financial statement issues, the plans and evaluation of internal control and the administration of the Issuer's financial affairs by the board of directors. In connection with the general meetings of shareholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors to each general meeting of shareholders. The committee holds regular meetings every quarter.

Risk Management Committee

The Risk Management Committee currently consists of three non-executive directors, In Ho Cho, Joong Woong Kim and Hee Bok Kang, and one executive director, Hong Lee. The chairperson of the Risk Management Committee is In Ho Cho. The Risk Management Committee oversees and makes determinations on all issues relating to the Issuer's comprehensive risk management function. In order to ensure the Issuer's stable financial condition and to maximise the Issuer's profits, the committee monitors the Issuer's overall risk exposure and reviews the Issuer's compliance with risk policies and risk limits. In addition, the committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, establishes or abolishes risk management divisions and reviews risk-based capital allocations. The committee holds regular meetings every quarter. See "*Risk Management*."

Evaluation & Compensation Committee

The Evaluation & Compensation Committee currently consists of three non-executive directors, Joong Woong Kim, Hee Bok Kang and In Ho Cho. The chairperson of the Evaluation & Compensation Committee is Joong Woong Kim. The Evaluation & Compensation Committee reviews compensation schemes and compensation levels.

Management Strategy Committee

The Management Strategy Committee currently consists of four non-executive directors, Myung Sup Song, Joong Woong Kim, Hee Bok Kang and In Ho Cho, together with the Issuer's president and chief executive officer, Jong Kyoo Yoon. The chairperson of the Management Strategy Committee is Myung Sup Song. The Management Strategy Committee reviews and evaluates the Issuer's mid- to long-term management strategy, its annual business plans and goals, and major issues with respect to the Issuer's management.

Non-executive Director Nominating Committee

The committee currently has no members. The committee oversees the selection of non-executive director candidates and recommends them annually sometime prior to the general stockholders meeting. The term of office of its members is from the first meeting of the committee held to nominate the non-executive directors until the nominated non-executive directors are appointed.

Audit Committee Member Nominating Committee

The committee currently has no members. The last meeting of the committee was on January 3, 2014 to nominate Byung Ki Jung as a new Audit Committee member. The committee oversees the selection of Audit Committee member candidates and recommends them annually sometime prior to the general stockholders meeting. The term of office of its members is from the first meeting of the committee held to nominate the Audit Committee members until the Audit Committee members are appointed.

Trust Deed

The Trust Deed, made between, among others, the Issuer and the Trustee on the Programme Date, is the principal agreement governing the Covered Bonds. The Trust Deed contains provisions relating to, among others:

- the constitution of the Covered Bonds and the Terms and Conditions of the Covered Bonds;
- the covenants of the Issuer;
- the enforcement procedures relating to the Covered Bonds;
- the appointment, powers and responsibilities of the Trustee and the circumstances in which the Trustee may resign or retire or be removed; and
- matters related to the holding of meetings of the Covered Bondholders.

The Trust Deed will be governed by English law.

Establishment Deed

Establishment and Segregation of the Cover Pool

Under the terms of the Establishment Deed, made between the Issuer, the Asset Monitor and the Trustee on the Initial Filing Date, the Issuer will establish the Cover Pool by filing the Covered Bond Issuance Plan with the FSC in accordance with the Korean Covered Bond Laws on the Initial Filing Date which shall constitute the registration of the initial assets specified in the Covered Bond Issuance Plan as part of the Cover Pool. The Issuer shall provide the Asset Monitor and the Trustee with evidence satisfactory to the Asset Monitor of such filing on or prior to the Programme Date.

Subject to compliance with the Korean Covered Bond Laws, the Issuer will ensure that each asset in the Cover Pool is segregated at all times from any other assets of the Issuer that do not form part of the Cover Pool (including assets in any cover pool in respect of covered bonds registered under any issuance plans other than the Covered Bond Issuance Plan) from the Relevant Filing Date until the earlier of (i) the deregistration of such asset from the FSC register of the Cover Pool or (ii) the termination of the Programme by:

(a) preparing and maintaining a separate ledger (the "**Cover Pool Ledger**") on its computer information system to identify each Mortgage Loan, other Underlying Assets, any Liquid Assets, any Other Assets and any Swap and related rights under such Swap(s) that are registered with the FSC as comprising the Cover Pool from time to time;

(b) registering the details of any Swap in connection with the Cover Pool with the FSC;

(c) opening and maintaining segregated accounts with each of the Account Banks, the Securities Depositary or Euroclear (as applicable) as described in the section entitled "– *Cover Pool Accounts*" below, registering such accounts as part of the Cover Pool with the FSC, and ensuring that amounts related to the Cover Pool are paid into such accounts as described in the section entitled "– *Cover Pool Accounts*" below; and

(d) ensuring that no cash or other assets may be removed from the Cover Pool except:

(i) any withdrawal or substitution of Liquid Assets (including in the form of cash), Underlying Assets or any Other Assets with the prior written consent of the Asset Monitor (save where the Asset Monitor has given its upfront consent as described below), and provided that such assets are deregistered with the FSC as comprising part of the Cover Pool by, where applicable, the filing of an amendment to the Covered Bond Issuance Plan with the FSC on or prior to such withdrawal or substitution;

(ii) for application in accordance with the section entitled "– *Payments and Cash Release*" and the Cover Pool Priority of Payments summarised in the section entitled "– *Cover Pool Priority of Payments*" below;

(iii) for disposal by the Asset Monitor following any Cause of Disposal Event (as defined below) in accordance with the Asset Monitor Agreement; or

(iv) any removal of a Swap from the Cover Pool with the prior written consent of the Asset Monitor.

The Asset Monitor has given its consent to the withdrawal of any Underlying Assets, Liquid Assets or Other Assets from the Cover Pool pursuant to paragraph (d)(i) above from time to time for so long as at the time of withdrawal:

(a) no Issuer EOD Notice has been served; and

(b) the Issuer has confirmed to the Asset Monitor in writing that:

(i) the Asset Coverage Test was satisfied on the immediately preceding Calculation Date and would have been satisfied on such immediately preceding Calculation Date after taking into account the removal of the assets that are proposed to be removed from the Cover Pool, provided that the Asset Coverage Test shall be deemed to have been satisfied from and including the Programme Date to and excluding the Calculation Date immediately following the first Issue Date under the Programme and this paragraph (b)(i) shall not apply where no Covered Bonds are issued and remain outstanding at the time of withdrawal;

(ii) the Required Collateralisation Ratio is satisfied and would continue to be satisfied immediately after the withdrawal of such assets from the Cover Pool; and

(iii) the Pre-Maturity Test Cure Requirement (if applicable) is satisfied.

The Issuer may not register New Mortgage Loans with the FSC as part of the Cover Pool unless it has delivered to each of the parties to the Establishment Deed and the Rating Agencies a solvency certificate substantially in the form set out in the Establishment Deed dated the proposed Additional Filing Date of the relevant New Mortgage Loans and signed by an authorised signatory of the Issuer.

Registration and Amendment of the Covered Bond Issuance Plan

The Issuer has agreed to deliver to the Asset Monitor and the Trustee evidence satisfactory to the Asset Monitor and the Trustee of:

(a) in the case of the initial Series of Covered Bonds, the registration with the FSC of the Covered Bond Issuance Plan, such evidence to be delivered on or prior to the relevant Issue Date; and

(b) in respect of any further Series or Tranche of Covered Bonds, the amendment or supplement to the Covered Bond Issuance Plan in connection with such further Series or Tranche at the time and in the manner required by the FSC (which as of the date of the Establishment Deed, may be done by way of an annual update of the Covered Bond Issuance Plan in respect of all the Series and/or Tranches of Covered Bonds to bc issued in the forthcoming year), such evidence to be delivered within five Korean Business Days of the filing of such amendment or supplement with the FSC.

Following registration of the Initial Cover Pool, the Issuer will effect:

(a) (without prejudice to paragraph (d) of the section entitled "– *Establishment and Segregation of the Cover Pool*" above) any proposed addition, substitution or withdrawal of any Underlying Assets, Liquid Assets or Other Assets from the Cover Pool;

(b) the proposed addition or removal of any bank account or securities account to or from the Cover Pool (including as the result of any replacement of the relevant Account Bank in accordance with the Account Bank Agreement); or

(c) the proposed addition or removal of any Swap to or from the Cover Pool,

by filing any required amendment to the Covered Bond Issuance Plan for the registration or deregistration of the relevant asset, account or Swap in relation to the Programme simultaneously with or prior to such proposed addition, substitution, withdrawal or removal and the Issuer shall simultaneously provide written notice to the Asset Monitor of any registration or deregistration of the relevant asset, account or Swap in relation to the Programme.

The Issuer will ensure that each of the following events is specified in the Covered Bond Issuance Plan as a cause of disposal of the Cover Pool under Article 6(1) of the Korean Covered Bond Act (each, a "**Cause of Disposal Event**"):

(a) the service of an Issuer EOD Notice; and

(b) the service of an Acceleration Notice.

Issuer Covenants

The Issuer has undertaken to the Trustee that, for so long as any Covered Bonds are issued and remain outstanding, it will ensure that at all times:

(a) the Required Collateralisation Ratio is satisfied;

(b) the Maximum Liquid Assets Requirement is satisfied;

(c) the Issuer and the Cover Pool maintained by the Issuer will each comply with the requirements of the Korean Covered Bond Laws in all material respects;

(d) the Issuer shall comply with all applicable laws, rules, regulations and orders, provided that there shall be no breach of this covenant unless failure to so comply would result in a Material Adverse Effect;

(e) the Underlying Assets in the Cover Pool will only comprise Mortgage Loans and assets falling within paragraph (b) of the definition of Pre-Maturity Liquidity Assets (if any); and

(f) the Issuer's other obligations set out in the Establishment Deed, the Asset Monitor Agreement and the Account Bank Agreement are complied with, provided that there will be no breach of this covenant unless failure to so comply would result in a Material Adverse Effect.

The Trustee will hold the benefit of the covenants in the immediately preceding paragraph (the "**Issuer Covenants**") on trust for the Covered Bondholders and Couponholders of each Series of Covered Bonds.

Mortgage Loan Warranties

The Issuer has made and will make the Mortgage Loan Warranties in relation to each Mortgage Loan in the Initial Cover Pool (i) as at the Initial Filing Date; and (ii) on each subsequent Calculation Date on which each such Mortgage Loan remains part of the Cover Pool, in each case in favour of the Trustee.

The Issuer will make the Mortgage Loan Warranties in relation to each New Mortgage Loan (i) on the Relevant Filing Date in respect of such New Mortgage Loan; and (ii) on each subsequent Calculation Date on which each such Mortgage Loan remains part of the Cover Pool, in each case in favour of the Trustee.

The Mortgage Loan Warranties, in relation to each Mortgage Loan, are as follows:

(a) each of the Eligibility Criteria is true;

(b) at the time that the Issuer entered into the Mortgage relating to the Mortgage Loan, each Mortgage, each Mortgage Loan Agreement and Collateral Security complied in all material respects with Korean Privacy Laws and, as at the date of the Establishment Deed (or, in relation to each New Mortgage Loan, as at the date such New Mortgage Loan is registered with the FSC as part of the Cover Pool) the Issuer is not aware of any failure by it to comply with Korean Privacy Laws in relation to the Mortgage Loan;

(c) the Mortgage Loan has been originated and serviced by the Issuer in accordance with all policies, practices, procedures and other requirements applicable to its mortgage loan business as of the date of origination and thereafter;

(d) the Issuer has full, sole and perfected title to and ownership of each Mortgage Loan and the related Mortgages and Collateral Security;

(e) the Issuer holds all documents relating to the Mortgage Loan, each Mortgage and Collateral Security which are necessary for the proper and efficient servicing and to enforce the provisions of, and the security created by, the Mortgage Loan;

(f) all documents relating to the Mortgage Loan, each Mortgage and Collateral Security is in full force and effect and constitutes legal, valid and binding obligations of the relevant Borrowers, enforceable against such Borrowers in accordance with the terms of such

documents, except as such enforcement may be limited by applicable bankruptcy, insolvency, moratorium, reorganisation or other similar laws affecting the enforcement of the rights of creditors generally;

(g) there are no governmental or regulatory approvals, permits, authorisations, filings, registrations, recordings or other formalities which are necessary to ensure the validity, effectiveness, enforceability or admissibility in evidence of any documentation relating to any Mortgage Loan other than those which have already been obtained or made and are currently valid and in full force and effect;

(h) the Issuer is lawfully entitled to sell and assign the Mortgage Loans and no consent to the sale and assignment of the Mortgage Loan is required to be given by the Borrower;

(i) so far as the Issuer is aware, no default, breach or failure by any Borrower or Collateral Security Provider of its obligations under any Mortgage Loan or any of the documentation relating thereto has occurred which has not been remedied;

(j) none of the Mortgage Loans (or any part thereof) is terminable at the option of any related Borrower (whether as a result of the occurrence of an event of default (howsoever described) or otherwise) other than upon prepayment in full by or on behalf of the relevant Borrower of all amounts, present or future, actual or contingent, payable in respect of such Mortgage Loan, and

(k) all the payments under the Mortgage Loans are made by automatic bank transfers.

Eligibility Criteria

Any Mortgage Loan in the Cover Pool will have to comply with the Eligibility Criteria as set out in the Establishment Deed.

The "**Eligibility Criteria**" for each Mortgage Loan in the Cover Pool is as follows:

(a) the Mortgage Loan is secured by a valid, enforceable and first ranking registered mortgage over the related Mortgaged Property;

(b) the related Mortgaged Property is a private residential property as set forth in Article 2 Item 1 of the Housing Act located in Korea;

(c) the amounts payable by each Borrower in respect of the Mortgage Loan are denominated in Korean Won only;

(d) no payment in respect of the Mortgage Loan has been rescheduled, amended, re-aged or changed to avoid or eliminate a delinquency or default or following a delinquency or default;

(e) there are no proceedings, actions or investigations pending or, to the knowledge of the Issuer, having made all due enquiries, threatened against the related Borrower before any court, regulatory body, administrative or governmental agency, or other tribunal;

(f) each Borrower is a natural person who is a Korean citizen or permanent resident, residing in Korea, and aged at least 20 years old at the time of origination;

(g) no Borrower is entitled to draw any further advance under the Mortgage Loan;

(h) the Borrower in respect of the Mortgage Loan is not an employee of the Issuer;

(i) the Mortgage Loan is compliant with the requirements applicable to the composition of the cover pool pursuant to the Korean Covered Bond Act;

(j) the Mortgage Loan has a loan-to-value ratio (LTV) of 70 per cent. or lower; and

(k) the inclusion of the Mortgage Loan in the Cover Pool must not cause a breach of the Portfolio Criteria,

provided that, in case of any amendment to the Korean Covered Bond Laws that requires revision to the Eligibility Criteria, the Eligibility Criteria will be deemed to be revised automatically to reflect such amendment.

The "**Portfolio Criteria**" referred to in the Eligibility Criteria is as follows:

(a) at least 20 per cent. of the Mortgage Loans in the Cover Pool must have a DTI Ratio of 70 per cent. or less, where the "**DTI Ratio**" (debt-to-income ratio) is calculated in accordance with Table 18 of the Detailed Enforcement Rules on Supervision of Banking Business, *inter alia*, which, as of the date of the Establishment Deed, provides for the debt-to-income ratio to be calculated by dividing the sum of annual repayment of principal and payment of interest obligations and interest payment obligations with respect to other debt obligations by the annual income of the debtor and for the calculation of annual repayment of principal and payment of interest obligations for residential mortgage loans that are of the bullet repayment type to be calculated by adding the annual interest payment amount to the total debt obligations divided by the term of such debt obligations;

(b) at least 30 per cent. of the aggregate nominal amount of Mortgage Loans in the Cover Pool must be in relation to Fixed Rate Loans, where "**Fixed Rate Loan**" means any of the following loans which are considered as fixed rate loans in the relevant FSC rulings for the purpose of the Korean Covered Bond Laws, subject to any change in the interpretation of the FSC of the meaning of fixed rate loans for such purpose as may be published by the FSC from time to time:

    (i) any fixed rate loan with a maturity of three years or longer but less than five years, provided that the principal amount outstanding of such loan multiplied by the following multiplier will be treated as the nominal amount of such fixed rate loan;

        (I) starting from 2015, the number of years from the drawdown date of a loan until maturity divided by 15;

        (II) starting from 2016, the number of years from the drawdown date of a loan until maturity divided by 20; or

        (III) starting from 2017, the number of years from the drawdown date of a loan until maturity divided by 30;

    (ii) any fixed rate loan with a maturity of five years or more, in respect of which the principal amount outstanding of such loan will be treated as the nominal amount of such fixed rate loan;

    (iii) any floating rate loan of which the interest rate resets every five years or more;

(iv) any fixed rate loan that converts into a floating rate loan after five years, provided that if such loan does not satisfy the requirement in paragraph (iii) above after conversion into a floating rate loan, such loan will cease to be a fixed rate loan at the time of conversion for the purpose of the Korean Covered Bond Laws; and

(v) any floating rate loan with an interest rate cap with a maturity of three years or more, if (i) the maximum interest rate increase is limited to 1 per cent. or less or (ii) any of the following conditions are satisfied:

(I) in the case where the interest rate cap applies for three years or longer but less than five years, the maximum interest rate increase of the loan is limited to 1.5 per cent. and the annual permitted interest rate increase of the loan is limited to 1 per cent. or less; or

(II) in the case where the interest rate cap applies for five years or longer, the maximum interest rate increase of the loan is limited to 2 per cent. and the annual permitted interest rate increase of the loan is limited to 1 per cent. or less,

(c) in each case subject to adjustment to nominal amount of the loan specified in sub-paragraphs (i) and (ii) under paragraph (b) above; and

(d) not more than 10 per cent. of the Mortgage Loans in the Cover Pool are Mortgage Loans in respect of which 50 per cent. or more of their outstanding principal balance may be set off against the Issuer,

provided that, in case of any amendment to the Korean Covered Bond Laws that requires revision to the Portfolio Criteria, the Portfolio Criteria will be deemed to be revised automatically to reflect such amendment.

Asset Coverage Test

Under the terms of the Establishment Deed, for so long as any Covered Bonds are issued and remain outstanding, the Issuer will procure that as of each Calculation Date prior to the earlier to occur of (i) the service of an Issuer EOD Notice and (ii) the Calculation Date from which the Amortisation Test is required to be satisfied, the Adjusted Aggregate Loan Amount (as defined below) will be in an amount at least equal to the KRW Equivalent of the aggregate outstanding principal amount of all the Covered Bonds on that Calculation Date (the "**Asset Coverage Test**").

On or prior to each Test Date, the Issuer will calculate the Adjusted Aggregate Loan Amount and the KRW Equivalent of the aggregate outstanding principal amount of all Covered Bonds as of the immediately preceding Calculation Date.

"**Adjusted Aggregate Loan Amount**" means, in respect of a Calculation Date:

$$A + B + C - X - Y - Z$$

Where:

"**A**" means the lower of:

(a) the aggregate of the LTV Adjusted Loan Amount of each Mortgage Loan in the Cover Pool; and

(b) the aggregate of the Asset Percentage Adjusted Loan Amount of each Mortgage Loan in the Cover Pool,

minus the aggregate sum of the Deemed Reductions in respect of each Mortgage Loan in the Cover Pool.

"**LTV Adjusted Loan Amount**" means, in respect of a Mortgage Loan, the lower of:

(a) the outstanding current principal balance of such Mortgage Loan; and

(b) the Indexed Valuation relating to such Mortgage Loan multiplied by the LTV Limit, multiplied by N.

"**LTV Limit**" means 70 per cent., or such other percentage as may be specified under the Korean Covered Bond Laws as the applicable LTV limit on such Calculation Date.

"**Asset Percentage Adjusted Loan Amount**" means, in respect of a Mortgage Loan, the product of the Asset Percentage and the outstanding current principal balance of such Mortgage Loan.

"**N**" means:

(a) 1 for any Mortgage Loan that is not in arrears or in arrears for 90 days or less; and

(b) 0 for any Mortgage Loan that is more than 90 days in arrears.

"**Deemed Reductions**" means (i) in respect of each Mortgage Loan that was, in the immediately preceding Calculation Period, determined to be an Ineligible Mortgage Loan, an amount equal to the lower of the LTV Adjusted Loan Amount and the Asset Percentage Adjusted Loan Amount of such Mortgage Loan (calculated on such Calculation Date) or (ii) otherwise, zero.

"**B**" means the aggregate amount of cash standing to the credit of the Transaction Account on such Calculation Date.

"**C**" means (without double counting) the sum of (i) the Liquid Assets Value (other than such portion that relates to Pre-Maturity Liquidity Assets) on such Calculation Date; and (ii) the Pre-Maturity Liquidity Assets Value as of such Calculation Date.

"**X**" means zero, unless the Issuer is the Transaction Account Bank and the Covered Bonds are rated by Fitch, in which case "X" shall mean, where the Issuer maintains a short-term or, as the case may be, long-term issuer default rating by Fitch of:

(a) at least "A-" and "F2", zero;

(b) at least "BBB+" (provided that (a) above does not apply), 50 per cent. of the Commingling Exposure Amount;

(c) "BBB", 75 per cent. of the Commingling Exposure Amount; or

(d) "BBB-" or below, 100 per cent. of the Commingling Exposure Amount.

"**Commingling Exposure Amount**" means, in respect of a Calculation Date, an amount equal to:

(a) the aggregate of all collections in respect of Mortgage Loans forming part of the Cover Pool received in the Transaction Account during the Calculation Period ending on such Calculation Date; multiplied by

(b) the KRW Equivalent of the aggregate outstanding principal amount of all Covered Bonds as at such Calculation Date, divided by the Asset Percentage figure applicable in respect of Fitch (as determined in accordance with sub-paragraph (b) of the definition of "Asset Percentage" below) as at such Calculation Date; divided by

(c) the aggregate outstanding current principal balance of all Mortgage Loans forming part of the Cover Pool as of such Calculation Date.

"**Y**" means (i) zero or (ii) if a Set-Off Rating Event is continuing, the Set-Off Amount.

"**Set-Off Amount**" means as of such Calculation Date, the sum for all Borrowers of the lowest of:

(a) for each Borrower, the lower of the LTV Adjusted Loan Amount and the Asset Percentage Adjusted Loan Amount of such Mortgage Loan (calculated on such Calculation Date);

(b) the total of all deposits maintained by such Borrower with the Issuer as of such Calculation Date; and

(c) for each Borrower, out of the total of all deposits maintained by such Borrower with the Issuer as of the date of the receipt of the Perfection Notice by such underlying Borrower, the amount of such deposit remaining as of such Calculation Date.

"**Set-Off Rating Event**" means the long-term issuer default rating of the Issuer ceases to be rated equal to or above A– by Fitch (or any other minimum ratings required as per the then most recent public criteria of Fitch which are required to maintain the then current ratings of the Covered Bonds) or the long-term counterparty risk assessment rating of the Issuer, or, if such long-term counterparty risk assessment rating of the Issuer is not available, the senior unsecured rating or the issuer rating, ceases to be rated equal to or above A3 by Moody's.

"**Z**" means the product of:

(a) the weighted average remaining maturity of all Covered Bonds (expressed in years) then outstanding as at the Calculation Date (provided that, if the weighted average remaining maturity of all Covered Bonds (expressed in years) then outstanding is less than one, such weighted average remaining maturity will be deemed, for the purposes of this calculation, to be one);

(b) the KRW Equivalent of the aggregate outstanding principal amount of all the Covered Bonds; and

(c) the Negative Carry Factor.

"**Negative Carry Factor**" is the percentage rate per annum equal to:

(a) zero, for so long as the Issuer has a long-term issuer default rating by Fitch of at least A- and by Moody's of at least A3 or a cover pool swap is in place; or

(b) either:

(i) 0.50 per cent., if the Weighted Average Margin is less than or equal to 0.10 per cent. per annum; or

(ii) 0.50 per cent. plus the Weighted Average Margin minus 0.10 per cent., if the Weighted Average Margin is greater than 0.10 per cent. per annum.

"**Weighted Average Margin**" means the weighted average (weighted by both outstanding principal amount and remaining maturity) of the Margin in respect of all outstanding Covered Bonds, determined by dividing:

(a) the aggregate of all Weighted Margin Amounts for all Series of Covered Bonds; by

(b) the aggregate of all Weighting Amounts for all Series of Covered Bonds.

"**Weighted Margin Amount**" means, in respect of a Series of Covered Bonds, the product, calculated as of the relevant Calculation Date, of (x) the KRW Equivalent of the aggregate outstanding principal amount of such Series; (y) the remaining maturity of such Series (expressed in years, but for any Series of Covered Bonds with a remaining maturity of less than one year being deemed, for the purposes of this calculation, to have a remaining maturity of one year); and (z) the Margin specified for such Series (which, for each Series of Fixed Rate Covered Bonds, shall be deemed to be zero).

"**Weighting Amount**" means, in respect of a Series of Covered Bonds, the product, calculated as of the relevant Calculation Date, of (x) the KRW Equivalent of the aggregate outstanding principal amount of such Series; and (y) the remaining maturity of such Series (expressed in years, but for any Series of Covered Bonds with a remaining maturity of less than one year being deemed, for the purposes of this calculation, to have a remaining maturity of one year).

"**Asset Percentage**" means the lowest of:

(a) 95 per cent.;

(b) such percentage figure determined by the Issuer on the relevant Calculation Date, being the percentage figure that is necessary to ensure that the Covered Bonds maintain the then current ratings assigned to them by Fitch; and

(c) such percentage figure (1) as may be determined from time to time by the Issuer and notified in writing to Moody's and the Asset Monitor on such Calculation Date or (2) where the Issuer has not notified Moody's and the Asset Monitor in writing of the minimum percentage figure on the relevant Calculation Date, on the last date of such notification, and such percentage figure in (1) or (2) being in each case the difference between 100 per cent. and the amount of credit enhancement required to support the then current ratings of the Covered Bonds under Moody's expected loss methodology, provided that for as long as any Covered Bonds remain outstanding whose ratings have been downgraded by Moody's at any point since their relevant original Issue Date, the Asset Percentage shall not be greater than the higher of (a) the Asset Percentage last notified to Moody's and the Asset Monitor in writing by the Issuer prior to the first such downgrade, or (b) the lowest value for (X) in respect of each downgrade where (X) in respect of each such downgrade is equal to the respective Attributed Moody's Asset Percentage specified in the relevant Investor Report most recently delivered prior to such downgrade,

provided that there is no obligation on the Issuer to maintain a rating by Fitch and/or Moody's and the Issuer is under no obligation to change the percentage figure determined by it and notified in writing to Fitch or Moody's, as applicable, in line with the level of credit enhancement required to ensure a rating is maintained by Fitch and/or Moody's.

"Attributed Moody's Asset Percentage" means the percentage figure for Moody's as set out in each Investor Report which notwithstanding the percentage figure that may be selected by the Issuer from time to time and notified in writing to the Asset Monitor and Moody's, is the percentage figure as at each Calculation Date, which is the difference between 100 per cent. and the amount of credit enhancement required to support the then current ratings of the Covered Bonds under Moody's expected loss methodology.

"**Indexed Valuation**" means, in respect of a Mortgaged Property relating to a Mortgage Loan, for the purpose of determining compliance with the Asset Coverage Test on each Calculation Date, the indexed valuation relating to that Mortgaged Property then in force as determined by the Issuer on the Calculation Date immediately preceding the relevant Calculation Date (or, if the relevant Calculation Date is the first Calculation Date, on the Programme Date), by reference to:

(a) if KB Market Prices are available, KB Market Prices; or

(b) if KB Market Prices are not available, either one of the following:

(i) if the "Prime Cost Method" was used for the valuation of the Mortgaged Property as at the origination of the related Mortgage Loan, valuation according to the "Prime Cost Method", being the value derived by taking the construction cost announced by the Korea Appraisal Board, discounted for depreciation; or

(ii) if the valuation calculated pursuant to KB's internal valuation policy and within the scope of applicable regulatory guidelines was used for the valuation of the Mortgaged Property as at the origination date of the related Mortgage Loan (such valuation being the "**Valuation**"), an amount determined in accordance with the below:

Valuation x (KB Index 1 / KB Index 0)

where,

"**KB Index 1**" means KB Index on the Calculation Date immediately preceding the relevant Calculation Date (or, if the relevant Calculation Date is the first Calculation Date, on the Programme Date); and

"**KB Index 0**" means KB Index on the origination date of the relevant Mortgage Loan.

"**KB Index**" means KB Housing Purchase Price Index as published by Kookmin Bank.

"**KB Market Prices**" means the market prices of properties in Korea as published by Kookmin Bank.

The Issuer (or, following the appointment of a Replacement Servicer, the Replacement Servicer) will prepare an Investor Report in respect of each Calculation Period and publish such Investor Report on the Issuer's website (or, following the appointment of a Replacement Servicer, as directed by the Asset Monitor) on or before the Investor Report Date.

For the purposes of the definitions of "Asset Percentage" and "Attributed Moody's Asset Percentage" above, the delivery of an Investor Report containing the relevant percentage figure information to a Rating Agency or the Asset Monitor, as the case may be, will be deemed to satisfy the requirement for notice in writing to be given to such person of such percentage figure information.

If on any Test Date, the Adjusted Aggregate Loan Amount is less than the KRW Equivalent of the aggregate outstanding principal amount of all Covered Bonds as calculated as of the Calculation Date immediately preceding that Test Date, the Asset Coverage Test will be breached and the Issuer will immediately notify the Rating Agencies, the Asset Monitor and the Trustee in writing thereof, whereupon the Asset Monitor will serve an Asset Coverage Test Breach Notice on the Issuer as soon as reasonably practicable. Subject to the paragraphs below, non-compliance with the Asset Coverage Test does not constitute an Issuer Event of Default or a Covered Bond Event of Default, but the Issuer will not issue any further Covered Bonds under the Programme and no Daily Cash Release will be permitted in accordance with the section entitled "– *Daily Cash Release*" below until such breach has been remedied.

The Asset Monitor will be deemed to have revoked an Asset Coverage Test Breach Notice if, on any Test Date following service of an Asset Coverage Test Breach Notice, the Asset Coverage Test (as of the immediately preceding Calculation Date) is satisfied (as notified to the Asset Monitor in writing by the Issuer, and copied to the Rating Agencies and the Trustee) and neither an Issuer EOD Notice nor an Acceleration Notice has been served.

If an Asset Coverage Test Breach Notice has been served and remains outstanding and has not been revoked or deemed to have been revoked on or before the second Calculation Date after service of such Asset Coverage Test Breach Notice on the Issuer, an Issuer Event of Default will occur pursuant to Condition 10(a)(xii).

If the Asset Monitor determines that there have been errors in the relevant calculations of the Asset Coverage Test performed by the Issuer such that the Asset Coverage Test was not satisfied on the previous Calculation Date (where the Issuer had recorded it as being satisfied on that date), then the Asset Monitor will (i) notify the Rating Agencies of such errors; and (ii) determine if the Asset Coverage Test was, in addition, not satisfied on the two Calculation Dates prior to the most recent Calculation Date (where the Issuer had recorded it as being satisfied on those dates). Where there have not been two Calculation Dates prior to the most recent Calculation Date, the Asset Monitor shall carry out (ii) above only in relation to any Calculation Date prior to the most recent Calculation Date. If the Asset Monitor determines that the Asset Coverage Test was not satisfied on the previous three Calculation Dates (if applicable, and only where the Issuer had recorded it as being satisfied on those dates), then the Asset Monitor will immediately serve an Asset Coverage Test Breach Notice on the Issuer (copied to the Trustee and the Rating Agencies). An Issuer Event of Default will occur pursuant to Condition 10(a)(xii) if such breach of the Asset Coverage Test is not cured within 60 days of receipt of that Asset Coverage Test Breach Notice.

Pre-Maturity Liquidity

The following applies if Hard Bullet Covered Bonds, specified as such in the Final Terms, have been issued and remain outstanding. The Pre-Maturity Test will be breached if, on any Korean Business Day (each a "**Pre-Maturity Test Date**") during the period starting from, but excluding, 12 months prior to the Maturity Date of a Series of Hard Bullet Covered Bonds and ending on, and including, such Maturity Date (the relevant "**Pre-Maturity Test Period**"), the Issuer ceases to have the applicable Minimum Required Ratings from one or both Rating Agencies.

Following a failure of the Pre-Maturity Test in respect of any Series of Hard Bullet Covered Bonds but prior to the occurrence of an Issuer Event of Default (and only for so long as the Issuer is in breach of the Pre-Maturity Test), the Issuer will as soon as practicable (i) add Pre-Maturity Liquidity Assets to the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and/or of the Reserve Securities Account (as applicable), with the intention that the aggregate Pre-Maturity Liquidity Assets Value on each relevant Pre-Maturity Test Date will at least be equal to the Required Redemption Amount for all Series of Hard Bullet Covered Bonds which are scheduled to mature within 12 months of such Pre-Maturity Test Date (the "**Pre-Maturity Test Cure Requirement**"); and (ii) if the Pre-Maturity Liquidity Assets are required to be added, appoint the Reserve Account Bank (if not already appointed) to open and maintain the Reserve Cash Account and, if not already opened, open and maintain the Reserve Securities Account with the Securities Depositary in accordance with the section entitled "– *Cover Pool Accounts*" below, in each case to enable the Issuer to be able to add any relevant Pre-Maturity Liquidity Assets before the required time as set out below. Any Pre-Maturity Liquidity Assets added to the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and/or of the Reserve Securities Account in accordance with this paragraph may be liquidated and applied by the Issuer or the Asset Monitor towards redemption of the relevant Series of Hard Bullet Covered Bonds on their Maturity Date.

The Issuer's obligations as described in the preceding paragraph to add Pre-Maturity Liquidity Assets to the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and/or of the Reserve Securities Account will be subject always to the Maximum Liquid Assets Requirement. For the avoidance of doubt, if the Issuer is at any time restricted from adding further Liquid Assets to the Cover Pool due to the Maximum Liquid Assets Requirement, the Issuer will comply with these obligations as described in the preceding paragraph by adding other Pre-Maturity Liquid Assets to the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and/or of the Reserve Securities Account.

Upon the Issuer satisfying the Pre-Maturity Test Cure Requirement, the Issuer will be entitled to withdraw (subject to paragraph (d) of the section entitled "– *Establishment and Segregation of the Cover Pool*") any Pre-Maturity Liquidity Assets from the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and/or of the Reserve Securities Account, provided that such withdrawal will not cause the Issuer to breach any of its other covenants under the Establishment Deed or any provision of the Korean Covered Bond Laws.

If the Pre-Maturity Test in respect of any Series of Hard Bullet Covered Bonds is breached during the Pre-Maturity Test Period of such Series of Hard Bullet Covered Bonds and the Issuer does not add Pre-Maturity Liquidity Assets to the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and/or of the Reserve Securities Account with a Pre-Maturity Liquidity Assets Value at least equal to the Series Required Redemption Amount on or before the earlier of (i) 20 Korean Business Days following such failure of the Pre-Maturity Test and (ii) the Maturity Date of such Series of Hard Bullet Covered Bonds (such earlier date, the "**Series Required Redemption Amount Cut-off Date**"), an Issuer Event of Default under Condition 10(a)(xi) will occur, provided that there will be no Issuer Event of Default if the Pre-Maturity Test Cure Requirement is satisfied in respect of all Series of Hard Bullet Covered Bonds which are scheduled to mature within 12 months of such Pre-Maturity Test Date on or prior to the Series Required Redemption Amount Cut-off Date.

In relation to each Series of Hard Bullet Covered Bonds in respect of which either (i) the Issuer has taken the action required as described in the immediately preceding paragraph or (ii) the proviso in the immediately preceding paragraph applies (so that no Issuer Event of Default has occurred as described in the preceding paragraph in respect of each such Series) (each a "**PMT Ongoing Test Series**"), the Issuer will on each PMT Shortfall Valuation Date determine the PMT Shortfall Amount in respect of such PMT Shortfall Valuation Date and will add Pre-Maturity Liquidity Assets to the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and/or of the

Reserve Securities Account with a Pre-Maturity Liquidity Assets Value at least equal to the PMT Shortfall Amount on or before the immediately succeeding PMT Shortfall Valuation Date, and if it fails to do so, an Issuer Event of Default under Condition 10(a)(xi) will occur, provided that there will be no Issuer Event of Default if the Pre-Maturity Test Cure Requirement is satisfied on any Pre-Maturity Test Date during the period from the date of determination of such PMT Shortfall Amount to (and including) such immediately succeeding PMT Shortfall Valuation Date.

The failure by the Issuer to pay the full amount due in respect of a Series of Hard Bullet Covered Bonds on the Maturity Date thereof (subject to applicable cure periods) will constitute, first, an Issuer Event of Default and subsequently (after the applicable further cure period, if not remedied) a Covered Bond Event of Default and the Issuer will immediately notify the Trustee, the Asset Monitor and the Rating Agencies in writing of such Issuer Event of Default and Covered Bond Event of Default.

Reserve Fund

If, on any day after the Programme Date, the Issuer ceases to have the applicable Minimum Required Ratings of one or both Rating Agencies, the Issuer will immediately notify the Trustee and the Asset Monitor in writing thereof and the Issuer will, within 14 calendar days of such day, (i) appoint the Reserve Account Bank (if not already appointed) to open and maintain the Reserve Cash Account in accordance with the section entitled "– *Cover Pool Accounts*" below and register the Reserve Cash Account with the FSC in accordance with the section entitled "– *Establishment and Segregation of the Cover Pool*" above; and (ii) fund the Reserve Ledger of the Reserve Cash Account with an amount equal to the Reserve Fund Required Amount.

To the extent that the Issuer's credit ratings are restored to at least the applicable Minimum Required Ratings of both Rating Agencies, the Issuer will immediately notify the Trustee and the Asset Monitor in writing thereof and, subject to certain conditions described in the section entitled "– *Establishment and Segregation of the Cover Pool*" above, will thereafter be entitled to withdraw the balance of the Reserve Ledger from the Reserve Cash Account provided that such withdrawal will not cause the Issuer to breach any of its covenants under the Establishment Deed or any provision of the Korean Covered Bond Laws.

Perfection Notices

The Issuer will, as soon as practicable and in any event within 15 Korean Business Days following the occurrence of a Cause of Disposal Event, provide Perfection Notices by content and delivery proof mail (*Naeyong Baedal Juengmyung*) to the Borrowers and to SGIC, in accordance with the Korean Covered Bond Laws and the Korean Civil Code, signed by the Issuer.

Such Perfection Notices will be sent to each Borrower and to SGIC with respect to each Mortgage Loan Asset which, as at the date of the occurrence of the relevant Cause of Disposal Event, has not been fully repaid by the relevant Borrower, and will relate to the registration of Mortgage Loans as part of the Cover Pool pursuant to the Korean Covered Bond Laws and the Asset Monitor's right to dispose of the Cover Pool following the occurrence of any Cause of Disposal Event, and will be sufficient to perfect the Asset Monitor's right to dispose of such Mortgage Loans.

The Issuer will provide the Asset Monitor satisfactory evidence of the serving of the Perfection Notices within five Korean Business Days of the Asset Monitor's request. If the Issuer fails to provide the Asset Monitor satisfactory evidence of the serving of the Perfection Notices within such time, then the Asset Monitor may execute and serve such Perfection Notices on the relevant Borrowers and on SGIC in the manner specified in the paragraphs above.

The Issuer has appointed the Asset Monitor to be its true and lawful attorney for the purposes of signing any Perfection Notices on behalf of the Issuer and has undertaken to execute on or about the Programme Date a power of attorney. The Issuer undertakes to ratify whatever the Asset Monitor does or lawfully causes to be done under the authority or purported authority under such power of attorney. Under Korean law, a power of attorney may be revoked by the grantor, but the Asset Monitor may still send Perfection Notices to the Borrowers and such notices shall be binding on the Borrowers.

Cover Pool Accounts

The Issuer will open the Transaction Account with the Transaction Account Bank and the initial Swap Cash Collateral Account with the Reserve Account Bank, each in the name of the Issuer but indicating the Cover Pool in the account name on or prior to the Initial Filing Date, subject to and in accordance with the terms of the Account Bank Agreement.

The Issuer will, when required to do so pursuant to the sections entitled "– *Pre-Maturity Liquidity*" or "– *Reserve Fund*" above or where a payment is due to be made to such account pursuant to the section entitled "– *Pre-Issuer EOD Cover Pool Priority of Payments*" below, or when it exercises its election to do so pursuant to the Account Bank Agreement, open the Reserve Cash Account with the Reserve Account Bank in the name of the Issuer but indicating the Cover Pool in the account name, subject to and in accordance with the terms of the Account Bank Agreement. For the avoidance of doubt, nothing in the Establishment Deed prevents the Issuer opening the Reserve Cash Account with the Reserve Account Bank prior to a date on which it is required to do so.

The Issuer will open the Cover Pool Securities Accounts with the Securities Depositary or Euroclear, as applicable in the name of the Issuer but indicating the Cover Pool in the account name prior to:

(a) in respect of each Swap Securities Collateral Account, the first date on which Swap Collateral may be required to be transferred to the Issuer by the relevant Swap Provider pursuant to the terms of the relevant Swap Agreement; and

(b) in respect of the Reserve Securities Account, the first date on which it is required to do so pursuant to the section entitled "– *Pre-Maturity Liquidity*" above.

For the avoidance of doubt, nothing in the Establishment Deed prevents the Issuer opening any Swap Securities Collateral Account with the Securities Depositary or Euroclear or the Reserve Securities Account with the Securities Depository prior to a date on which it is required to do so.

The Issuer will register the accounts opened pursuant to the Establishment Deed with the FSC in accordance with the section entitled "– *Establishment and Segregation of the Cover Pool*."

Promptly and in any event within 30 calendar days of the occurrence of a Transaction Account Bank Termination Event, the Issuer (or the Asset Monitor on its behalf) will procure that a new Transaction Account is opened with a replacement Transaction Account Bank and that the Cover Pool assets held in the Transaction Account held with the initial Transaction Account Bank are transferred to the replacement Transaction Account at such replacement Transaction Account Bank in accordance with the Account Bank Agreement.

Promptly and in any event within 30 calendar days of the occurrence of a Reserve Account Bank Termination Event, the Issuer (or the Asset Monitor on its behalf) will procure that new Cover Pool Cash Accounts (other than the Transaction Account) are opened with a replacement Reserve Account Bank and that the Cover Pool assets held in the Cover Pool Cash Accounts (other than

the Transaction Account) held with the initial Reserve Account Bank are transferred to the replacement Cover Pool Cash Accounts (other than the Transaction Account) at such replacement Reserve Account Bank in accordance with the Account Bank Agreement.

Cover Pool Cash Accounts

The Issuer will, for so long as any Covered Bonds are issued and remain outstanding, at all times:

(a) maintain a Transaction Account with the Transaction Account Bank and before a replacement Transaction Account is opened, deposit any collections or proceeds in respect of Mortgage Loans identified in the Cover Pool Ledger into such Transaction Account within one Korean Business Day of its receipt of such collections or proceeds in the general collection account(s) of the Issuer, or once a replacement Transaction Account is opened, arrange for the deposit of any collections or proceeds in respect of Mortgage Loans identified in the Cover Pool Ledger directly into such Transaction Account by way of automatic direct debit;

(b) once opened as described in the sections entitled "– *Pre-Maturity Liquidity*" and "– *Reserve Fund*" above or the Account Bank Agreement, maintain a Reserve Cash Account with the Reserve Account Bank, and deposit any Liquid Assets in the form of cash which the Issuer may from time to time add to the Cover Pool, any cash amount required to be paid by the Issuer as summarised under the sections entitled "– *Pre-Maturity Liquidity*" or "– *Reserve Fund*" or "– *Pre-Issuer EOD Cover Pool Priority of Payments*" into the relevant ledger of such Reserve Cash Account;

(c) maintain one or more Swap Cash Collateral Accounts with the Reserve Account Bank, and deposit any Swap Collateral in the form of cash received from any Swap Provider into such Swap Cash Collateral Accounts; and

(d) once opened pursuant to the section entitled "– *Cover Pool Accounts*" above, maintain one or more non-KRW denominated cash accounts with the Reserve Account Bank or such other bank as may be approved by the Asset Monitor, and deposit any non-KRW denominated amounts received from any Swap Provider into such accounts.

Cover Pool Securities Accounts

The Issuer will, for so long as any Covered Bonds are issued and remain outstanding, at all times:

(a) once opened as described in the section entitled "– *Cover Pool Accounts*" above, maintain a Reserve Securities Account with the Securities Depositary, and deposit (i) any Pre-Maturity Liquidity Assets other than cash delivered by the Issuer as summarised under the section entitled "– *Pre-Maturity Liquidity*" above into such Reserve Securities Account; and (ii) any securities identified in the Cover Pool Ledger as Liquid Assets forming part of the Cover Pool in the Reserve Securities Account; and

(b) once opened as described in the section entitled "– *Cover Pool Accounts*" above, maintain one or more Swap Securities Collateral Accounts with the Securities Depositary or Euroclear, and deposit any Swap Collateral in the form of securities received from any Swap Provider into such Swap Securities Collateral Accounts,

and the Issuer will procure that all coupons or other distributions arising from assets credited to the Swap Securities Collateral Account and disposal and redemption proceeds in respect thereto are credited to the Swap Cash Collateral Account and all coupons or other distributions arising from assets credited to the Liquid Assets Ledger of the Reserve Securities Account and disposal and redemption proceeds in respect thereto are credited to the Liquid Assets Ledger of the Reserve

Cash Account, and all coupons or other distributions arising from assets credited to the Reserve Securities Account and disposal and redemption proceeds in respect thereto are credited to the Pre-Maturity Liquidity Ledger of the Reserve Cash Account, as applicable.

Ledgers

The Issuer will maintain the following ledgers:

(a) a Pre-Maturity Liquidity Ledger in the Reserve Cash Account, to record the credits and debits of Pre-Maturity Liquidity Assets in the form of cash available to repay any Series of Hard Bullet Covered Bonds on the Maturity Date thereof if the Pre-Maturity Test has been breached in accordance with the terms of the Establishment Deed;

(b) a Liquid Assets Ledger in the Reserve Cash Account, to record the crediting and debiting of Liquid Assets in the form of cash in accordance with the terms of the Establishment Deed;

(c) a Reserve Ledger in the Reserve Cash Account, to record the crediting and debiting of the Reserve Fund in accordance with the terms of the Establishment Deed;

(d) A Pre-Maturity Liquidity Ledger in the Reserve Securities Account, to record the credits and debits of Pre-Maturity Liquidity Assets other than in the form of cash available to repay any Series of Hard Bullet Covered Bonds on the Maturity Date thereof if the Pre-Maturity Test has been breached in accordance with the terms of the Establishment Deed; and

(e) a Liquid Assets Ledger in the Reserve Securities Account, to record the crediting and debiting of Liquid Assets other than in the form of cash in accordance with the terms of the Establishment Deed.

The Issuer has acknowledged and agreed that the Asset Monitor has full signing rights in respect of the Cover Pool Accounts upon the occurrence of an Issuer Event of Default in accordance with the Korean Covered Bond Laws.

Payments and Cash Release

Costs and Expenses

Prior to the service of an Issuer EOD Notice, any and all fees, costs and expenses (including legal fees and expenses) properly incurred and any liabilities, claims, losses and indemnities incurred by the Trustee, the Asset Monitor, any Agent and/or any Replacement Servicer, as the case may be, in relation to the Covered Bonds, the Transaction Documents and the managing, maintenance and disposal of all or part of the Cover Pool will be for the account of the Issuer, and the Issuer will pay, and will indemnify the Trustee, the Asset Monitor, any Agent and/or any Replacement Servicer, as the case may be, against any and all such fees, claims, losses, liabilities, indemnities, costs and expenses incurred or suffered by the Trustee, the Asset Monitor, any Agent and/or any Replacement Servicer, as the case may be, and will pay an amount equal to the same to the Trustee, the Asset Monitor, any Agent and/or any Replacement Servicer, as the case may be, within five Korean Business Days upon receipt by the Issuer of a demand therefor accompanied by reasonable evidence that such costs and expenses have been incurred or suffered by the Trustee, the Asset Monitor, any Agent, and/or any Replacement Servicer, as the case may be; provided that nothing in the Establishment Deed will indemnify the Trustee, the Asset Monitor, any Agent and/or any Replacement Servicer, as the case may be against any liability that would under applicable law or otherwise attach to it in respect of any act of gross negligence, wilful default or fraud which it

may have committed. Following the service of an Issuer EOD Notice, any such fees, claims, losses, liabilities, indemnities, costs and expenses will be paid in accordance with the Cover Pool Priority of Payments described below.

Daily Cash Release

Subject to the section entitled "– *Pre-Issuer EOD Cover Pool Priority of Payments*" below, on each Korean Business Day from and including the Initial Filing Date and prior to the service of an Issuer EOD Notice, cash standing to the credit of the Transaction Account may be withdrawn by the Issuer (a "**Daily Cash Release**"), provided that each of the following conditions are satisfied:

(a) the amount standing to the credit of the Reserve Ledger of the Reserve Cash Account (if any) is not less than the Reserve Fund Required Amount;

(b) for so long as the Issuer is in breach of the Pre-Maturity Test, the Pre-Maturity Test Cure Requirement has been satisfied;

(c) the Asset Coverage Test was satisfied on the immediately preceding Calculation Date and would have been satisfied on such immediately preceding Calculation Date after taking into account the proposed withdrawal of cash, provided that the Asset Coverage Test shall be deemed to have been satisfied from and including the Programme Date to and excluding the Calculation Date immediately following the first Issue Date under the Programme and this paragraph (c) shall not apply where no Covered Bonds are issued and remain outstanding at the time of withdrawal; and

(d) there is no breach of the Korean Covered Bond Act both before and after the withdrawal.

Swap Collateral

The Issuer (or the Asset Monitor on its behalf) will credit to the Swap Cash Collateral Account(s) or Swap Securities Collateral Account(s) any Swap Collateral deposited by any Swap Provider, together with any income, interest and/or distributions thereof, in respect of any Swap Agreement in accordance with the terms of any such Swap Agreement.

The Issuer (or the Asset Monitor on its behalf) will debit to the relevant Swap Cash Collateral Account or Swap Securities Collateral Account any Swap Collateral returned to the relevant Swap Provider or otherwise withdrawn in respect of such Swap Agreement in accordance with the terms of any such Swap Agreement.

Swap Payments

Upon the termination of a Swap Agreement, the Issuer or the relevant Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of such Swap Agreement. Any termination payment made by a Swap Provider to the Issuer in respect of the relevant Swap Agreement (together with any Swap Collateral Available Amounts) will first be used by the Issuer or (following the service of an Issuer EOD Notice) the Asset Monitor, to the extent necessary prior to the service of an Acceleration Notice, to pay a replacement Swap Provider to enter into a replacement Swap with the Issuer or (following the service of an Issuer EOD Notice) the Asset Monitor on behalf of the Issuer, unless a replacement Swap Agreement has already been entered into by or on behalf of the Issuer. Thereafter, any excess amounts will be transferred to the Transaction Account and applied in accordance with the applicable Cover Pool Priority of Payments. Any premium received by the Issuer from a replacement Swap Provider entering into a replacement Swap Agreement will first be used by the Issuer or (following the service of an Issuer EOD Notice) the Asset Monitor to make any termination payment due and payable by the Issuer

with respect to the Swap Agreement which is being replaced, unless such termination payment has already been made by or on behalf of the Issuer. Thereafter, any excess amounts will be transferred to the Transaction Account and applied in accordance with the applicable Cover Pool Priority of Payments.

Swap Collateral Excluded Amounts, if applicable and if due to be returned to the Swap Provider in accordance with the relevant Swap Agreement, will be returned by the Issuer or (following the service of an Issuer EOD Notice) the Asset Monitor to the Swap Provider directly and not via the Cover Pool Priority of Payments.

Following the service of an Issuer EOD Notice, any late amounts received by the Issuer under a Swap Agreement (other than amounts in respect of Swap Collateral Excluded Amounts) on or after a Monthly Distribution Date but prior to the next following Monthly Distribution Date will be applied by the Asset Monitor, to the extent that any amounts were not able to be paid or provided for under the Cover Pool Priority of Payments on the relevant Monthly Distribution Date due to the Issuer receiving a late payment from a Swap Provider, promptly to pay or provide for those amounts in the order of priority specified in the Cover Pool Priority of Payments. Thereafter, any excess amounts after such payment or provision will be transferred to the Transaction Account and applied in accordance with the Cover Pool Priority of Payments on the next succeeding Monthly Distribution Date (or the relevant Interest Payment Date or Swap Payment Date, as applicable).

Cover Pool Priority of Payments

Pre-Issuer EOD Cover Pool Priority of Payments

Prior to the service of an Issuer EOD Notice, funds standing to the credit of the Transaction Account will be applied by the Issuer on each Korean Business Day in making the following payments and provisions in the following priority:

(a) to deposit into the Reserve Cash Account (and credit to the Reserve Ledger) an amount equal to the amount by which the Reserve Fund Required Amount exceeds the balance standing to the credit of the Reserve Ledger of the Reserve Cash Account;

(b) for so long as the Issuer is in breach of the Pre-Maturity Test, if the Pre-Maturity Test Cure Requirement has not been satisfied, to deposit into the Reserve Cash Account (and credit to the Pre-Maturity Liquidity Ledger) an amount equal to the amount which would be required in order to satisfy the Pre-Maturity Test Cure Requirement; and

(c) any remainder to be applied as Daily Cash Release if permitted in accordance with the section entitled "– *Daily Cash Release*" above, or otherwise to be retained in the Transaction Account.

For the avoidance of doubt, prior to the service of an Issuer EOD Notice, amounts due and payable to any Swap Provider (including any Swap Termination Payments) will be paid by the Issuer and will not be paid from the assets in the Cover Pool.

Application of funds following an Issuer EOD Notice

Following the service of an Issuer EOD Notice but prior to the service of an Acceleration Notice on the Issuer, assets in the Cover Pool will be applied by the Asset Monitor as described in the sections entitled "– *Application of funds in the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and of the Reserve Securities Account*" and "– *Pre-Acceleration Cover Pool Priority of*

Payments" below. Following the service of an Acceleration Notice on the Issuer, assets in the Cover Pool will be applied by the Asset Monitor in accordance with the section entitled "– *Post-Acceleration Cover Pool Priority of Payments*" below.

Application of funds in the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and of the Reserve Securities Account

Following the service of an Issuer EOD Notice, any cash or proceeds from any assets credited to the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and of the Reserve Securities Account will be applied by the Asset Monitor in making the following payments and provisions in the following priority:

(a) to redeem any Hard Bullet Covered Bonds that are scheduled to mature during the relevant Pre-Maturity Test Period,

(b) to pay costs and expenses relating to the preparation and delivery of KFTC Notices in accordance with the Account Bank Agreement and Perfection Notices in accordance with the Establishment Deed, and

(c) any remainder towards application in accordance with the section entitled "– *Pre-Acceleration Cover Pool Priority of Payments*" below.

Pre-Acceleration Cover Pool Priority of Payments

Following the service of an Issuer EOD Notice, subject to the section entitled "– *Application of funds in the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and of the Reserve Securities Account*" above in respect of the application of any cash or proceeds from any assets credited to the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and of the Reserve Securities Account, funds in the Transaction Account, the Liquid Assets Ledger of the Reserve Cash Account, the Reserve Ledger of the Reserve Cash Account and the proceeds from any disposal of assets in the Liquid Assets Ledger of the Reserve Securities Account as at the end of each Calculation Period will be applied by the Asset Monitor on the Monthly Distribution Date falling in the month following such Calculation Period (or the relevant Interest Payment Date or Swap Payment Date, if specified below) in making the following payments and provisions in the following priority:

(a) in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

    (i) any costs, claims, losses, liabilities, indemnities, fees, expenses (including legal fees and expenses) and other amounts due and payable (including by way of indemnity), or to become due and payable (and for which payment has not been otherwise provided) prior to the following Monthly Distribution Date (together with applicable Taxes thereon to the extent provided for), to the Asset Monitor and its Delegates pursuant to the terms of the relevant Transaction Documents or applicable fee letters; and

    (ii) any costs, claims, losses, liabilities, indemnities, fees, expenses (including legal fees and expenses) and other amounts due and payable (including by way of indemnity), or to become due and payable (and for which payment has not been otherwise provided) prior to the following Monthly Distribution Date (together with applicable Taxes thereon to the extent provided for), to the Trustee and any Appointee, in each case pursuant to the terms of the relevant Transaction Documents or applicable fee letters;

(b) in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of costs, claims, losses, liabilities, indemnities, fees, expenses (including legal fees and expenses) and other amounts due and payable (including by way of indemnity), or to become due and payable (and for which payment has not been otherwise provided) prior to the following Monthly Distribution Date (together with applicable Taxes thereon to the extent provided for), to the Agents, Replacement Servicer, Transaction Account Bank and Reserve Account Bank, in each case pursuant to the terms of the relevant Transaction Documents or applicable fee letters;

(c) in or towards payment *pro rata* and *pari passu* of any Swap Termination Payment due and payable to each relevant Swap Provider (other than due to Swap Provider Default) (except to the extent that such amounts have been paid out of any premiums received from each relevant replacement Swap Provider);

(d) in or towards payment *pro rata* and *pari passu* of any amounts due or to become due prior to the following Monthly Distribution Date in respect of interest on any Series of Covered Bonds by making the following payments in the following priority:

(i) on the relevant Swap Payment Date related to a Series of Covered Bonds, in or towards payment of any amount (in respect of interest) due to the relevant Swap Providers by the Issuer *pro rata* and *pari passu* in respect of each relevant Swap;

(ii) on the relevant Interest Payment Date, after taking into account any amounts receivable from the Swap Providers on such Interest Payment Date, or the proceeds of any spot exchange in accordance with the section entitled "– *Currency Exchange*" below, in or towards payment of any amounts due in respect of interest on each relevant Series of Covered Bonds on a *pro rata* and *pari passu* basis;

provided that if the amount available for distribution under this paragraph (d) (excluding any amounts received or to be received from a relevant Swap Provider) would be insufficient to pay the KRW Equivalent of the interest that is or will be due for payment in respect of each Series of Covered Bonds under sub-paragraph (ii) above, the shortfall will be divided amongst all such Series of Covered Bonds on a *pro rata* and *pari passu* basis and the amount payable by the Asset Monitor to any Swap Provider under the relevant Swap Agreement in respect of each relevant Series of Covered Bonds or provision to be made in respect thereof under sub-paragraph (i) above will be correspondingly reduced to take into account the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(e) in or towards payment *pro rata* and *pari passu* of any amounts due or to become due prior to the following Monthly Distribution Date in respect of principal on any Series of Covered Bonds of which the relevant Maturity Date falls prior to the following Monthly Distribution Date by making the following payments in the following priority:

(i) on the relevant Swap Payment Date related to a Series of Covered Bonds, in or towards payment of any amount (in respect of principal) due to the relevant Swap Providers by the Issuer *pro rata* and *pari passu* in respect of each relevant Swap;

(ii) on the relevant Maturity Date, after taking into account any amounts receivable from the Swap Providers on such Interest Payment Date in respect of principal, or the proceeds of any spot exchange in accordance with the section entitled "– *Currency Exchange*" below, in or towards payment of any amounts due in respect of principal on each relevant Series of Covered Bonds on a *pro rata* and *pari passu* basis;

provided that if the amount available for distribution under this paragraph (e) (excluding any amounts received or to be received from the relevant Swap Provider) would be insufficient to pay the KRW Equivalent of the principal that is or will be due for payment in respect of each Series of Covered Bonds under sub-paragraph (ii) above, the shortfall will be divided amongst all such Series of Covered Bonds on a *pro rata* and *pari passu* basis and the amount payable by the Asset Monitor to any Swap Provider under the relevant Swap Agreement in respect of each relevant Series of Covered Bonds or provision to be made in respect thereof under sub-paragraph (i) above will be correspondingly reduced to take into account the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(f) in respect of any Series of Extended Covered Bonds in or towards payment *pro rata* and *pari passu* of any amounts due or to become due prior to the following Monthly Distribution Date in respect of principal on such Series of Covered Bonds by making the following payments in the following priority:

(i) on the relevant Swap Payment Date related to such Series of Covered Bonds, in or towards payment of any amount (in respect of principal) due to the relevant Swap Providers by the Issuer *pro rata* and *pari passu* in respect of each relevant Swap;

(ii) on the relevant Interest Payment Date, after taking into account any amounts receivable from the Swap Providers on such Interest Payment Date in respect of principal, or the proceeds of any spot exchange in accordance with the section entitled "– *Currency Exchange*" below, in or towards payment of the Final Redemption Amount or the relevant proportion thereof in respect of each relevant Series of Extended Covered Bonds on a *pro rata* and *pari passu* basis;

provided that if the amount available for distribution under this paragraph (f) (excluding any amounts received or to be received from the relevant Swap Provider) would be insufficient to pay the KRW Equivalent of the principal that is or will be due for payment in respect of each Series of Extended Covered Bonds under sub-paragraph (ii) above, the shortfall will be divided amongst all such Series of Extended Covered Bonds on a *pro rata* and *pari passu* basis and the amount payable by the Asset Monitor to any Swap Provider under the relevant Swap Agreement in respect of each relevant Series of Extended Covered Bonds or provision to be made in respect thereof under sub-paragraph (i) above will be correspondingly reduced to take into account the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(g) in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) on the relevant Swap Payment Date related to such Series of Covered Bonds, any Convertibility Costs due but unpaid under any Swap Agreement to each relevant Swap Provider; and

(ii) on the Final Exchange Date of each relevant Swap, any Extension Charges Balance due but unpaid under the relevant Swap Agreement to each relevant Swap Provider;

(h) in or towards payment *pro rata* and *pari passu* of any Swap Termination Payment to each relevant Swap Provider due to Swap Provider Default (except to the extent that such amounts have been paid out of any premiums received from each relevant replacement Swap Provider); and

(i) any remainder to be credited to the Transaction Account, until all Priority Payment Rights are repaid in full, and thereafter to the Issuer as the Issuer may direct.

Post-Acceleration Cover Pool Priority of Payments

Following the service of an Acceleration Notice, the Asset Monitor will arrange for the disposal of all assets in the Cover Pool, and all funds in the Transaction Account, the Reserve Cash Account, the proceeds from disposal of assets in the Cover Pool and any cash or proceeds from any assets credited to the Reserve Securities Account will be applied by the Asset Monitor on any date selected by the Asset Monitor in making the following payments and provisions in the following priority:

(a) in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

    (i) any costs, claims, losses, liabilities, indemnities, fees, expenses (including legal fees and expenses) and other amounts due and payable (including by way of indemnity), or to become due and payable (and for which payment has not been otherwise provided) (together with applicable Taxes thereon to the extent provided for), to the Asset Monitor and its Delegates pursuant to the terms of the relevant Transaction Documents or applicable fee letters; and

    (ii) any costs, claims, losses, liabilities, indemnities, fees, expenses (including legal fees and expenses) and other amounts due and payable (including by way of indemnity), or to become due and payable (and for which payment has not been otherwise provided) (together with applicable Taxes thereon to the extent provided for), to the Trustee and any Appointee, in each case pursuant to the terms of the relevant Transaction Documents or applicable fee letters;

(b) in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of costs, claims, losses, liabilities, indemnities, fees, expenses (including legal fees and expenses) and other amounts due and payable (including by way of indemnity), or to become due and payable (and for which payment has not been otherwise provided) (together with applicable Taxes thereon to the extent provided for), to the Agents, Replacement Servicer, Transaction Account Bank and Reserve Account Bank, in each case pursuant to the terms of the relevant Transaction Documents or applicable fee letters;

(c) in or towards payment *pro rata* and *pari passu* of any Swap Termination Payment due and payable to each relevant Swap Provider (other than due to Swap Provider Default) (except to the extent that such amounts have been paid out of any premiums received from each relevant replacement Swap Provider);

(d) in or towards payment of all amounts in respect of interest and principal due and payable on each Series of Covered Bonds on a *pro rata* and *pari passu* basis until the Covered Bonds are repaid in full;

(e) in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:

    (i) on the relevant Swap Payment Date related to such Series of Covered Bonds, any Convertibility Costs due but unpaid under any Swap Agreement to each relevant Swap Provider; and

    (ii) on the Final Exchange Date of each relevant Swap, any Extension Charges Balance due but unpaid under the relevant Swap Agreement to each relevant Swap Provider;

(f) in or towards payment *pro rata* and *pari passu* of any Swap Termination Payment to each relevant Swap Provider due to Swap Provider Default (except to the extent that such amounts have been paid out of any premiums received from each relevant replacement Swap Provider); and

(g) any remainder to the Issuer as the Issuer may direct.

Currency Exchange

Following the service of an Issuer EOD Notice, other than where the relevant exchanges of currency are made pursuant to outstanding Swaps, the Asset Monitor will perform all exchanges of Korean Won into any currency other than Korean Won as may be required to make any payment pursuant to the Cover Pool Priority of Payments on or before the relevant date on which such payment is due at the spot exchange rate as it is able to obtain on such date in Seoul.

The Asset Monitor will not be liable to any person for any loss which may arise as a result of the Asset Monitor effecting any foreign exchange transactions in accordance with these paragraphs in "*Currency Exchange*" other than where such loss is suffered or incurred as a result of any negligence, wilful default or fraud of the Asset Monitor.

Payment outside of Cover Pool

For the avoidance of doubt, nothing in this section entitled "– *Cover Pool Priority of Payments*" will restrict the Issuer from applying any of its other assets (outside of the Cover Pool) towards the satisfaction of the Priority Payment Rights whether prior to or following the service of an Issuer EOD Notice.

The Establishment Deed is governed by English law.

Asset Monitor Agreement

The Asset Monitor to Monitor the Cover Pool

Under the terms of the Asset Monitor Agreement entered into on or about the Initial Filing Date between the Asset Monitor, the Issuer and the Trustee, the Asset Monitor has agreed to perform the duties set out in Article 11(1) of the Korean Covered Bond Act and Article 10(1) of the FSC Regulations (each as may be amended or supplemented from time to time) in respect of the Cover Pool for the purposes of the Korean Covered Bond Laws including, for the avoidance of doubt, an accounting audit of the Cover Pool.

The Asset Monitor has agreed to carry out such functions of the Asset Monitor in respect of the Cover Pool as are prescribed by the Korean Covered Bond Laws, including, without limitation, in accordance with the following in connection with any Cause of Disposal Event:

(a) following the service of an Issuer EOD Notice:

  (i) managing, maintaining and (if it deems appropriate) disposing of all or part of the Cover Pool;

  (ii) receiving proceeds and collections from the Cover Pool and payments from any Swap Provider;

  (iii) instructing the Issuer (or, as the case may be, the Replacement Servicer) in respect of the servicing of the Mortgage Loans;

(iv) applying any cash and assets of the Cover Pool in accordance with the applicable Cover Pool Priority of Payments;

(v) investing any cash in the Cover Pool in other Liquid Assets that are registered as part of the Cover Pool, subject to providing for any imminent payment obligations falling due;

(vi) if the Issuer is also the Transaction Account Bank, arranging for a new Transaction Account to be established with a replacement Transaction Account Bank in accordance with the Establishment Deed and the Account Bank Agreement (including any necessary arrangements with respect to the service of KFTC Notices);

(vii) if the Issuer is also the Reserve Account Bank, arranging for new Cover Pool Cash Accounts (other than the Transaction Account) to be established with a replacement bank in accordance with the Establishment Deed and the Account Bank Agreement; and

(viii) appointing any Replacement Servicer and/or any person as its agent, subcontractor or delegate (each a "**Delegate**") to manage and maintain the Cover Pool and prepare Investor Reports if and to the extent that the Asset Monitor deems it necessary in order to satisfy the Asset Monitor's obligations under Article 10(3) of the Korean Covered Bond Act, and providing any Replacement Servicer and/or the relevant Delegate with the Data File received from the Issuer pursuant to the section entitled "– *Provision of Information and Assistance to the Asset Monitor*" below, to the extent permitted by and subject to, all applicable laws; and

(b) following the service of an Acceleration Notice:

(i) taking any of the actions specified in the sub-paragraph (a) above as it deems necessary or desirable;

(ii) to the extent not already disposed of following the occurrence of an Issuer Event of Default, disposing of all or part of the Cover Pool as it deems appropriate; and

(iii) applying any cash and assets of the Cover Pool in accordance with the applicable Cover Pool Priority of Payments,

provided that, in connection with the management, maintaining and/or disposal of the Cover Pool, the Asset Monitor will perform such duties with the level of due care as is required of the Asset Monitor under the Korean Covered Bond Laws. It will exercise the standard of care necessary to protect the interests of the Priority Payment Right Holders, acting reasonably and in good faith for and on behalf of the Priority Payment Right Holders.

In addition, following the occurrence of a Servicer Replacement Event, the Asset Monitor may, if it deems appropriate in its sole discretion to ensure continued servicing of the Mortgage Loans and to maintain the ratings of the Covered Bonds, request that the Issuer and the Asset Monitor jointly appoint a replacement servicer (the "**Replacement Servicer**") that satisfies such rating or other criteria as may be applicable to maintain the ratings of the Covered Bonds at the relevant time to service the Mortgage Loans and to enter into a servicing agreement with such Replacement Servicer, and file an amendment to the Covered Bond Issuance Plan for such appointment, provided that, if the Asset Monitor and the Issuer fail to jointly appoint a Replacement Servicer within 30 calendar days after the Asset Monitor has notified the Issuer in writing that it deems such appointment to be appropriate, the Asset Monitor will solely appoint a Replacement Servicer within a further 30 calendar days without further consultation with or involvement of the Issuer.

Following the occurrence of a Cause of Disposal Event, if the Issuer has not provided satisfactory evidence of the serving of Perfection Notices in accordance with the section entitled "– *Perfection Notices*" above, the Asset Monitor may, if it deems appropriate in its sole discretion, exercise its rights under the section entitled "– *Perfection Notices*" above to execute and serve Perfection Notices on the relevant Borrowers and on SGIC.

If a replacement Transaction Account has been opened but the Issuer has failed to serve KFTC Notices as required by the Account Bank Agreement, the Asset Monitor will take such action as is required pursuant to the Account Bank Agreement, and may take any other action that the Asset Monitor deems appropriate to procure that all automatic debit payments of the Borrowers are made directly to the replacement Transaction Account.

Testing of Asset Coverage Test and the Required Collaterisation Ratio

The Asset Monitor has agreed, subject to due receipt of the information to be provided by the Issuer to the Asset Monitor, to conduct tests in respect of the accuracy of the calculations performed by the Issuer in relation to the Asset Coverage Test and the Required Collaterisation Ratio in respect of each Calculation Date falling in March, June, September or December in each year and such additional Calculation Dates as may be required with a view to confirm the accuracy of such calculations. For so long as the Issuer ceases to satisfy the applicable Minimum Required Ratings of either Rating Agencies and prior to the Issuer regaining the applicable Minimum Required Ratings of both Rating Agencies, the Asset Monitor will conduct such tests in respect of every Calculation Date.

Following the determination by the Asset Monitor of any errors in the accuracy of the calculations performed by the Issuer such that the Asset Coverage Test was not satisfied on any relevant Calculation Date (where the Issuer had recorded it as being satisfied), the Asset Monitor will conduct such tests in respect of the Issuer's calculations in respect of every Calculation Date occurring during the period ending six months after each Calculation Date on which the Asset Coverage Test which included relevant errors was carried out.

Amortisation Test

For so long as any Covered Bonds are issued and remain outstanding, the Issuer will procure that, as of each Calculation Date following the service of an Issuer EOD Notice (but prior to the service of an Acceleration Notice on the Issuer), the Amortisation Test Adjusted Aggregate Loan Amount (as defined below) will be in an amount at least equal to the KRW Equivalent of the aggregate outstanding principal amount of all the Covered Bonds (the "**Amortisation Test**").

The Asset Monitor is required to calculate the Amortisation Test Adjusted Aggregate Loan Amount (as of each Calculation Date) on or prior to each Test Date following the service of an Issuer EOD Notice (but prior to the service of an Acceleration Notice on the Issuer).

The "**Amortisation Test Adjusted Aggregate Loan Amount**" will be calculated as at each Calculation Date as follows:

$$A + B + C - Z$$

Where:

"**A**" means the aggregate of the following in respect of each Mortgage Loan:

(a) the outstanding current principal balance of the relevant Mortgage Loan; multiplied by

(b) N.

"**N**", "**B**", "**C**" and "**Z**" each has the meaning given to it in the section entitled "– *Asset Coverage Test*" above.

If, on any Test Date following the service of an Issuer EOD Notice, the Amortisation Test Adjusted Aggregate Loan Amount is less than the KRW Equivalent of the aggregate outstanding principal amount of all the Covered Bonds as calculated as of the Calculation Date immediately preceding that Test Date, then the Amortisation Test will be deemed to be breached and, if the Issuer fails to bring the Cover Pool into compliance with the Amortisation Test within 30 days of such breach, a Covered Bond Event of Default under Condition 10(b)(i) will occur. The Asset Monitor will immediately notify the Issuer, the Rating Agencies and the Trustee in writing of any such breach of the Amortisation Test, and the Trustee will be entitled to serve an Acceleration Notice on the Issuer in accordance with the Conditions. The results of each Amortisation Test will be included in the Asset Monitor Report.

Asset Monitor Report

In connection with the Asset Monitor's duties under Articles 11(1) and 11(2) of the Korean Covered Bond Act and the Asset Monitor Agreement, the Asset Monitor will, within 30 days following each Calculation Date falling in March, June, September and December in each year (or by such other deadline as provided in the Korean Covered Bond Laws from time to time) (each, an "**Asset Monitor Report Date**"):

(a) provide a report in both the Korean and English language relating to such duties in the form required by the FSC from time to time and in accordance with the Agreed Procedures (the "**Asset Monitor Report**"), together with supporting documents to the FSC in such form as the FSC requires; and

(b) provide each such Asset Monitor Report to each party to the Asset Monitor Agreement.

In accordance with Article 11(2) of the Korean Covered Bond Act, the Issuer and the Asset Monitor will make each such Asset Monitor Report available to Priority Payment Right Holders by publishing such Asset Monitor Report on the Issuer's website.

If the Agreed Procedures need to be performed more frequently than in respect of each Calculation Date falling in March, June, September and December in each year pursuant to the section entitled "– *Testing of Asset Coverage Test and the Required Collaterisation Ratio*" above or if the Amortisation Test is required to be calculated by the Asset Monitor in respect of each Calculation Date, then the Asset Monitor will deliver an Asset Monitor Report in respect of each such additional Asset Monitor ACT Calculation Date or Calculation Date (as applicable) by not later than 10 Korean Business Days following the related Investor Report Date to each party to the Asset Monitor Agreement.

Provision of Information and Assistance to the Asset Monitor

In the absence of manifest error, the Asset Monitor may rely on any instructions, requests or representations made, notices given or information supplied in writing by any person reasonably believed by the Asset Monitor to be authorised from time to time by the Issuer in connection with the provision by the Issuer of information pursuant to the terms of the Asset Monitor Agreement.

Within five Korean Business Days of the occurrence of a Servicer Replacement Event and every six months thereafter (or within five Korean Business Days of a request by the Asset Monitor), the Issuer will provide the Asset Monitor (or if so directed by the Asset Monitor, the Replacement

Servicer) with a data file in an encrypted form containing all information necessary for the management, maintenance and disposal of each Mortgage Loan (the "**Data File**") to the extent permitted by and subject to all applicable laws.

At any time following the service of an Issuer EOD Notice, or if a Servicer Replacement Event has occurred and the Asset Monitor has requested that a Replacement Servicer be appointed, the Issuer will provide the Asset Monitor, the Replacement Servicer or any Delegate with full co-operation and assistance (including, without limitation, the secondment of its staff to the Asset Monitor, the Replacement Servicer or the Delegate) to enable the Asset Monitor, the Replacement Servicer or the Delegate to take the following actions if and to the extent necessary for management of the Cover Pool:

(a) establishing and implementing a computer system (including, without limitation, providing the necessary computer software and hardware and any necessary licences free of charge) for managing and maintaining the Cover Pool if required by the Asset Monitor, the Replacement Servicer or the Delegate;

(b) loading the data held by the Issuer in relation to the Cover Pool onto that system in machine-readable form if required by the Asset Monitor, the Replacement Servicer or the Delegate; and

(c) providing any updated data file requested and reconstructing all Data Files to the extent that the relevant computer systems are not compatible, subject in any event to limitations under applicable Law (including any law relating to protection of personal data).

The Issuer will pay to the Asset Monitor a fee for its services as separately agreed by the Issuer and the Asset Monitor in accordance with the Asset Monitor Fee Letter.

Termination

The Asset Monitor may, at any time, resign from its appointment under the Asset Monitor Agreement and the Issuer may terminate the appointment of the Asset Monitor, in each case in accordance with Article 9 of the Korean Covered Bond Act (or any successor or replacement provision from time to time), provided that if:

(a) such resignation or termination of the Asset Monitor is due to the appointment of the Asset Monitor as the auditor of the Issuer or where it is expected that the Asset Monitor will be appointed as the auditor of the Issuer; or

(b) an Extraordinary Resolution of holders of Covered Bonds of all outstanding Series has approved such resignation or termination of the Asset Monitor,

the Covered Bondholders will be deemed to have given their consent to such resignation or termination as required under the Korean Covered Bond Act, as amended from time to time. The Issuer shall notify the Rating Agencies of any such resignation or termination.

Following any receipt of any notice of resignation by the Asset Monitor or termination of the Asset Monitor's appointment, the Issuer will promptly use all reasonable endeavours to appoint a substitute asset monitor to provide the services set out in the Asset Monitor Agreement, provided that such substitute asset monitor is an Eligible Asset Monitor that enters into an agreement substantially on the same terms as the terms of the Asset Monitor Agreement or on such other terms as are acceptable to the Issuer and the Trustee and the identity of such substitute asset monitor has been notified to the Rating Agencies by the Issuer.

Notwithstanding the resignation or termination of the resigned or terminated Asset Monitor, it will provide the services set out in the sections entitled "– *Asset Monitor to monitor the Cover Pool*", "– *Testing of Asset Coverage Test and the Required Collaterisation Ratio*", "– *Amortisation Test*" and "– *Asset Monitor Report*" and perform the other obligations of the Asset Monitor under the Asset Monitor Agreement until such time as a new Asset Monitor is appointed in accordance with the preceding paragraph.

Neither the Issuer nor the Trustee will be obliged to act as the Asset Monitor, and neither the Issuer nor the Trustee will have any obligation to monitor or supervise the performance by the Asset Monitor in any circumstances.

The Asset Monitor Agreement is governed by Korean law.

Account Bank Agreement

Pursuant to the terms of the Account Bank Agreement entered into on or about the Initial Filing Date between the Issuer, the Transaction Account Bank, the Reserve Account Bank, the Asset Monitor and the Trustee, the Transaction Account Bank will open and maintain the Transaction Account and the Reserve Account Bank will open and maintain the initial Swap Cash Collateral Account, both in the name of the Issuer on or about the Initial Filing Date.

The Reserve Account Bank will, within three Korean Business Days of receipt of an Account Opening Notice (as defined in the Account Bank Agreement), open and maintain the Reserve Cash Account in the name of the Issuer.

The Reserve Account Bank or such other bank as may be approved by the Asset Monitor will, upon receipt of notice from the Issuer, open and maintain one or more additional Swap Cash Collateral Accounts and/or Won and/or non-Won denominated cash accounts in the name of the Issuer. The Issuer will register the same as an account of the Cover Pool in accordance with the requirements set out under the Korean Covered Bond Act.

Each of the Account Banks will comply with the terms of all Regulatory Requirements and the Korean Covered Bond Laws with regard to the operation and maintenance of the Relevant Cover Pool Cash Accounts.

The Transaction Account Bank will cease to be the Transaction Account Bank if (each event below, a "**Transaction Account Bank Termination Event**"):

(a) no Transaction Account Bank Relevant Entity has the Transaction Account Bank Required Ratings; or

(b) the Transaction Account Bank is Kookmin Bank, and an Issuer EOD Notice is delivered; or

(c) the Transaction Account Bank fails to comply with its obligations under the Account Bank Agreement in any material respect as determined by the Trustee and such failure remains unremedied for 30 days after written notice thereof, addressed to the Transaction Account Bank, has been delivered by the Trustee to the Transaction Account Bank and the Issuer.

Following the occurrence of a Transaction Account Bank Termination Event, the Issuer (or the Asset Monitor on its behalf) will, within 30 days of such occurrence (unless, in the case where such Transaction Account Bank Termination Event has occurred due to the sub-paragraph (a) above, a Transaction Account Bank Relevant Entity again holds the Transaction Account Bank Required Ratings within such 30 day period):

(a) close the Transaction Account and open a replacement Transaction Account (in the name of the Issuer but indicating the Cover Pool in the account name), with a financial institution (x) having the Transaction Account Bank Required Ratings and (y) being a person which holds all requisite licences or authorisations to perform the obligations of the Transaction Account Bank under the Account Bank Agreement;

(b) ensure that such replacement Transaction Account is registered with the FSC as part of the Cover Pool; and

(c) following registration of the replacement Transaction Account with the FSC, transfer the amount standing to the credit of the Transaction Account to the replacement Transaction Account that has been opened with such financial institution.

Upon the opening of a replacement Transaction Account in accordance with sub-paragraph (a) above, the Issuer (or the Asset Monitor on its behalf) shall use its best efforts to, by the day that such replacement Transaction Account is opened (such events below, "**KFTC Notices**"):

(a) with respect to each Borrower for which the relevant automatic debit bank is not the Issuer, send a notice, signed on behalf of the Issuer and the replacement Transaction Account Bank, to the relevant bank terminating the automatic debit bank's authority to transfer auto debit payments from each relevant Borrower in respect of Mortgage Loans in the Cover Pool to the general collection account of the Issuer and authorising such automatic debit bank to make all future payments from each Borrower to the replacement Transaction Account; and

(b) send a letter to the KFTC, executed by the Issuer and the replacement Transaction Account Bank, authorising the KFTC to direct all future payments from each Borrower in respect of Mortgage Loans in the Cover Pool to the replacement Transaction Account and procure that consent to such instructions is obtained from the KFTC.

If the Issuer fails to serve KFTC Notices within five Korean Business Days of the date on which the replacement Transaction Account has been opened, the Asset Monitor shall execute and serve such KFTC Notices on the banks or the KFTC as applicable.

The Reserve Account Bank shall cease to be the Reserve Account Bank if (each event below, a "**Reserve Account Bank Termination Event**"):

(a) no Reserve Account Bank Relevant Entity has the Reserve Account Bank Required Ratings; or

(b) the Reserve Account Bank is Kookmin Bank, and an Issuer EOD Notice is delivered; or

(c) the Reserve Account Bank fails to comply with its obligations under the Account Bank Agreement in any material respect as determined by the Trustee and such failure remains unremedied for 30 days after written notice thereof, addressed to the Reserve Account Bank, has been delivered by the Trustee to the Reserve Account Bank and the Issuer.

Following the occurrence of a Reserve Account Bank Termination Event, the Issuer (or the Asset Monitor on its behalf) shall, within 30 days of such occurrence (unless, in the case where such Reserve Account Bank Termination Event has occurred due to sub-paragraph (a) immediately above, a Reserve Account Bank Relevant Entity again holds the Reserve Account Bank Required Ratings within such 30 day period):

(a) close all the Relevant Cover Pool Cash Accounts and open replacement Relevant Cover Pool Cash Accounts (in the name of the Issuer but indicating the Cover Pool in the account name) with a financial institution (x) having the Reserve Account Bank Required Ratings and (y) being a person which holds all requisite licences or authorisations to perform the obligations of the Reserve Account Bank under the Account Bank Agreement;

(b) ensure that such replacement Relevant Cover Pool Cash Accounts are registered with the FSC as part of the Cover Pool; and

(c) following registration of the replacement Relevant Cover Pool Cash Accounts with the FSC, transfer the amounts standing to the credit of each Relevant Cover Pool Cash Account to the corresponding replacement Relevant Cover Pool Cash Account that has been opened with such financial institution.

In the event of its termination and cessation or the closure of the Relevant Cover Pool Cash Accounts, each of the Account Banks shall assist the other parties to the Account Bank Agreement to effect an orderly transition of the banking arrangements documented in the Account Bank Agreement and use reasonable endeavours to ensure that the replacement Relevant Cover Pool Cash Accounts are interest bearing accounts yielding a commercially reasonable rate of return. No termination of the appointment of the Transaction Account Bank pursuant to the occurrence of a Transaction Account Bank Termination Event or an Reserve Account Bank Termination Event will take effect:

(i) where the appointment of the Transaction Account Bank is to be terminated, until a replacement financial institution or institutions (in each case, (x) appointed by the Issuer, (y) having itself (or through a guarantor of its obligations) the Transaction Account Bank Required Ratings and (z) being a person which holds all requisite licences or authorisations to perform the obligations of the Transaction Account Bank under the Account Bank Agreement) has entered into an agreement in form and substance similar to the Account Bank Agreement as applied to the Transaction Account Bank and the Transaction Account (including, for the avoidance of doubt, Transaction Account Bank Termination Events) or on such other terms as are acceptable to the Issuer and the Trustee;

(ii) where the appointment of the Reserve Account Bank is to be terminated, until a replacement financial institution or institutions (in each case, (x) appointed by the Issuer, (y) having itself (or through a guarantor of its obligations) the Reserve Account Bank Required Ratings and (z) being a person which holds all requisite licences or authorisations to perform the obligations of the Reserve Account Bank under the Account Bank Agreement) has entered into an agreement in form and substance similar to the Account Bank Agreement as applied to the Reserve Account Bank and the Relevant Cover Pool Cash Accounts (including, for the avoidance of doubt, Reserve Account Bank Termination Events) or on such other terms as are acceptable to the Issuer and the Trustee; and

(iii) in the case of termination by the Transaction Account Bank or Reserve Account Bank only, if the then current ratings of the Covered Bonds would be adversely affected thereby.

The Transaction Account Bank and the Reserve Account Bank are not liable for a failure to carry out its obligations if it is unable to do so due to circumstances beyond its control.

The Account Bank Agreement will be governed by Korean law.

Swap Agreements

The Issuer will, in respect of each Series of Covered Bonds, enter into a Swap Agreement with a Swap Provider and the Trustee and enter into one or more Swaps in relation to such Series or Tranche (as applicable) of Covered Bonds at the time such Covered Bonds are issued, provided that the Issuer may agree with the relevant Swap Provider in respect of one or more Swap that no cash flow will be exchanged under the relevant Swap unless and until the Contingent Swap Effective Date has occurred. Such Swap(s) will be entered into to provide a hedge against certain currency risks in respect of amounts received by the Issuer under the Underlying Assets and amounts payable by the Issuer under the Covered Bonds of that Series.

Under the Swap(s) on the relevant Issue Date (other than in the case of a Contingent Swap), the Issuer will pay to the Swap Provider the net amount received by the Issuer in respect of the issue of the relevant Series or Tranche, as applicable, of Covered Bonds, and in return the Swap Provider will pay an amount equal to the KRW Equivalent of the applicable issue proceeds. Thereafter (subject, in the case of any Contingent Swap, to the occurrence of the Contingent Swap Effective Date), the Swap Provider will pay to the Issuer on each Interest Payment Date amounts equivalent to the amounts that would be payable by the Issuer in respect of interest and principal payable under the relevant Series or Tranche of Covered Bonds. In return, (subject, in the case of any Contingent Swap, to the occurrence of the Contingent Swap Effective Date) the Issuer will pay to the Swap Provider on each Interest Payment Date an amount in Won calculated by reference to the relevant interest rate determined for the relevant Interest Period in accordance with the Swap and the KRW Equivalent of any principal due in respect of the relevant Series or Tranche of Covered Bonds.

If an Extended Maturity Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the payment of the amount corresponding to the Final Redemption Amount or any part of it by the Issuer is deferred until the relevant Extended Maturity Date pursuant to Condition 5(b) (*Extension of maturity up to Extended Maturity Date*) of the Terms and Conditions of the Covered Bonds, and prior to the Maturity Date or any Interest Payment Date thereafter up to (and including) the relevant Extended Maturity Date, the Issuer notifies (pursuant to the terms of the relevant Swap) the relevant Swap Provider of the amount in Won to be paid by the Issuer on such Maturity Date or Interest Payment Date (such amount being equal to the Final Redemption Amount or the relevant portion thereof elected to be paid by the Issuer or payable by the Issuer in accordance with the relevant priority of payments as set out in the Establishment Deed on such Maturity Date or Interest Payment Date in respect of the relevant Series or Tranche of Covered Bonds), the Swap Provider will pay the Issuer an amount in the currency of the Covered Bond converted from such Won amount using the applicable Swap Rate and the Issuer will pay such Won amount to the Swap Provider. Further, in the case of a Series of Covered Bonds for which the payment of the Final Redemption Amount or any part of it is deferred until the relevant Extended Maturity Date, the Issuer or the Swap Provider may be required to make a payment of swap extension charges determined by reference to the gains or losses expected to be realised by the Swap Provider in extending the Swap until the following Interest Payment Date. However, such swap extension charges may only be paid after all amounts senior to such swap extension charges in the Cover Pool Priority of Payments (including principal and interest in respect of all Series of Covered Bonds) have been paid in full. Under the Swap Agreement, the Swap Provider will acknowledge and agree to be bound by the priority of payments and certain related provisions in the Establishment Deed.

Each Swap will terminate on the Maturity Date or, if an Extended Maturity Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the Issuer notifies the Swap Provider prior to the Maturity Date that the Issuer will be paying an amount less than the KRW

Equivalent of the Final Redemption Amount (or if no such notice is received by the relevant time by the Swap Provider), on the final Interest Payment Date on which an amount representing the Final Redemption Amount is paid (but in any event not later than the Extended Maturity Date).

Under the terms of each Swap Agreement, in the event that the relevant rating of the Swap Provider is downgraded by a Rating Agency below the rating(s) specified in the relevant Swap Agreement (in accordance with the requirements of the Rating Agencies) for the Swap Provider, and, where applicable, as a result of the downgrade, the then current ratings of the Covered Bonds would or may, as applicable, be adversely affected, the Swap Provider will, in accordance with the relevant Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Swap Agreement, arranging for its obligations under the Swap Agreement to be transferred to an entity with the ratings required by the relevant Rating Agency, procuring another entity with the ratings required by the relevant Rating Agency to become co-obligor in respect of its obligations under the Swap Agreement, or taking such other action as it may agree with the relevant Rating Agency. A failure to take such steps will allow the Issuer to terminate the Swaps entered into under that Swap Agreement.

A Swap Agreement may also be terminated in certain other circumstances (each referred to as a "**Swap Early Termination Event**"), including, without limitation:

(i) at the option of any party to the Swap Agreement, if there is a failure by the other party to pay any amounts due under such Swap Agreement and the applicable grace period has expired;

(ii) upon the occurrence of the insolvency of the relevant Swap Provider or any guarantor;

(iii) if the Covered Bond Issuance Plan has not been amended or supplemented to add a Swap to the Cover Pool or has been amended or supplemented to remove a Swap from the Cover Pool which remains outstanding without the prior written consent of the Swap Provider and, in each case, the relevant grace period has expired;

(iv) if the priority of the Swap Provider in the relevant priority of payments is adversely affected by changes to the Korean Covered Bond Laws or amendments (without the prior written consent of the Swap Provider) to the Cover Pool Priority of Payments or if the Swap Provider enters into a Swap with the Issuer in terms that do not include an acknowledgement and agreement of such Swap Provider to be bound by the priority of payment provisions set out in the Establishment Deed;

(v) upon the Trustee serving an Acceleration Notice in respect of the relevant Series of Covered Bonds;

(vi) the merger of the Swap Provider without an assumption of the obligations under the relevant Swap Agreement;

(vii) in the event the Covered Bonds are redeemed in whole for tax reasons pursuant to the Conditions and the Swap Provider was notified of such redemption no later than three calendar days prior to the redemption; or

(viii) in the event the Covered Bonds are redeemed in whole or in part due to the exercise of a redemption option by the Issuer or holders of the Covered Bonds and the Swap Provider was notified of such redemption no later than three calendar days prior to the redemption, provided that upon a redemption of the Covered Bonds in part the Swap Agreement will be partially terminated.

Upon the termination of a Swap Agreement, the Issuer or the relevant Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the relevant Swap Agreement. The amount of this termination payment will be calculated and made in the currency of the relevant Series of Covered Bonds.

Any termination payment made by the Swap Provider to the Issuer in respect of a Swap Agreement will first be used to the extent necessary (prior to the serving of an Acceleration Notice) to pay a replacement Swap Provider to enter into a replacement Swap with the Issuer, unless a replacement Swap Agreement has already been entered into on behalf of the Issuer. Any premium received by the Issuer from a replacement Swap Provider in respect of a replacement Swap will first be used to make any termination payment due and payable by the Issuer with respect to the previous Swap Agreement, unless such termination payment has already been made on behalf of the Issuer.

Any Swap Collateral Excluded Amounts will be paid to the Swap Provider directly and not via the Cover Pool Priorities of Payments.

If withholding taxes are imposed on payments made by any Swap Provider to the Issuer under a Swap Agreement, such Swap Provider shall be obliged to gross up those payments. If withholding taxes are imposed on payments made by the Issuer to the Swap Provider under a Swap Agreement, the Issuer shall not be obliged to gross up those payments.

In the event that the Covered Bonds are purchased by the Issuer or redeemed and/or cancelled in accordance with the Conditions, the Swap(s) in connection with such Covered Bonds will terminate or partially terminate, as the case may be.

The Swap Agreements are (or, as applicable, will be) and any non-contractual obligations arising out of or in respect of it is governed by and shall be construed in accordance with English law.

CERTAIN INFORMATION REGARDING THE COVER POOL

The Mortgage Loans which will initially constitute the Underlying Assets in the Cover Pool will consist of Mortgage Loans originated by the Issuer. The types of Mortgage Loans, their key features and the origination, approval, underwriting and enforcement processes of the Issuer are summarised below. The features of the Mortgage Loans and these processes may change from time to time.

Types of Mortgage Loans Offered by the Issuer to Borrowers

The below tables provide statistical information concerning the Mortgage Loans included in the Cover Pool as of April 30, 2015.

Cover Pool Summary

Current Aggregate Loan Balance (in millions of Won)	2,344,437
Number of Loans	16,311
Average Current Loan Balance (Won)	143,733,480
Maximum Current Loan Balance (Won)	984,072,497
Weighted Average Current Indexed Loan-to-Value (%)	41.50
Weighted Average Current Unindexed Loan-to-Value (%)	43.35
Weighted Average Interest Rate (%)	3.63
Weighted Average Seasoning (Months)	18
Weighted Average Remaining Loan Term (Months)	318

Note:

Values reflected in the individual line items on some of the stratification tables may not always sum to the totals noted in those stratification tables due to rounding of values at the individual line item levels.

Cover Pool by Original Loan-to-Value	**Number of Loans**	**Number of Loans** *(%)*	**Balance Outstanding** *(in millions of Won)*	**Balance Outstanding** *(%)*
up to and including 20.0%	757	4.64	77,520	3.31
> 20.0% up to and including 25.0%	813	4.98	84,185	3.59
> 25.0% up to and including 30.0%	1,264	7.75	137,477	5.86
> 30.0% up to and including 35.0%	1,624	9.96	184,661	7.88
> 35.0% up to and including 40.0%	1,938	11.88	239,503	10.22
> 40.0% up to and including 45.0%	1,733	10.62	247,153	10.54
> 45.0% up to and including 50.0%	1,921	11.78	338,979	14.46
> 50.0% up to and including 55.0%	1,351	8.28	216,831	9.25
> 55.0% up to and including 60.0%	4,895	30.01	816,102	34.81
> 60.0% up to and including 65.0%	4	0.02	652	0.03
> 65.0% up to and including 70.0%	11	0.07	1,374	0.06
> 70.0%	–	–	–	–
Total	16,311	100.00	2,344,437	100.00

Cover Pool by Current Indexed Loan-to-Value	Number of Loans	Number of Loans (%)	Balance Outstanding (in millions of Won)	Balance Outstanding (%)
up to and including 20.0%	1,493	9.15	137,107	5.85
> 20.0% up to and including 25.0%	1,312	8.04	136,555	5.82
> 25.0% up to and including 30.0%	1,787	10.96	195,938	8.36
> 30.0% up to and including 35.0%	2,054	12.59	244,703	10.44
> 35.0% up to and including 40.0%	2,144	13.14	296,496	12.65
> 40.0% up to and including 45.0%	1,941	11.90	311,657	13.29
> 45.0% up to and including 50.0%	2,095	12.84	377,603	16.11
> 50.0% up to and including 55.0%	1,973	12.10	340,866	14.54
> 55.0% up to and including 60.0%	1,511	9.26	303,331	12.94
> 60.0% up to and including 65.0%	1	0.01	180	0.01
> 65.0% up to and including 70.0%	–	–	–	–
> 70.0%	–	–	–	–
Total	16,311	100.00	2,344,437	100.00

Cover Pool by Current Unindexed Loan-to-Value	Number of Loans	Number of Loans (%)	Balance Outstanding (in millions of Won)	Balance Outstanding (%)
up to and including 20.0%	1,398	8.57	127,519	5.44
> 20.0% up to and including 25.0%	1,184	7.26	123,889	5.28
> 25.0% up to and including 30.0%	1,625	9.96	178,346	7.61
> 30.0% up to and including 35.0%	1,934	11.86	229,529	9.79
> 35.0% up to and including 40.0%	1,984	12.16	266,243	11.36
> 40.0% up to and including 45.0%	1,714	10.51	270,627	11.54
> 45.0% up to and including 50.0%	1,766	10.83	326,102	13.91
> 50.0% up to and including 55.0%	1,356	8.31	227,478	9.70
> 55.0% up to and including 60.0%	3,348	20.53	594,410	25.35
> 60.0% up to and including 65.0%	–	–	–	–
> 65.0% up to and including 70.0%	2	0.01	292	0.01
> 70.0%	–	–	–	–
Total	16,311	100.00	2,344,437	100.00

Cover Pool by Current Loan Balance	Number of Loans	Number of Loans (%)	Balance Outstanding (in millions of Won)	Balance Outstanding (%)
up to and including ₩60 million	269	1.65	11,215	0.48
> ₩60 million up to and including ₩70 million	466	2.86	32,120	1.37
> ₩70 million up to and including ₩80 million	1,465	8.98	111,826	4.77
> ₩80 million up to and including ₩90 million	1,099	6.74	94,665	4.04
> ₩90 million up to and including ₩100 million	2,155	13.21	210,844	8.99
> ₩100 million up to and including ₩150 million	5,655	34.67	708,512	30.22
> ₩150 million up to and including ₩200 million	2,804	17.19	493,672	21.06
> ₩200 million up to and including ₩250 million	1,115	6.84	251,533	10.73
> ₩250 million up to and including ₩300 million	628	3.85	174,522	7.44
> ₩300 million up to and including ₩350 million	294	1.80	96,110	4.10
> ₩350 million up to and including ₩400 million	177	1.09	66,549	2.84
> ₩400 million	184	1.13	92,870	3.96
Total	16,311	100.00	2,344,437	100.00

Cover Pool by Mortgage Loan Interest Rate	Number of Loans	Number of Loans (%)	Balance Outstanding (in millions of Won)	Balance Outstanding (%)
up to and including 3.00%	92	0.56	13,541	0.58
> 3.00% up to and including 3.20%	1,325	8.12	197,946	8.44
> 3.20% up to and including 3.40%	3,070	18.82	456,014	19.45
> 3.40% up to and including 3.60%	4,934	30.25	721,199	30.76
> 3.60% up to and including 3.80%	3,105	19.04	457,994	19.54
> 3.80% up to and including 4.00%	1,584	9.71	224,539	9.58
> 4.00% up to and including 4.20%	649	3.98	80,418	3.43
> 4.20% up to and including 4.40%	284	1.74	36,740	1.57
> 4.40% up to and including 4.80%	710	4.35	90,124	3.84
> 4.80% up to and including 5.20%	505	3.10	60,310	2.57
> 5.20% up to and including 5.40%	41	0.25	4,339	0.19
> 5.40% up to and including 5.60%	10	0.06	1,065	0.05
> 5.60%	2	0.01	206	0.01
Total	16,311	100.00	2,344,437	100.00

Cover Pool by Interest Rate Type	Number of Loans	Number of Loans (%)	Balance Outstanding (in millions of Won)	Balance Outstanding (%)
Fixed	68	0.42	6,720	0.29
Floating	1,805	11.07	321,290	13.70
Hybrid	14,438	88.52	2,016,427	86.01
Total	16,311	100.00	2,344,437	100.00

Cover Pool by Employment Type	Number of Loans	Number of Loans (%)	Balance Outstanding (in millions of Won)	Balance Outstanding (%)
No data	5,405	33.14	774,211	33.02
Office job	5,549	34.02	825,502	35.21
Sales work	234	1.43	32,333	1.38
Technical position	677	4.15	82,882	3.54
Specialised job	210	1.29	32,963	1.41
R&B position	106	0.65	14,302	0.61
Labour	23	0.14	3,094	0.13
Recruitment	17	0.10	2,560	0.11
Owner	3,893	23.87	549,825	23.45
Others	197	1.21	26,764	1.14
Total	16,311	100.00	2,344,437	100.00

Cover Pool by Geographic Distribution	Number of Loans	Number of Loans (%)	Balance Outstanding (in millions of Won)	Balance Outstanding (%)
Seoul (South)	2,334	14.31	409,225	17.46
Seoul (North)	1,958	12.00	289,667	12.36
Busan	1,243	7.62	175,823	7.50
Choong Buk	178	1.09	19,292	0.82
Choong Nam	161	0.99	15,786	0.67
Daejon	123	0.75	12,589	0.54
Daegu	538	3.30	65,349	2.79
Jeon Buk	66	0.40	6,673	0.28
Jeon Nam	28	0.17	2,801	0.12
Incheon	1,732	10.62	248,891	10.62
Jeju	25	0.15	2,594	0.11
Kangwon	28	0.17	2,577	0.11
Kwangju	169	1.04	18,971	0.81
Kyoung Buk	109	0.67	11,289	0.48
Kyounggi	7,006	42.95	995,373	42.46
Kyoung Nam	382	2.34	40,732	1.74
Ulsan	216	1.32	25,354	1.08
Sejong	15	0.09	1,449	0.06
Total	16,311	100.00	2,344,437	100.00

Cover Pool by Occupancy	Number of Loans	Number of Loans (%)	Balance Outstanding (in millions of Won)	Balance Outstanding (%)
Owner Occupied	16,067	98.50	2,309,775	98.52
Non-Owner Occupied	244	1.50	34,662	1.48
Total	16,311	100.00	2,344,437	100.00

Cover Pool by Loan Purpose	Number of Loans	Number of Loans (%)	Balance Outstanding (in millions of Won)	Balance Outstanding (%)
New Home Purchase	8,770	53.77	1,289,516	55.00
Other	7,541	46.23	1,054,920	45.00
Total	16,311	100.00	2,344,437	100.00

Cover Pool by Repayment Frequency	Number of Loans	Number of Loans (%)	Balance Outstanding (in millions of Won)	Balance Outstanding (%)
Monthly	16,311	100.00	2,344,437	100.00
Other	–	–	–	–
Total	16,311	100.00	2,344,437	100.00

Cover Pool by Repayment Type	Number of Loans	Number of Loans (%)	Balance Outstanding (in millions of Won)	Balance Outstanding (%)
Level P&I	6,550	40.16	893,645	38.12
Level Principal	2,133	13.08	276,405	11.79
IO+FA (Level P&I)	6,437	39.46	1,000,880	42.69
IO+FA (Level Principal)	1,191	7.30	173,507	7.40
Total	16,311	100.00	2,344,437	100.00

Cover Pool by Property Type	Number of Loans	Number of Loans (%)	Balance Outstanding (in millions of Won)	Balance Outstanding (%)
Apartments	15,992	98.04	2,306,117	98.37
Single Family House	52	0.32	7,948	0.34
Multi Family House	264	1.62	29,900	1.28
Other	3	0.02	472	0.02
Total	16,311	100.00	2,344,437	100.00

Cover Pool by Remaining Loan Term	Number of Loans	Number of Loans (%)	Balance Outstanding (in millions of Won)	Balance Outstanding (%)
up to and including 5 year	–	–	–	–
> 5 years up to and including 10 years	424	2.60	47,327	2.02
> 10 years up to and including 15 years	1,580	9.69	182,307	7.78
> 15 years up to and including 20 years	1,828	11.21	228,563	9.75
> 20 years up to and including 25 years	140	0.86	18,804	0.80
> 25 years up to and including 30 years	10,512	64.45	1,566,835	66.83
> 30 years up to and including 35 years	1,827	11.20	300,601	12.82
> 35 years	–	–	–	–
Total	16,311	100.00	2,344,437	100.00

Cover Pool by Seasoning	Number of Loans	Number of Loans (%)	Balance Outstanding (in millions of Won)	Balance Outstanding (%)
up to and including 3 months	–	–	–	–
> 3 months up to and including 6 months	1,476	9.05	208,071	8.88
> 6 months up to and including 9 months	880	5.40	118,481	5.05
> 9 months up to and including 12 months	3,196	19.59	461,523	19.69
> 12 months up to and including 15 months	3,239	19.86	470,455	20.07
> 15 months up to and including 18 months	25	0.15	3,669	0.16
> 18 months up to and including 21 months	153	0.94	21,191	0.90
> 21 months up to and including 24 months	3,879	23.78	549,403	23.43
> 24 months up to and including 27 months	461	2.83	84,016	3.58
> 27 months up to and including 30 months	1,056	6.47	166,080	7.08
> 30 months up to and including 33 months	711	4.36	109,301	4.66
> 33 months up to and including 36 months	821	5.03	102,927	4.39
> 36 months up to and including 48 months	413	2.53	49,126	2.10
> 48 months up to and including 60 months	–	–	–	–
> 60 months	1	0.01	194	0.01
Total	16,311	100.00	2,344,437	100.00

Cover Pool by Remaining Interest Only Period	Number of Loans	Number of Loans (%)	Balance Outstanding (in millions of Won)	Balance Outstanding (%)
Not in the Interest Only Period	8,955	54.90	1,205,297	51.41
up to and including 6 months	524	3.21	85,977	3.67
> 6 months up to and including 12 months	1,134	6.95	203,829	8.69
> 12 months up to and including 24 months	2,816	17.26	430,005	18.34
> 24 months up to and including 36 months	2,870	17.60	417,970	17.83
> 36 months up to and including 48 months	3	0.02	513	0.02
> 48 months	9	0.06	846	0.04
Total	16,311	100.00	2,344,437	100.00

Mortgage Pool by Delinquencies (Days Past Due)	Number of Loans	Number of Loans (%)	Balance Outstanding (in millions of Won)	Balance Outstanding (%)
Current	16,253	99.64	2,334,555	99.58
> 0 days up to and including 30 days	52	0.32	9,034	0.39
> 30 days up to and including 60 days	4	0.02	639	0.03
> 60 days up to and including 90 days	2	0.01	209	0.01
> 90 days	–	–	–	–
Total	16,311	100.00	2,344,437	100.00

Origination of the Mortgage Loans

Introduction

The Mortgage Loans are originated through the Issuer's branch offices, a telephone-based service or through the Internet. New Mortgage Loans are accepted on the basis of a fixed set of underwriting standards and lending criteria. As of the date of this Base Prospectus, almost all of the Mortgage Loans were with borrowers who held a current account with the Issuer, as all new borrowers that do not already have an existing current account are required to open a current account before being approved for a Mortgage Loan.

The approval process for most Mortgage Loans is largely automated, as interest and credit limits are both determined based on the Issuer's established credit systems. However, in certain situations, an underwriter may grant approval in respect of a Mortgage Loan which was automatically rejected by the Issuer's systems, as set out in further detail below.

Underwriting Process and Lending Criteria

Customer Information

To obtain a Mortgage Loan, prospective borrowers must complete an application form which includes details of the applicant's income, current employment details, bank account information, current mortgage information, if any, and certain other personal information. Prospective borrowers must also submit proof of their identity, for example by submitting a passport, drivers' licence or certificate of residence, copies of which will be taken by the Issuer.

Individual Loan System

The Issuer uses an automated credit rating management system known as the Individual Loan System (the "**ILS**") to determine underwriting of all household loans, including the Mortgage Loans. The ILS in turn consists of two sub-systems, the Credit Scoring System (the "**CSS**") and the Collateral Review System (the "**CRS**"). The CSS produces an automated credit rating based on customer information such as the customer's occupation, annual income, transaction activities with the Issuer and credit information provided by credit information agencies (the "**Credit Bureau Rating**"). The CRS evaluates the relevant Mortgaged Property in terms of its value as collateral for the Mortgage Loan, based on information obtained from the KB Property Index. The KB Property Index is the Issuer's own proprietary index which uses internal and external surveys and research to value properties in Korea. The KB Property Index is updated weekly and is also licensed to third party subscribers.

Credit Evaluation of Customers

Credit evaluation is conducted for all applicants of Mortgage Loans. The CSS determines the Credit Bureau Rating through the Application Scoring System (the "**ASS**") if the customer is a new customer of the Issuer, or, if the customer is an existing customer of the Issuer, through the Behavioural Scoring System (the "**BSS**") and the ASS. The CSS has available various scorecards to use for evaluating a particular customer, and the scorecard which will be used by the CSS depends on both the intended purpose for which the Mortgage Loan will be used (e.g. property purchase, refinancing, home renovations etc.) and the type of the proposed Mortgaged Property (e.g. apartment, house etc.).

The ASS determines the credit rating of a new customer based on various factors including (i) the customer's personal information such as existing ownership of housing, the customer's age, family, occupation and income, (ii) the customer's prior transactions with the Issuer, including the amount

of any deposits the customer has with the Issuer, the delinquent history of the customer (based on the BSS score), the amount and manner of credit card usage of the customer and whether the customer deposits his salary into an account with the Issuer, and (iii) credit information provided to the Issuer by the Korea Credit Bureau or other domestic credit bureaus.

The BSS is a system used to review and monitor the credit of an existing customer with an outstanding loan with the Issuer. In reviewing and monitoring the credit of an existing customer, the BSS takes into consideration, amongst other factors, the existing customer's history in relation to delinquency, repayment, product information, intensity of transactions and transaction period.

Non-qualifying customers (that is, those customers who do not satisfy the lending criteria after system determination or customers who are offered an insufficient credit limit) may in certain cases obtain Mortgage Loans via exceptional approval by the underwriters based at the Issuer's headquarters, based on factors such as the credit quality of the customer and the quality and value of the Mortgaged Property, provided that the customer satisfies certain lending criteria.

Determination of Maximum Loan Amount

The maximum amount that the Issuer will lend under a Mortgage Loan is determined by a number of factors, including the Credit Bureau Rating, the value of the proposed Mortgaged Property and the DTI Ratio or debt servicing ability of the relevant customer (for example, the customer's net income and existing credit commitments).

Appraisal Value of Property

All Mortgaged Loans are subject to a satisfactory valuation of the proposed Mortgaged Property. The appraisal value of proposed Mortgaged Property is determined by the CRS using valuations produced by the KB Property Index. Staff will input the loan application amount, the maximum secured amount of any prior ranking claims, and the larger of the aggregate of any Chonsei Rights (as defined below) or Small Tenant's Claim Amounts (as defined below), and based on these variables the CRS will calculate the appraisal value in relation to the proposed Mortgaged Property. If the proposed Mortgaged Property's market value is not denoted in the CRS, the appraisal values specified in a report from a licensed realtor which is also an affiliate of the Issuer or from the Korea Appraisal Board can be adopted. In such cases, the Issuer will determine which alternative source shall be used to determine the relevant appraisal value.

In this section, "**Chonsei Rights**" means a security interest registered with the relevant real property registry, granted by a lessor to a lessee for the repayment of a lessee's key money deposit and which also allows the lessee to occupy, use and benefit from the leased premises until the later of (i) the date on which the lease term expires and (ii) the date the lessor returns such key money deposit to the lessee, and "**Small Tenant's Claim Amount**" means a tenant's right to receive a refund of certain portions of the key money deposit in priority over any other security holder, whereby the scope and standards relating to the tenants and the refundable amount are decided according to the Presidential Decree of the Residential Lease Protection Law.

Loan-to-value Limit

Each customer is only permitted to take out a maximum loan that falls within the loan-to-value limits imposed by the FSS.

Small Tenant Claim Amounts and Prior Ranking Claims

When determining the maximum loan amount in relation to a Mortgaged Property, the Issuer also takes into account the value of any Chonsei Rights held by a lessee, Small Tenant Claim Amounts and prior ranking claims and senior lien claims, and such amounts are deducted from the maximum loan amount.

Security

Each Mortgage Loan is secured by a first priority right or a second and sequentially lower priority right of mortgage which is duly registered at the real estate registry office. When a Mortgage is first presented for registration an entry to this effect is made in the real estate registry. The first entry in the real estate registry establishes priority over any subsequent claims, encumbrances and attachments in respect of the relevant property. The Issuer accepts in principle a second (and sequentially lower) Mortgage if the first entry of a Mortgage is made in the Issuer's name. However, the amount of any claims secured by a prior-ranking security interest will be deducted from the appraisal value when determining the maximum loan amount. In certain limited circumstances, the Issuer accepts a second ranking right of mortgage where a first ranking right of mortgage has already been registered in the name of a third party.

Insurance

The Issuer generally requires borrowers to arrange for insurance in respect of the Mortgaged Property under the terms of the Mortgage Loan. However in certain cases such insurance is not required, for example where the building is a high-rise apartment building which is already subject to mandatory insurance under Korean law, where the value of the Mortgaged Property resides in the land rather than the property itself, or where the outstanding balance under a Mortgage Loan is less than ₩50 million.

Description of MCI

The Issuer has adopted internal policies in accordance with the guidelines of the FSC and the FSS in relation to the calculation of the available loan amount for a borrower. The available loan amount is calculated by applying the relevant loan-to-value ratio to the appraisal value of a residential property. The maximum amount of Super-Priority Right for Small Leases (which are statutorily accorded priority over any security interest in the relevant residential property) that can be established over the relevant residential property is deducted from the available loan amount even if no such Super-Priority Right for Small Leases has been established at the time of lending. As a consequence, an amount equal to the potential Super-Priority Right for Small Leases (the "**Maximum Super-Priority Amount**") is not available for lending. The Issuer's internal policies, however, permit the lending of such Maximum Super-Priority Amount in addition to the available loan amount if an amount equal to the Maximum Super-Priority Amount is covered by a credit insurance policy issued by an insurance company.

The Issuer entered into a master business agreement in connection with the operation of mortgage credit insurance (the "**Master MCI Agreement**") with the Seoul Guarantee Insurance Company ("**SGIC**") on October 18, 2005 (and which may be amended or supplemented from time to time) to extend loans exceeding the available loan amount calculated by the loan-to-value ratio method by the Maximum Super-Priority Amount. If a borrower wishes to borrow in excess of the maximum available amount calculated by the loan-to-value ratio method, the Issuer will determine the excess loan amount (which will be within the Maximum Super-Priority Amount) and then submit to SGIC an application for credit insurance under the Master MCI Agreement for an amount equal to such excess amount (the "**MCI Loan Amount**"). SGIC will review the application and, if it meets all the criteria set out in the Master MCI Agreement (including those relating to

the borrower's income), issue the credit insurance policy for that particular loan. The Issuer will pay the insurance premium for each credit insurance policy issued by SGIC under the Master MCI Agreement. In such credit insurance policy, the MCI Loan Amount covered by such insurance ("**Insured Amount**") will be specified. The Insured Amount will be set at an amount not exceeding 120 per cent. of the MCI Loan Amount.

Under the Master MCI Agreement, if (i) the borrower fails to repay principal and interest on the loan on the relevant payment date specified in the relevant mortgage loan agreement; (ii) the obligations of the borrower are accelerated pursuant to such mortgage loan agreement; or (iii) the borrower fails to repay the loan on the maturity date (each, an "**Insured Event**"), the Issuer is required to make at least two demands on the borrower for the rectification of such breach and, if the borrower fails to rectify the breach, the Issuer should enforce the mortgage. If the Issuer cannot recover all amounts due under the mortgage loan in the judicial auction instituted to enforce the mortgage, SGIC will pay the insurance proceeds, up to the Insured Amount, for the portion of the principal of the MCI Loan Amount and the interest accrued thereon for a period of not more than one year which are not recovered in such judicial auction.

Determination of Interest Rate

The interest rate applicable to each Mortgage Loan is determined based on a number of factors including the cost of capital, the benchmark interest rate, the Customer Credit Rating and the loss-given-default ("**LGD**") rate, which is generated using the CRS. For customers who provide a guarantor, insurance securities or other additional forms of collateral, the value of LGD generated from the CRS may be lower.

Acceptance and Verification of Customer Information

Before final acceptance of a Mortgage Loan by a customer, a check is performed to confirm that the customer has met all the pre-conditions stated in the Mortgage Loan offer. After acceptance, the final terms of the Mortgage Loan are sent to the loan processing centre for review of the Mortgage Loan application where the accuracy of the related application documents are also checked.

Mortgage Administration

Introduction

This section describes, amongst other things, the servicing procedures and practices of the Issuer. The Issuer administers the Mortgage Loans from its retail and corporate banking branches, credit management department, auto call system centres and credit management centres in accordance with its servicing mortgage administration procedures. These set out, amongst other things, the procedures for the calculation of interest and other amounts payable under the Mortgage Loans, the collections process in respect of Mortgage Loans in default, the maintenance of records in relation to the Mortgage Loans and communications with borrowers under the Mortgage Loans.

Arrears Management

If any amount due has not been received on the payment due date, the Issuer's collection staff are required, to the fullest extent permitted by applicable law, to take the following actions:

- If a Mortgage Loan is delinquent for one or more months, the Issuer's collection staff will: (a) call the borrower; (b) inform the borrower of the delinquency and (c) ask for an expected payment date and (d) send a written request for payment notifying the delinquency and a warning of the scheduled default, by mail, to the relevant borrower; or

- If a Mortgage Loan is delinquent for two or more months, the Issuer's collection staff will (a) call the borrower and give him or her a final notice that the Mortgage Loan is delinquent, (b) send notice of commencement of the public sale of the Mortgaged Property by content and delivery certified mail and (c) begin the foreclosure proceedings in the Korean courts. If the relevant borrower cannot be contacted by phone, the Issuer's collection staff will (i) visit the site of the Mortgaged Property (if the Issuer deems necessary) and (ii) begin the foreclosure proceedings.

Foreclosure

If enforcement action is required to be taken in connection with a Mortgage Loan, the Issuer's credit management department will take enforcement action as follows:

- making demands on the delinquent borrower or guarantor;

- terminating the relevant Mortgage Loan Agreement to be followed by enforcing the related mortgage and collateral security as soon as practicable; and

- initiating a foreclosure proceeding against the related mortgagor (including retaining legal counsel) and taking any other actions that are necessary for the foreclosure action.

As required by the Establishment Deed, the Issuer will arrange for enforcement proceeds in respect of Mortgage Loans in the Cover Pool to be paid into the Transaction Account within one Korean Business Day after the collection of such enforcement proceeds.

Under Korean law, the Issuer has the right to publicly auction the Mortgaged Property if the customer remains in breach of its obligations after being given written notice that it is in default and being given 15 days to comply with the Issuer's demand for payment, and alternative arrangements are not made.

To commence a judicial auction in Korea, the petition for auction (*Gyongmae Shinchung*) must be filed with the relevant court having jurisdiction over the district in which the real estate is located. The petition for auction must set forth supporting facts and grounds for requesting an auction, and must be accompanied by various documents including a copy of the mortgage agreement, a certified copy of the court register relevant to the subject property and a registration tax payment certificate.

Once a petition for auction has been filed, the court will examine the petition and the supporting documents and will issue its order to commence the auction (usually within two to three days of the petition). Typically within seven days, the court order for auction is then entered in the *Deungki-Bu* (real estate registry) of the subject property.

The first auction date is generally set approximately five to six months from the date of petition filing. In the absence of any objection filed by the mortgagor or any other interested party, the auction will take place on the date set by the court. On the day of the auction, bidders must deposit 10 per cent. of the minimum price set by the court with the court unless the court decides otherwise. Distribution of auction proceeds will take place approximately 70 to 80 days after the auction date. However, it is not common that the property is sold at a first auction, thus necessitating subsequent auctions. A subsequent auction date is set for a date approximately one month following the first auction date. Each time an auction closes without a successful bid, the minimum price is lowered by 20 per cent. to 30 per cent.

There are no restrictions preventing the mortgagee of a property to be auctioned from bidding in the auction. A mortgagee may decide to purchase such property if the minimum auction price falls below a certain level. If a mortgagee is selected as the successful bidder, then such mortgagee may off-set its claim amount against its bidding price. However, the mortgagee purchaser must still pay in cash the amount sufficient to cover the senior claims and statutory liens having priority over its claim.

Fraud Desk

All banks in Korea have a working relationship with respect to mortgage loan fraud through the Korean Association of Banks. A national fraud desk has been established through which all the banks notify each other of possible fraud cases. A fraud desk has been established for all mortgage loans. All known fraud cases are registered in an internal and external verification system that identifies fraudulent customers. Each new Mortgage Loan application is automatically run through this register. Additionally, new names added to the register are automatically cross-checked within the existing Mortgage Loans.

The Issuer actively manages mortgage fraud by giving anti-fraud presentations to all parties involved in the origination process (that is, to different departments within the Issuer). In addition, a fraud site has been created on the intranet within the Issuer, including a checklist of indicators for fraud. Employees are well trained on the different aspects of possible fraud. All suspicious applications are screened and if necessary sent to the special fraud desk.

In case of the detection of fraud in respect of an existing Mortgage Loan, the Issuer's policy is to accelerate the Mortgage Loan concerned and report the customer to the police. The official reporting route of this procedure is undertaken in close co-operation with the Issuer's Security Control Department.

SUMMARY OF KOREAN LEGISLATION REGARDING COVERED BONDS

As of the date of this Base Prospectus, the main legislation which governs covered bonds issued in Korea comprises the Korean Covered Bond Act, which came into legal effect on April 15, 2014, the Enforcement Decree and the Regulation, which came into legal effect on April 23, 2014.

New Legislation

Certain Korean financial institutions that satisfy the conditions set forth under Article 2 and Article 4 of the Korean Covered Bond Act ("**Eligible Issuers**" and each Eligible Issuer that issues Covered Bonds, a "**Covered Bond Issuer**") may issue covered bonds.

The holders of covered bonds (and also holders of certain other claims incurred in relation to the specific covered bonds) have dual recourse in respect of the covered bond by having an exclusive and prioritised right of claim, on a *pari passu* basis between themselves, over a pool of certain security assets (the "**cover pool**") while they reserve a right of payment from other assets of a Covered Bond Issuer.

Issuance Limit

The Korean Covered Bond Act prescribes that Eligible Issuers may issue covered bonds up to the ceiling set by the Enforcement Decree which shall not exceed 8 per cent. of such Eligible Issuers' total assets as of the end of the fiscal year immediately preceding the scheduled date of issuance. The current ceiling set by the Enforcement Decree is 4 per cent. of a Covered Bond Issuer's total assets as of the end of the fiscal year immediately preceding the scheduled date of issuance. The FSC reserves the right to restrict this further to 2 per cent. of a Covered Bond Issuer's total assets, taking into consideration various factors, such as collateralisation ratio and financial conditions of a Covered Bond Issuer, including its liquidity position.

Registration of the Covered Bond Issuance Plan

A Covered Bond Issuer must register the Covered Bond Issuance Plan with the FSC. A Covered Bond Issuer must also register amendments to the Covered Bond Issuance Plan or matters concerning the cover pool, while minor changes shall be reported to the FSC within seven days from the date of such change. The Covered Bond Issuance Plan should include (i) the terms and conditions of the covered bonds, (ii) qualification requirements of a Covered Bond Issuer pursuant to the Korean Covered Bond Act such as equity capital, balance sheet, etc., (iii) the details of the cover pool, (iv) total valuation amount and details of such valuation of the cover pool, (v) ratio of aggregate outstanding amount of the covered bonds (excluding any redeemed amount) to the cover pool to be maintained, (vi) details of the asset monitor (as defined below), and (vii) information relating to protection of debtors, details of programme issuance plan of the covered bonds, if relevant, funding plans for redemption of the covered bonds and other matters relating to issuance, distribution and redemption of the covered bonds as prescribed by the FSC.

Statutory Priority Right of Payment and Bankruptcy Remoteness

Article 12 of the Korean Covered Bond Act states that the cover pool assets shall not be subject to insolvency proceedings with respect to a Covered Bond Issuer including, compulsory execution, preservative measures and stay orders.

Further, in case a Covered Bond Issuer is declared bankrupt or a rehabilitation proceeding is commenced with respect to a Covered Bond Issuer, the cover pool of a Covered Bond Issuer shall not form part of the bankruptcy estate of a Covered Bond Issuer or the property that the

administrator of the rehabilitation proceeding is entitled to manage and dispose of. In addition, if a corporate restructuring administrative proceeding is commenced with respect to a Covered Bond Issuer, the cover pool shall not comprise assets subject to such administration.

A notice to the underlying obligors is not required in order for the investors to be granted a statutory priority right of payment against the cover pool, and it would not be necessary to register the inclusion of the mortgage loans in the cover pool with the courts if the Covered Bond Issuance Plan was registered with the FSC.

Article 13 of the Korean Covered Bond Act states that the Priority Payment Right Holders shall have a priority right of payment on the registered cover pool over any third parties or creditors of a Covered Bond Issuer.

If the principal and interest of the covered bonds are not fully repaid from the cover pool, the investors have the right to payment from other assets of a Covered Bond Issuer in addition to the cover pool pursuant to Article 14 of the Korean Covered Bond Act.

Cover Pool – Composition of Assets and Eligibility Criteria

Article 5 of the Korean Covered Bond Act stipulates that the cover pool shall comprise (1) the Underlying Assets, (2) the Liquid Assets and (3) Other Assets, and the Eligibility Criteria for the cover pool is set forth as following.

"**Underlying Assets**" shall include (i) first priority residential mortgage loans with loan-to-value ratio equal to or lower than 70 per cent., obligors of which are not subject to insolvency proceedings, (ii) loan receivables against the Government, a local government of Korea or a special statutory corporation of Korea, (iii) Korean treasury bonds, municipal bonds or bonds issued by a special statutory corporation, (iv) mortgage loans secured by ships or aircraft with loan-to-value ratio equal to or lower than 70 per cent. and insured for an amount in excess of a prescribed minimum level (which is currently 110 per cent. of the sum of (a) the aggregate outstanding balance of the relevant loan and (b) any other outstanding debt of a Covered Bond Issuer that are at least *pari passu* with such loan), and (v) asset backed securities issued under the ABS Act, covered bonds issued by Korea Housing Finance Corporation and residential mortgage backed securities issued pursuant to the Korea Housing Finance Corporation Act, underlying assets of which are residential mortgage loans which satisfy the criteria set out in (i) above.

The Regulation sets out the following restrictions on the residential mortgage loans which shall comprise the Underlying Assets:

- at least 20 per cent. must have a DTI Ratio equal to or lower than 70 per cent.;
- at least 30 per cent. must bear fixed interest rate; and
- residential mortgage loans, provided that, not more than 10 per cent. must be loans of which 50 per cent. or more of their outstanding principal balance may be set off against a Covered Bond Issuer. The set off will apply mainly to deposits but will also include any debt obligations of a Covered Bond Issuer if the borrower holds such debt directly.

"**Liquid Assets**" shall comprise (i) cash (excluding cash collected or acquired from the Underlying Assets and the Liquid Assets), (ii) certificates of deposit with a term of no longer than 100 days issued by domestic financial institutions other than a Covered Bond Issuer, and (iii) assets such as (x) bonds issued by a foreign government rated at least 'AA-' or above by an credit rating agency recognised by the FSS, which are capable to be liquidated within three months (y) financial instruments equivalent to certificates of deposit issued by banks or securities companies rated 'A'

or above by an internationally recognised credit rating agency, which are capable to be liquidated within three months and (z) deposits and term deposits at either domestic or foreign financial institutions with a term of no longer than three months. The aggregate value of the Liquid Assets shall not exceed 10 per cent. of the total value of the cover pool.

"**Other Assets**" shall comprise collections and other property rights (including, without limitation, any interest, income or distributions) acquired from the Underlying Assets and the Liquid Assets and claims and security interest related thereto acquired from derivatives transactions to hedge foreign exchange rate or interest rate risks and other risks associated with the cover pool pursuant to the Covered Bond Issuance Plan. The accounts where such collections and other property rights are held will also form part of Other Assets. Collateral provided by the swap provider may form part of the cover pool only if so stipulated in the Covered Bond Issuance Plan.

Valuations

Pursuant to the Enforcement Decree, valuation of the assets comprising the cover pool is carried out by reference to the closing market price on the relevant day on the relevant securities exchange. Where no reliable market prices are available on the relevant securities exchange on the relevant day, including where no market price is available on the relevant securities exchange in respect of the relevant asset (such as Mortgage Loans), the book value calculated in accordance with applicable Korean accounting principles, the par value, the purchase price, the transaction price and the price provided by an entity which satisfies statutory requirements (e.g. debt rating companies, accounting firms, credit rating agencies, valuation companies and underwriting companies), in each case in respect of the relevant asset type, together with the prevailing exchange rate at the time of valuation, shall be taken into account by the Covered Bond Issuer and/or the asset monitor in determining the fair value of each type of asset comprising the cover pool. The Issuer shall carry out the valuation and such valuation shall be verified by the asset monitor, but the book value shall be deemed to be the market price if valuation cannot be performed. Where a Covered Bond Issuer has entered into derivative transactions for the purpose of hedging exposure to movements in foreign currency exchange rates or interest rates, the exchange rates or interest rates as specified in such derivative transactions themselves shall be used for valuation purposes. Non-eligible assets and claims acquired from derivative transactions themselves shall be valued at zero.

Management of the Cover Pool and Required Collateralisation Ratio

A Covered Bond Issuer should separately manage the assets included in the cover pool from its other assets on the basis of the applicable Covered Bond Issuance Plan and failure to do so may result in criminal sanctions. The books for the cover pool must also be separately maintained. Cash or other Liquid Assets in the cover pool may be deposited in a segregated account opened with a Covered Bond Issuer or with another financial institution which satisfies the requirements under the Korean Covered Bond Act.

A Covered Bond Issuer is required to maintain a statutory collateralisation ratio and a contractual collateralisation ratio while its covered bonds remain outstanding. Article 5 of the Korean Covered Bond Act stipulates that the total value of the cover pool shall be equal to the Required Collateralisation Ratio. In addition, a Covered Bond Issuer is required to specify in the Covered Bond Issuance Plan an asset coverage ratio it agrees to maintain for the term of the covered bond ('*Dam-bo-yu-ji-bi-yul*' in Korean) (the "**Asset Coverage Ratio**"). If the Asset Coverage Ratio is not satisfied or if the Eligibility Criteria is breached, a Covered Bond Issuer shall add or substitute Underlying Assets or Liquid Assets without delay in order to cause the cover pool to satisfy such requirements.

Risk Management and Disclosure

A Covered Bond Issuer is required to establish and monitor separate risk management standards and procedures relating to the issuance and redemption of the covered bonds at least on a quarterly basis. A Covered Bond Issuer is also obligated to disclose on its website on a quarterly basis the results of such risk management monitoring, the report prepared by the asset monitor and assessment of whether the obligor of mortgage loans benefits from the issuance of the covered bond. The FSC may request data concerning business or properties of a Covered Bond Issuer, its administrator and the asset monitor, or investigate such business and properties if necessary for the purposes of protecting the investors.

The Asset Monitor

A Covered Bond Issuer is required to appoint a cover pool monitor (the "**asset monitor**") with the approval of the FSC in order to monitor independently the composition and balance of the cover pool. The asset monitor shall be, either, (i) a person who qualifies as a bond administrator under the Korean Commercial Code, (ii) the Korea Housing Finance Corporation (excluding where the Korea Housing Finance Corporation is itself a Covered Bond Issuer), or (iii) a corporation with equity capital of at least ₩1 billion that meets the staffing requirements as set forth in Article 9 of the Korean Covered Bond Act.

The asset monitor's duties are prescribed under Article 11 of the Korean Covered Bond Act and include the following:

- conducting accounting audit of the cover pool;
- due diligence/evaluating compliance with the Eligibility Criteria and Asset Coverage Ratio;
- monitoring a Covered Bond Issuer's conformity to the Covered Bond Issuance Plan and relevant laws;
- monitoring whether the priority rights of the investors are infringed by the manner in which a Covered Bond Issuer manages the cover pool;
- providing instructions to a Covered Bond Issuer if it engages in any inappropriate practices;
- supervising and directing an administrator if an administrator has been appointed; and
- exercising any and all legal rights for the enforcement of the priority claims as set forth under Article 13 of the Korean Covered Bond Act.

The asset monitor is obligated to prepare a report on the performance of its duties and submit such report to the FSC within 30 days of the end of each quarter. The report should be provided to a Covered Bond Issuer and, upon request, to the investors and other parties, who have a priority right of payment from the cover pool.

Enforcement of the Collateral

So long as the cover pool is not disposed of to a third party, legal ownership over the cover pool will remain with a Covered Bond Issuer. Enforcement over the cover pool may be conducted in accordance with the method of disposal as stipulated in the Covered Bond Issuance Plan including by private sale of the cover pool if such method of enforcement has been contractually agreed upon. In other words, when liquidating the cover pool, the court proceedings relating to the enforcement of security interest would not apply.

The Korean Covered Bond Act stipulates that the method of disposal of the cover pool should be clearly stated in the Covered Bond Issuance Plan. The asset monitor could be given discretion to arrange a private sale or conduct a public auction (involving public announcement and sale by way of inviting purchasers to bid) or any other reasonable method at its discretion.

Set-off Risk

An underlying obligor of any mortgage loan that has a deposit account with a Covered Bond Issuer will be able to set-off its deposit claim arising from such deposit account against its obligation under such mortgage loan prior to the notice to, or consent from, the underlying obligor regarding the registration of the cover pool with the FSC and the fact concerning the asset monitor's right to dispose of the cover pool against such mortgage loan that has been included in the cover pool.

Pursuant to Article 15(1) of the Korean Covered Bond Act, a Covered Bond Issuer or the asset monitor may not claim the registration of the cover pool with the FSC and the asset monitor's right to dispose the cover pool against the debtor of a claim in the cover pool unless it has notified the registration of the cover pool with the FSC and the asset monitor's right to dispose the cover pool against such mortgage loan that has been included in the cover pool to such debtor or such debtor has given its consent. Notice to, or consent from relevant debtors may only be given or obtained where an event set out in Article 13(3) of the Korean Covered Bond Act has occurred. The events listed under Article 13(3) of the Korean Covered Bond Act are as follows:

- where a Covered Bond Issuer fails to pay in whole or in part the claim of the Priority Payment Right Holder when due;

- where the cause of disposal of the registered cover pool has occurred; or

- where the claim of the Priority Payment Right Holder has been accelerated.

Set-off against the bank would not be affected by the fact that the deposit made by the debtor with the relevant bank is subject to deposit insurance provided by the KDIC. As the deposit insurance payment to be paid by the KDIC is calculated by deducting any debts (other than guarantee debts) owed by the depositor to the bank from the deposit amount, the insurance payments due from KDIC will be an amount which is net of the amounts outstanding under the loan.

The Financial System

Structure of the Financial Sector

Korea's financial sector includes the following categories of financial institutions:

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

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

In July 2007, the Korean National Assembly passed FSCMA, under which various industry-based capital markets regulatory systems then in place were consolidated into a single regulatory system. The FSCMA, which became effective in February 2009, expands the scope of permitted investment-related financial products and activities through expansive definitions of financial instruments and function-based regulations that allow financial investment companies to offer a wider range of financial services, as well as strengthening investor protection and disclosure requirements. The enforcement decree of the FSCMA classifies the financial investment companies into a total of 90 categories depending on the types of (i) financial investment services, (ii) financial investment products, and (iii) investors.

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

- investment dealing (trading and underwriting of financial investment products);

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

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

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

Banking Industry

The banking industry comprises commercial banks and specialised banks. Commercial banks serve the general public and corporate sectors. They include nationwide banks, regional banks and branches of foreign banks. Regional banks provide services similar to nationwide banks, but operate in a geographically restricted region. Branches of foreign banks have operated in Korea since 1967 but provide a relatively small proportion of the country's banking services. As of December 31, 2014, commercial banks consisted of seven nationwide banks, all of which have branch networks throughout Korea, six regional banks and 46 branches of 40 foreign banks operating in the country. Nationwide and regional banks had, in the aggregate, 6,420 domestic branches and offices, 63 overseas branches, 48 overseas representative offices and 42 overseas subsidiaries as of December 31, 2014.

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

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

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

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

	Total Loans	**Substandard and Below Loans**	**Percentage of Total**
	(trillions of Won)		*(percentage)*
December 31, 2009	1,285.8	16.0	1.24
December 31, 2010	1,308.9	24.8	1.90
December 31, 2011	1,387.6	18.8	1.36
December 31, 2012	1,390.9	18.6	1.33
December 31, 2013	1,441.6	25.8	1.79
December 31, 2014	1,557.9	24.2	1.55

Source: FSS

As of December 31, 2012, loans denominated in Won held by these banks increased by 3.5 per cent. to ₩1,109.3 trillion from ₩1,071.6 trillion as of December 31, 2011, primarily due to (i) an increase in loans to large corporations by 21.1 per cent. to ₩158.3 trillion as of December 31, 2012 from ₩130.7 trillion as of December 31, 2011 and (ii) an increase in household loans by 2.7 per cent. to ₩463.5 trillion as of December 31, 2012 from ₩451.4 trillion as of December 31, 2011.

As of December 31, 2013, loans denominated in Won held by these banks increased by 5.0 per cent. to ₩1,165.0 trillion from ₩1,109.3 trillion as of December 31, 2012, primarily due to (i) an increase in loans to small- and medium-sized enterprises by 5.9 per cent. to ₩486.9 trillion as of December 31, 2013 from ₩459.6 trillion as of December 31, 2012 and (ii) an increase in household loans by 3.2 per cent. to ₩478.2 trillion as of December 31, 2013 from ₩463.5 trillion as of December 31, 2012.

As of December 31, 2014, loans denominated in Won held by these banks increased by 9.3 per cent. to ₩1,273.1 trillion from ₩1,165.0 trillion as of December 31, 2013, primarily due to (i) an increase in loans to small- and medium-sized enterprises by 7.3 per cent. to ₩522.3 trillion as of December 31, 2014 from ₩486.9 trillion as of December 31, 2013, (ii) an increase in household loans by 8.2 per cent. to ₩517.4 trillion as of December 31, 2014 from ₩478.2 trillion as of December 31, 2013 and (iii) an increase in loans to large corporations by 9.7 per cent. to ₩183.4 trillion as of December 31, 2014 from ₩167.2 trillion as of December 31, 2013.

In 2009, these banks posted an aggregate net profit of ₩6.9 trillion, compared to an aggregate net profit of ₩7.7 trillion in 2008, primarily due to increased non-performing loans. In 2010, these banks posted an aggregate net profit of ₩9.3 trillion, primarily due to increased net interest income. In 2011, these banks posted an aggregate net profit of ₩11.8 trillion, primarily due to decreased non-performing loans. In 2012, these banks posted an aggregate net profit of ₩8.7 trillion, primarily due to a decrease in gain on sale of equity securities and an increase in impairment loss on available-for-sale securities. In 2013, these banks posted an aggregate net profit of ₩4.5 trillion, primarily due to the lower net interest margin, increased loan loss

provisions and elevated bad debt losses. As of December 31, 2014, these banks posted an aggregate net profit of ₩6.8 trillion, primarily due to reduced interest and commission expenses and increased net gains from foreign exchange transactions.

Non-Bank Financial Institutions

Non-bank financial institutions include:

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

The country had 80 mutual savings banks as of December 31, 2014, with assets totalling ₩37.9 trillion.

As of December 31, 2014, 25 life insurance institutions and 31 non-life insurance institutions, with assets totalling approximately ₩862.4 trillion, were operating in Korea.

As of December 31, 2014, eight credit card companies operated in the country with loans totalling approximately ₩84.1 trillion, of which 1.22 per cent. were classified as non-performing loans.

Money Markets

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

Securities Markets

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

The Korea Exchange publishes the Korea Composite Stock Price Index every 10 seconds, which is an index of all equity securities listed on the Korea Exchange. The Korea Composite Stock Price Index is computed using the aggregate value method, whereby the market capitalisations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalisation of all listed companies as of the base date, January 4, 1980.

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

December 31, 2008	1,124.5
January 30, 2009	1,162.1
February 27, 2009	1,063.0
March 31, 2009	1,206.3
April 30, 2009	1,369.4
May 29, 2009	1,395.9
June 30, 2009	1,390.1
July 31, 2009	1,557.3
August 31, 2009	1,591.9
September 30, 2009	1,673.1
October 31, 2009	1,580.7
November 30, 2009	1,555.6
December 31, 2009	1,682.8
January 29, 2010	1,602.4
February 26, 2010	1,594.6
March 31, 2010	1,692.9
April 30, 2010	1,741.6
May 31, 2010	1,641.3
June 30, 2010	1,698.3
July 30, 2010	1,759.3
August 31, 2010	1,742.8
September 30, 2010	1,872.8
October 29, 2010	1,883.0
November 30, 2010	1,904.6
December 31, 2010	2,051.0
January 31, 2011	2,069.7
February 28, 2011	1,939.3
March 31, 2011	2,106.7
April 30, 2011	2,192.4
May 29, 2011	2,142.5
June 30, 2011	2,100.7
July 31, 2011	2,133.2
August 31, 2011	1,880.1
September 30, 2011	1,769.7
October 31, 2011	1,909.0
November 30, 2011	1,847.5
December 31, 2011	1,825.7
January 31, 2012	1,955.8
February 29, 2012	2,030.3
March 31, 2012	2,014.0
April 30, 2012	1,982.0
May 31, 2012	1,843.5
June 29, 2012	1,854.0
July 31, 2012	1,882.0
August 31, 2012	1,905.1
September 28, 2012	1,996.2
October 31, 2012	1,912.1
November 30, 2012	1,932.9
December 31, 2012	1,997.1
January 31, 2013	1,961.9
February 28, 2013	2,026.5

March 29, 2013	2,004.9
April 30, 2013	1,964.0
May 30, 2013	2,001.1
June 28, 2013	1,863.3
July 31, 2013	1,914.0
August 30, 2013	1,926.4
September 30, 2013	1,997.0
October 31, 2013	2,030.1
November 29, 2013	2,044.9
December 31, 2013	2,011.3
January 29, 2014	1,941.2
February 28, 2014	1,980.0
March 31, 2014	1,985.6
April 30, 2014	1,961.8
May 30, 2014	1,995.0
June 30, 2014	2,002.2
July 31, 2014	2,076.1
August 29, 2014	2,068.5
September 30, 2014	2,020.1
October 31, 2014	1,964.4
November 30, 2014	1,980.8
December 30, 2014	1,915.6
January 30, 2015	1,949.3
February 27, 2015	1,985.8
March 31, 2015	2,041.0
April 30, 2015	2,127.2
May 29, 2015	2,114.8

Source: KRX

On December 27, 1997, the last day of trading in 1997, the index stood at 376.3, a sharp decline from 647.1 on September 30, 1997. The fall resulted from growing concerns about Korea's weakening financial and corporate sectors, Korea's falling foreign currency reserves, the sharp depreciation of the Won against the U.S. dollar and other external factors, such as a sharp decline in stock prices in Hong Kong on October 24, 1997 and financial turmoil in Southeast Asian countries. The Korea Composite Stock Price Index recovered to reach 2,064.9 in late 2007, but declined again as a result of the global financial crisis to a low of 1,063.0 on February 27, 2009. The stock market had since recovered and the index closed at 2,114.8 on May 29, 2015.

Supervision System

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

The MOSF focuses on financial policy and foreign currency regulations. The BOK manages monetary policy focusing on price stabilisation.

Deposit Insurance System

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

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

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

Monetary Policy

The BOK

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

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

Interest Rates

On July 12, 2007, the BOK raised the policy rate to 4.75 per cent. from 4.5 per cent., and raised it further to 5.0 per cent. on August 9, 2007. The rationale for this change was the concern that the ample market liquidity might put upside pressure on inflation in the medium to long term as the economic upswing continued. On August 7, 2008, the BOK raised the policy rate to 5.25 per cent. from 5.0 per cent., taking the view that inflation in consumer prices had picked up its pace, due to the direct and indirect effects of high oil prices, at a time when domestic economic activity had slackened. On October 9, 2008, the BOK cut its policy rate to 5.0 per cent. from 5.25 per cent., and continued to lower it further to 4.25 per cent. on October 27, 2008, 4.0 per cent. on November 7, 2008, 3.0 per cent. on December 11, 2008, 2.5 per cent. on January 9, 2009 and 2.0 per cent. on February 12, 2009, in order to address financial market instability and to help combat the slowdown of the domestic economy. On July 9, 2010, the BOK raised the policy rate to 2.25 per cent. from 2.0 per cent., which was further raised to 2.5 per cent. on November 16, 2010, in response to signs of inflationary pressures and the continued growth of the domestic economy. On January 13, 2011, the BOK raised the policy rate to 2.75 per cent., which was further increased to 3.0 per cent. on March 10, 2011 and to 3.25 per cent. on June 10, 2011, in response to inflationary pressures driven mainly by rises in the prices of petroleum products and farm products. The BOK lowered its policy rate to 3.0 per cent. from 3.25 per cent. on July 12, 2012, which was further lowered to 2.75 per cent. on October 11, 2012 and to 2.5 per cent. on May 9, 2013, in order to address the sluggishness of the global and domestic economy. The interest rate was further reduced to 2.25 per cent. in August 2014, 2.00 per cent. in October 2014, 1.75 per cent. in March 2015 and 1.50 per cent. in June 2015. The BOK's policy rate remained at 1.50 per cent. as of the date of this Base Prospectus.

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

Money Supply

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

	December 31				
	2010	**2011**	**2012**	**2013**	**2014**
	(billions of Won, except percentages)				
Money Supply (M1)[(1)]	427,792	442,078	470,011	515,643	585,822
Quasi-money[(2)]	1,232,738	1,309,380	1,365,631	1,405,152	1,491,412
Money Supply (M2)[(3)]	1,660,530	1,751,458	1,835,642	1,920,795	2,077,234
Percentage Increase Over Previous Year	5.98	5.48	4.81	4.64	8.14

Notes:

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

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

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

Source: The BOK.

Exchange Controls

Authorised foreign exchange banks, as registered with the MOSF, handle foreign exchange transactions. The Ministry has designated other types of financial institutions to handle foreign exchange transactions on a limited basis.

THE KOREAN RESIDENTIAL MORTGAGE INDUSTRY

The information and statistics set out in this section are derived from various public and private sources, such as the BOK, the Ministry of Land, Infrastructure and Transport and the World Bank. This information has not been prepared or independently verified by the Issuer, the Arranger or the Dealers or any of their respective affiliates or advisers.

Introduction

Korea has experienced a strong economic recovery from the Asian financial crisis, which began in the second half of 1997. Korea's GDP increased from ₩811 trillion as of December 31, 2003 to ₩1,485 trillion as of December 31, 2014, increasing at an annual rate of 5.7 per cent. on average. The population in Korea is approximately 49 million. Korea is the 13th most densely populated country in the world (516 people per square kilometre), with mountains and forest covering 66 per cent. of the land. The population in Korea is concentrated in the capital city of Seoul and six other metropolitan cities: Busan, Daegu, Ulsan, Incheon, Daejeon and Gwangju. Over 46 per cent. of the total population of Korea live in those seven major cities and 20 per cent. reside in Seoul. The population growth for 2013 in Korea was 0.43 per cent. This level of increase in population is expected to continue to create excess demand for homes, especially in the urban areas, resulting in a much lower Housing Supply Ratio ("**HSR**") for urban areas than the national average. While the HSR for Seoul increased from 93.1 per cent. in 2009 to 97.5 per cent. in 2013, it still remained lower than the national average of 101.2 per cent. in 2009 and 103.0 per cent. in 2013. The HSR is calculated by dividing the number of available homes in Korea by the number of households in Korea.

Most of the newly built residential properties are high-rise apartment complexes. A typical Korean home is an apartment designed for single household occupancy. The average size of a unit is approximately 82-116 square meters. The majority of homes are owner-occupied, with apartments and multi-household complexes demonstrating higher home ownership ratios due to greater availability of financing and greater liquidity for such housing types in the housing market.

Koreans who do not own a home normally enter into a unique Korean lease contract called *Chonsei*. *Chonsei* refers to the key money deposit which is paid upfront by the tenant to the landlord, which typically ranges from 50 per cent. to 70 per cent. of the market value of the property. During the lease term, the tenant is not required to pay any rent. Instead, the landlord is free to invest the key money deposit and keep the proceeds thereof in lieu of monthly rental payments. The entire amount of the key money deposit is returned to the tenant after the expiry of the lease contract without any interest thereon. Historically, when returns on capital were high, *Chonsei* provided an attractive source of income for the landlord. In recent years, the demand for *Chonsei* has increased with the decrease in housing supply in urban areas. It has also resulted in a portion of the *Chonsei* housing to shift to rental arrangement with monthly rental payments known as *Wolsei*.

Residential Market

In Korea, the residential housing market has been managed through public policy administered by the Ministry of Construction and Transportation.

In 1988, the Government initiated a two million apartment unit construction project by increasing the supply of usable land to private construction companies. Total housing construction for the period from 1988 to 1992 totalled 2.7 million apartment units. As a result, the housing supply has caught up with the housing demand and, in 2004, the HSR reached 102.2. However, the HSR was still below 100 in Seoul and other metropolitan areas because of the growth in employment-driven migration from rural areas to urban areas.

During the Asian financial crisis, housing prices declined by 19.8 per cent. but by 1999, the housing market began to show signs of recovery. With the increasing role of commercial banks in mortgage financing, the favourable interest rate environment and the relative shortage of supply in urban areas, the average price index of an apartment in Seoul had been on the rise. The average price index started at 48.4 in December 1999 and went up as high as 105.0 in March 2010. As the Government started taking measures to control housing prices, the average price index gradually came down, standing at 100.7 as of March 2015.

In August 2005, the Government announced strict measures to curb speculative investment. These measures include limiting the availability of mortgage loan financing and introducing changes in taxation policies.

In April 2007, the National Assembly passed an amendment bill to the Housing Law, aimed at the disclosure of construction costs and imposing price ceilings for newly built apartments in order to curb the rising of residential property values.

In September 2008, the global financial crisis originating in the United States began to exact a toll on the Korean domestic financial market, causing a decline in real estate prices. In order to mitigate the impact on this fall in prices, the Government lifted various regulations applicable to activity in the real estate market. Despite these moves, the domestic housing market continued to worsen due to the continuing financial instability and contraction of the real economy relating to the global financial crisis.

Residential real estate prices in Korea rose significantly in early 2008. Starting in October 2008, however, house prices dropped for three consecutive months, ending the year 3.1 per cent. higher than the previous year. Housing construction activity in Korea during 2008 was sluggish, with the lowest number of new housing units approved since 1998, in part due to the unfavourable environment in the industry caused by a drop in demand and a large number of newly built homes that remained unsold. The number of unsold new houses reached a record-high of 166,000 units at the end of 2008.

The housing market stagnated in early 2009 as consumer sentiment slid further due to the global financial crisis. It began to rebound in the second quarter owing to deregulation by the Government, the persistence of low interest rates and rising expectations of economic recovery. Nationwide, house prices rose for nine consecutive months from April 2009 and ended the year up 1.5 per cent. The number of unsold new housing units dropped in 2009 to 126,000 by year end as a result of the temporary exemption from acquisition and registration taxes and income taxes, and exclusion from regulations on DTI Ratio and loan-to-value ratio. The demand for housing in Korea grew in 2010 and between January 2010 and May 2011 house prices rose by 5.6 per cent., though there were drops in July and August of 2010. Nationwide house prices continued to fall from April 2012 to March 2013 due to the real estate depression caused by the European economic crisis and the low domestic consumption level in Korea. Since September 30, 2013, house prices continued to rise for 13 consecutive months due to the deregulation by the Government and as of the end of December 2014, were up 2.1 per cent. compared to the end of 2013. The National Assembly recently passed further amendments to the Housing Law with effect from April 1, 2015, in order to reinvigorate the stagnated housing market by narrowing down the applicable scope of the price ceiling requirement.

The tables below, which were extracted from tables compiled by the Issuer, illustrate changes in housing prices since 1986 in Seoul, metropolitan cities excluding Seoul and as nationwide figures. All figures are expressed as a comparison against the base figure of 100, being prices in March 2013.

Housing Purchase Price Composite Index: Seoul

(2013.3=100.0)

	March	June	September	December
1986	37.0	36.2	36.1	35.4
1987	35.0	34.7	35.6	36.1
1988	38.1	38.9	39.8	39.4
1989	43.5	45.3	45.3	45.9
1990	50.5	53.2	55.6	57.1
1991	59.5	59.9	59.3	55.8
1992	55.4	53.2	53.8	52.8
1993	53.0	51.9	51.5	51.1
1994	51.3	51.2	51.4	51.4
1995	51.4	51.3	51.3	51.1
1996	51.2	51.2	51.6	51.9
1997	53.1	53.0	53.3	52.9
1998	49.9	45.8	46.1	45.9
1999	46.7	46.9	48.4	48.4
2000	49.4	49.6	50.3	49.9
2001	50.5	51.4	55.3	56.3
2002	62.0	63.7	68.9	69.0
2003	69.2	71.7	73.7	73.8
2004	74.4	74.6	73.7	72.8
2005	73.2	75.2	76.9	77.4
2006	79.4	82.4	83.6	92.0
2007	94.1	94.6	95.8	96.9
2008	99.7	102.9	103.7	101.8
2009	100.8	101.6	103.9	104.5
2010	105.0	104.3	103.4	103.3
2011	103.9	104.0	103.8	103.6
2012	103.3	102.6	101.5	100.6
2013	100.0	99.7	99.3	99.3
2014	99.6	99.6	99.8	100.1
2015	100.7			

Housing Purchase Price Composite Index: 6 Large Cities*

(2013.3=100.0)

	March	June	September	December
1986	40.8	40.2	40.0	40.0
1987	40.2	40.6	43.4	45.3
1988	49.0	51.7	53.6	53.0
1989	55.4	58.4	58.0	59.1
1990	63.6	65.8	68.8	72.1
1991	74.1	75.4	73.7	70.9
1992	69.7	67.9	67.5	66.8
1993	67.0	66.0	65.5	65.1
1994	64.9	64.8	64.9	64.9
1995	64.9	64.8	64.8	64.7
1996	65.1	65.0	65.1	64.9
1997	65.9	65.7	65.5	64.9
1998	61.8	58.7	57.9	57.2
1999	58.5	58.6	59.1	58.7
2000	59.0	58.7	58.7	58.3
2001	58.9	60.2	63.0	64.0
2002	67.7	69.1	71.2	71.9
2003	73.0	74.9	75.9	75.3
2004	75.0	74.9	74.4	73.7
2005	73.7	74.6	75.2	75.3
2006	75.7	76.4	76.6	78.3
2007	79.0	79.2	79.6	80.2
2008	80.3	82.1	83.1	82.8
2009	82.2	82.3	83.1	84.1
2010	85.0	85.9	86.4	88.0
2011	91.0	94.3	96.6	98.2
2012	99.1	99.7	99.7	99.9
2013	100.0	100.3	100.6	101.5
2014	102.3	102.9	103.6	104.6
2015	105.8			

* *Busan, Incheon, Daejeon, Daegu, Ulsan and Kwangju.*

Housing Purchase Price Composite Index: Total

(2013.3=100.0)

	March	June	September	December
1986	39.4	38.7	38.6	38.3
1987	38.1	38.1	39.9	41.0
1988	43.6	45.2	46.7	46.4
1989	49.7	52.3	52.3	53.2
1990	57.6	53.2	62.5	64.3
1991	66.6	67.7	66.9	64.0
1992	63.4	61.6	61.7	60.8
1993	60.9	60.0	59.4	59.0
1994	59.1	58.9	59.0	59.0
1995	59.0	58.9	58.9	58.9
1996	59.2	59.2	59.5	59.8
1997	61.2	61.2	61.3	60.9
1998	58.0	54.2	53.8	53.4
1999	54.3	54.5	55.5	55.2
2000	55.9	55.7	55.9	55.5
2001	55.9	57.2	59.9	60.9
2002	65.5	66.9	70.4	70.9
2003	71.8	74.1	75.2	75.0
2004	75.0	74.9	74.3	73.5
2005	73.8	75.2	76.3	76.4
2006	77.5	79.4	80.1	85.3
2007	86.5	86.7	87.4	88.0
2008	89.1	91.0	91.8	90.7
2009	89.8	90.1	91.3	92.0
2010	92.6	92.9	92.8	93.8
2011	95.9	97.8	99.2	100.2
2012	100.7	100.8	100.4	100.2
2013	100.0	99.9	100.0	100.5
2014	101.1	101.4	101.9	102.6
2015	103.4			

Mortgage Loan Market

Prior to 1997, the Korean mortgage market was dominated by the National Housing Fund (the "**NHF**"), which provided government-subsidised mortgage loans through the Housing and Commercial Bank ("**H&CB**") at low interest rates. At that time, Government restrictions imposed on commercial banks prevented them from originating mortgage loans with terms of more than ten years. Insurance companies who engaged in the mortgage loan business as an ancillary business, however, were not subject to such restrictions. Since the privatisation of H&CB and the removal of such restrictions on the mortgage loan business in 1997, almost all commercial banks and other financial institutions have entered the market. As a result, competition among mortgage lenders has increased. However, H&CB, which merged with the Issuer in 2001, is still a dominant player in the market.

After the Asian financial crisis, the housing market rapidly recovered and, as the house prices increased, the amount of outstanding mortgage loans increased from ₩153 trillion as of the end of 2003 to ₩254.7 trillion as of the end of 2008. As of the end of each of 2012, 2013 and 2014, the amount of outstanding mortgage loans was approximately ₩318.2 trillion, ₩328.9 trillion and ₩365.6 trillion, respectively. As of April 30, 2015, the amount of outstanding mortgage loans was approximately ₩383.0 trillion.

Due to the low interest rate environment, lenders have introduced market based floating rates of interest, which are primarily based on the prevailing market rates for certificates of deposits, Cost of Funds Index and Bank debentures in Korea. In 2006, floating rates mortgage loans accounted for more than 95 per cent. of the total mortgage loans. Until 1998, mortgage loans typically carried terms of 20 years. However, due to rising housing prices and increased trading of properties, mortgage loans featuring terms of three-to-five years were introduced. However, the government has recently started again to promote long-term amortising mortgage loans. Meaningful historical prepayment data for mortgage loans was limited until 1999 as the applicable interest rates for mortgage loans provided by the NHF were lower than the prevailing market rates and there was limited competition in the mortgage loan business given H&CB's market dominance. Since 1999, prepayments have increased due to increased competition among mortgage lenders and falling interest rates for mortgage loans.

The most frequently used form of loan security for residential property in Korea is the *Keun*-mortgage, which differs from a more traditional mortgage. With more traditional mortgages, a mortgagee's rights are automatically extinguished upon satisfaction of the underlying debt, whereas with a *Keun*-mortgage, the mortgagee's rights are not automatically extinguished upon satisfaction of the underlying debt. Instead, a mortgagee's rights are extinguished when the term of the *Keun*-mortgage agreement expires or if it is terminated sooner by the parties. Furthermore, the amount of the secured claim may be increased or decreased within the maximum amount as agreed upon by the mortgagee and borrower of the secured claim (which is duly registered in the relevant real estate registry) during the term of the *Keun*-mortgage agreement. Since the mortgage rights and obligations are not automatically extinguished, the contracting parties are not required to enter into and record separate mortgage agreements each time a subsequent loan is made. *Keun*-mortgages can be enforced in the same manner as various other real estate rights, including enforcement through petition for auction and entitlement to distribution in accordance with recorded priorities. Korea is a "race" jurisdiction that assigns claim priority in chronological order by date of the registration of the mortgages and other security interests. Statutory liens are exceptions to this rule and may rank senior to prior recorded mortgages and other security interests.

Regulatory Overview

For a discussion of the regulatory overview of the mortgage loan business, see "*Korean Legal Considerations – General Laws Relating to the Mortgage Loan Business*" below.

REGULATION AND SUPERVISION

Legal and Regulatory Framework in Korea

Overview

The banking system in Korea is governed by the Bank Act and the Bank of Korea Act. In addition, Korean banks are subject to regulations and supervision of the BOK, the MPC, the FSC and its executive body, the FSS.

The BOK, established in June 1950 under the Bank of Korea Act, performs the customary functions of a central bank. It seeks to contribute to the sound development of the national economy by price stabilisation through establishing and implementing efficient monetary and credit policies. The BOK acts under instructions of the MPC, the supreme policy-making body of the BOK.

Under the Bank of Korea Act, the MPC's primary responsibilities are to formulate monetary and credit policies and to determine the operations, management and administration of the BOK.

The FSC, established on April 1, 1998, regulates commercial banks pursuant to the Bank Act, including establishing guidelines on capital adequacy of commercial banks, and promulgates regulations relating to supervision of banks. Furthermore, pursuant to the Amendment to the Government Organisation Act and the Bank Act on May 24, 1999, the FSC, instead of the MOSF, now regulates entry into the banking business market.

The FSS was established on January 2, 1999 as a unified body of the former Bank Supervisory Authority (the successor to the Office of Bank Supervision), the Securities Supervisory Board, the Insurance Supervisory Board and the Credit Management Fund. The FSS is subject to the instructions and directives of the FSC and carries out supervision and examination of commercial banks. In particular, the FSS sets requirements both for the prudent control of liquidity and for capital adequacy and establishes reporting requirements pursuant to the authority delegated to it under the FSC regulations, pursuant to which banks are required to submit annual reports on financial performance and shareholdings, regular reports on management strategy and non-performing loans, including write-offs, and management of problem companies and plans for the resolution of bad loans.

Under the Bank Act, approval to commence a commercial banking business or a long-term financing business must be obtained from the FSC. Commercial banking business is defined as the lending of funds acquired predominantly from the acceptance of demand deposits for a period not exceeding one year or subject to the limitation established by the FSC, for a period between one year and three years. Long-term financing business is defined as the lending, for periods in excess of one year, of funds acquired predominantly from paid-in capital, reserves or other retained earnings, the acceptance of time deposits with maturities of at least one year, or the issuance of debentures or other bonds. A bank wishing to enter into any business other than commercial banking and long-term financing businesses, such as trust business, must obtain approval from the FSC. Approval to merge with any other banking institution, to liquidate, spin off, close a banking business or to transfer all or a part of a banking business must also be obtained from the FSC.

If the FSC deems a bank's financial condition to be unsound or if a bank fails to meet the applicable capital adequacy ratio set forth under Korean law, the FSC may order:

- assignments of contractual rights and obligations relating to financial transactions;

- admonition, warning, reprimand or salary reduction in relation to the financial institution concerned and its executives and employees;
- capital increases or reductions, disposal of property holdings or reduction in branch offices and downsizing;
- bans on acquisition of high-risk assets, such as those that give rise to the risk of non-fulfilment of obligations or price fluctuations, or restriction on receipts at exorbitantly high interest;
- suspensions of officers' performance of their duties and appointment of receivers;
- stock cancellations or consolidations;
- mergers with other financial institutions;
- acquisitions of a bank by a third party; or
- suspensions of a part or all of business operations.

Capital Adequacy

The Bank Act requires nationwide 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 Detailed Regulation on the Supervision of Banking Business, the capital of a bank is divided into three categories, Tier I common equity, Tier I and Tier II capital. Tier I common equity capital consists of common equity capital including paid-in capital, capital surplus and retained earnings related to owner's common equity and accumulated other comprehensive gains and losses. Tier I capital consists of (i) Tier I common equity capital and (ii) paid-in capital and capital surplus related to hybrid Tier I capital instruments that, among other things, qualify as contingent capital, and Tier II capital consists of, among other things, paid-in capital and capital surplus related to Tier II capital instruments, allowances for loan losses set aside for loans classified as normal or precautionary (up to certain limits) and certain other subordinated debt.

All banks must meet minimum ratios of capital (less any capital deductions) to risk-weighted assets, determined in accordance with FSC requirements that have been formulated based on Bank of International Settlements standards. These requirements were adopted and became effective in 1996, and were amended effective January 1, 2008 upon the implementation by the FSS of the Basel II capital accord. Under such requirements, 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. In July and September 2013, the FSC amended regulations implementing the Basel III capital accord in Korea, pursuant to which Korean banks and bank holding companies were required to maintain a minimum ratio of Tier I common equity capital to risk-weighted assets of 4.5 per cent. and Tier I capital to risk-weighted assets of 6.0 per cent. from January 1, 2015. Such requirements are in addition to the pre-existing requirement to maintain a 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 amended regulations also contemplate an additional capital conservation buffer of 0.625 per cent. starting in 2016, with such buffer increasing in stages to 2.5 per cent. by 2019.

Under the Detailed Regulation on the Supervision of Banking Business, the following risk-weight ratios must be applied by Korean banks in respect of home mortgage loans:

- for those banks which adopted a standardised approach for calculating credit risk capital requirements, a risk-weight ratio of 35 per cent. (only in the case where the loan is fully secured by a first ranking mortgage) and, with respect to high-risk home mortgage loans, 50 per cent.; and

- for those 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 as defined under the Detailed Regulation on the Supervision of the Banking Business.

Liquidity

All banks are required to ensure adequate liquidity by matching the maturities of their assets and liabilities in accordance with the Regulation on the Supervision of Banking Business. Banks may not invest an amount exceeding 60 per cent. of their total capital (less any capital deductions) in equity securities and certain other securities with a redemption period of over three years. This stipulation does not apply to government bonds, Monetary Stabilisation Bonds issued by the BOK, stocks referred to in item 1, paragraph (6) of Article 11 of the Act on the Improvement of the Structure of the Financial Industry or debentures referred to in item 2, paragraph (6) of Article 11 of the Act on the Improvement of the Structure of the Financial Industry. The FSC also requires each Korean bank to:

- maintain Liquidity Coverage Ratio (which is highly liquid assets divided by short-term obligations for a 30-day period) of not less than 100 per cent. and to make monthly reports to the FSS;

- maintain foreign currency liquidity ratio as follows:

    - ratio of foreign currency assets with less than three months residual maturity to foreign currency liabilities with less than three months residual maturity, of not less than 85 per cent.;

    - ratio of maturity mismatch between assets and liabilities in foreign currency:

        - ratio of foreign currency liabilities exceeding foreign currency assets to total assets, when residual maturity is less than seven days, of not more than 3 per cent.;

        - ratio of foreign currency liabilities exceeding foreign currency assets to total assets, when the residual maturity is less than one month, of not more than 10 per cent.; and

- submit monthly reports with respect to maintenance of these ratios.

The MPC is empowered to fix and alter the minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratios are:

- 7 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 per cent. of average balances for Won currency time and savings deposits, mutual instalments, housing instalments and certificates of deposit outstanding.

For foreign currency deposit liabilities, a 2 per cent. minimum reserve ratio is applied to time deposits with a maturity of one month or longer, certificates of deposit with a maturity of 30 days or longer and savings deposits with a maturity of six months or longer and a 7 per cent. minimum reserve ratio is applied to other deposits. A 1 per cent. minimum reserve ratio applies to deposits in offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks as well as foreign currency certificates of deposit held by account holders of such offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

Furthermore, pursuant to the Regulation on the Supervision of Banking Business, foreign exchange agencies, including the Issuer, are required to hold "foreign currency safe assets" in an aggregate amount that is not less than the lower of (i) the product of (x) its total foreign currency-denominated debt maturing in one year or less, multiplied by 2/12 and (y) an amount equal to one minus the "lowest rollover ratio" and (ii) 2 per cent. of its total foreign currency-denominated assets as shown in its balance sheet for the immediately preceding quarter. The "lowest rollover ratio" of a foreign exchange agency means the ratio of (A) its total debt with a maturity of one year or less (excluding overnight deposit) incurred in a particular month to (B) its total debt with maturity of one year or less (excluding overnight deposit) payable in that particular month, and is calculated by taking the lowest three-month average from a period to be designated by the Governor of the FSS. Under the Regulation on the Supervision of Banking Business, foreign currency-denominated debt maturing in one year or less includes financial bonds, borrowings, call monies and repurchase selling denominated in foreign currencies and such other similar debt instruments denominated in a foreign currency as designated by the Governor of the FSS. "Foreign currency safe assets" are defined as cash denominated in a foreign currency, deposits denominated in a foreign currency with a central bank or financial institutions rated 'A' or above, bonds issued or guaranteed by a government or central bank rated 'A' or above or corporate bonds issued or guaranteed by corporations rated 'A' or above each by an internationally recognised credit rating agency. Under the Regulation on the Supervision of the Banking Business, the Issuer is also required to maintain a minimum "mid- to long-term foreign exchange funding ratio" of 100 per cent. "Mid-to long term foreign exchange funding ratio" refers to the ratio of (1) the total amount outstanding of foreign exchange borrowing with a maturity of longer than one year to (2) the total amount outstanding of foreign exchange lending with a maturity of one year or longer.

Starting in 2015, the FSC requires Korean banks to maintain a liquidity coverage ratio by holding a stock of highly-liquid assets with a value equal to or greater than the bank's total net cash outflows over a 30 calendar day period. The required minimum liquidity coverage ratio will be set at 80 per cent. in 2015 and shall be increased by an increment of 5 per cent. per year until 2019 when the ratio shall equal 100 per cent. Previously, the FSC required Korean banks to maintain a Won liquidity ratio (defined as Won assets due within one month, including marketable securities, divided by Won liabilities due within one month) of not less than 100 per cent. and to make monthly reports to the FSS.

Loan-to-Deposit Ratio

In December 2009, the FSS announced that it would introduce a new set of regulations on the loan-to-deposit ratio by amending the Regulation on the Supervision of Banking Business following its determination that the overall liquidity of banks in Korea had become unstable due to the ongoing increase in the loan-to-deposit ratio resulting from banks expanding their asset size too competitively by granting mortgages on houses and loans to small- and medium-sized enterprises over the previous couple of years. The Regulation on the Supervision of the Banking Business, which was amended as of August 18, 2010 and took effect on January 1, 2014, requires banks with Won-denominated loans of not less than ₩2 trillion in value as of the last month of the immediately preceding quarter to maintain a ratio of Won-denominated loans to Won-denominated deposits of not more than 1:1.

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 total capital (less any capital deductions) – generally must not exceed five times the total capital (less any capital deductions), subject to certain exceptions. In addition, subject to certain exceptions, 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 total capital (less any capital deductions) to a single individual or juridical person, or grant credit in excess of 25 per cent. of the total capital (less any capital deductions) to a single group of companies as defined in the Monopoly Regulations and the Fair Trade Act.

Amendments to the Bank Act which became effective on July 28, 2002 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 such 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 and outstanding voting shares; or

- a shareholder holding (together with persons who have a special relationship with such shareholder) in excess of 4 per cent. (excluding regional banks) in the aggregate of the bank's total issued and outstanding voting shares (excluding shares subject to shareholding restrictions on "non-financial business group companies" as described below), where such 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; or (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.

Under these amendments, banks may not extend credit to a major shareholder (together with persons who have a special relationship with such shareholder) in an amount greater than the lesser of (x) 25 per cent. of the sum of the bank's total capital (less any capital deductions) and (y) the relevant major shareholders' shareholding ratio multiplied by the sum of the bank's total capital (less any capital deductions). In addition, 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).

Interest Rates

Korean banks generally depend on deposits as their primary funding source. Under the Act on Registration of Credit Business and Protection of Finance Users, interest rates on loans extended by registered banks in Korea may not exceed 34.9 per cent. per annum. Historically, interest rates on deposits and lending rates were regulated by the MPC. Controls on deposit interest rates in Korea have been gradually reduced and, in February 2004, the 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 cost.

Lending to SMEs

In order to obtain funding from the BOK at concessionary rates for their loans extended to SME, banks are required to allocate a certain minimum percentage of any quarterly increase in their Won currency lending to SMEs. Currently, this minimum percentage is 45 per cent. in the case of nationwide banks and 60 per cent. in the case of regional banks. If a bank fails to comply with this requirement, the BOK 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

For the purpose of protecting depositors and investors in commercial banks, the FSC requires commercial banks to publicly disclose certain material matters, including:

- financial condition and profit and loss of the bank and its subsidiaries;

- fund raising by the bank and the appropriation of such funds;

- any sanctions levied on the bank under the Bank Act or any corrective measures or sanctions under the Act on Improvement of Structure of Financial Industry; and

- except as may otherwise have been disclosed by a bank or its financial holding company listed on the KRX KOSPI Market in accordance with the FSCMA, occurrence of any of the following events listed below or any other event as prescribed by the applicable regulations:

    - loans bearing no profit made to a single business group in an amount exceeding 10 per cent. of the bank's total capital (less any capital deductions) as of the end of the previous month (where the loan exposure to that borrower is calculated pursuant to the criteria under the Detailed Regulation on the Supervision of the Banking Business), unless the loan exposure to that group is not more than ₩4 billion;

    - any loss due to financial incident described in Regulation on Examination and Sanction Against Financial Institution in an amount exceeding ₩1 billion, unless 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 total capital (less any capital deductions) as of the end of the previous month, unless the loss does not exceed ₩1 billion.

Restrictions on Lending to Affiliates, Employees and Officers

Pursuant to the Bank Act, commercial banks may not provide:

- loans directly or indirectly secured by a pledge of the 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 *de minimis* loans of up to (1) ₩20 million in the case of a general loan, (2) ₩50 million in the case of a general loan plus a housing loan, or (3) ₩60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions;
- credit (including loans) secured by a pledge of shares of a subsidiary corporation of the bank or to enable a natural or juridical person to buy shares of a subsidiary corporation of the bank; or
- loans to any officers or employees of a subsidiary corporation of the bank, other than general loans of up to ₩20 million or general and housing loans of up to ₩50 million in the aggregate.

Regulations Relating to Retail Household Loans

The FSC implemented a number of changes in recent years to the mechanisms by which a bank evaluates and reports its retail household loan balances and has proposed implementing further changes. Due to a rapid increase in the number of loans secured by homes and other forms of housing, the FSC and the FSS implemented regulations designed to curtail extension of new or refinanced loans secured by housing, including the following:

- as to loans secured by residential properties located nationwide, 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 60 per cent.;
- as to loans secured by residential properties located in 'areas of excessive investment' as designated by the Government, (i) the loan-to-value ratio for loans with a maturity of not longer than three years should not exceed 50 per cent., (ii) the loan-to-value ratio for loans with a maturity of longer 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.;
- as to loans secured by residential properties located outside of Seoul, Incheon and Gyeong-gi province, which properties were offered for sale on or before June 10, 2008 and with respect to which a sale contract is executed and earnest money deposit paid during the period between June 11, 2008 and June 30, 2009, the loan-to-value ratio should not exceed 70 per cent.;
- as to loans secured by 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 longer than ten years should not exceed 40 per cent.; and (ii) the loan-to-value ratio for loans with a maturity of longer 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 less;

- as to loans secured by apartments with appraisal value of more than ₩600 million in 'areas of high speculation' as designated by the Government or certain metropolitan areas designated as 'areas of excessive investment' by the Government, the borrower's DTI 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.;

- as to 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;

- 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 be eventually reduced to one;

- in the case of a borrower (i) whose spouse already has a loan secured by housing or (ii) who is single and under 30 years old, the DTI 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.; and

- in August 1, 2014, however, in order to reduce arbitrage resulting from varying ratio requirements for retail household loans, the FSC announced an administrative guidance with effect from the same date above to uniformly fix the maximum loan-to-value ratio at 70 per cent. for retail household loans and the maximum DTI ratio at 60 per cent. for borrowers of retail household loans regardless of the location of the property (other than 'areas of excessive investment' and 'areas of high speculation'). This administrative guidance will be effective by July 31, 2015, unless extended by the FSC.

Restrictions on Investment in Property

A bank may not invest in securities set forth below in excess of 60 per cent. of the sum of the bank's total capital (less any capital deductions):

- debt securities (within the meaning of paragraph (3) of Article 4 of the FSCMA) the maturity of which is longer than three years, but excluding Government bonds, monetary stabilisation bonds issued by the BOK and bonds within the meaning of item 2, paragraph (6) of Article 11 of the Act on the Improvement of the Structure of the Financial Industry;

- equity securities, but excluding securities within the meaning of item 1, paragraph (6) of Article 11 of the Act on the Improvement of the Structure of the Financial Industry;

- derivatives linked securities (within the meaning of paragraph (7) of Article 4 of the FSCMA) the maturity of which is longer than three years; and

- beneficiary certificates, investment contracts and depositary receipts (within the meaning of paragraph (2) of Article 4 of the FSCMA) the maturity of which is longer than three years.

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 of shares by the bank is necessary for the corporate restructuring of such corporation and is approved by the FSC.

In the above cases,

- 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);
- the total investment in companies in which the bank owns more than 15 per cent. of the outstanding shares with voting rights does not exceed 30 per cent. of the sum of Tier I and Tier II capital (less any capital deductions) where the acquisition satisfies the requirements determined by the FSC.

The Bank Act provides that a bank using its bank accounts and its trust accounts is not permitted to acquire shares issued by the major shareholder of such bank in excess of an amount equal to 1 per cent. of the total capital (less any capital deductions).

Restrictions on Bank Ownership

Under the Bank Act, a single shareholder and persons who have a special relationship with that shareholder generally may acquire beneficial ownership of no more than 10 per cent. of a nationwide 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, the KDIC and bank holding companies qualifying under the Financial Holding Company Act are not subject to this limit. However, non-financial business group companies may not acquire beneficial ownership of shares of a nationwide bank in excess of 4 per cent. (or, in the case of a regional bank, 15 per cent.) of that bank's outstanding voting shares, unless they satisfy certain requirements set forth by the enforcement decree of the Bank Act, obtain the approval of the FSC and agree not to exercise voting rights in respect of shares in excess of the 4 per cent. limit (or, in the case of regional bank, 15 per cent. limit), in which case they may acquire beneficial ownership of up to 10 per cent. of a nationwide bank's outstanding voting shares.

In addition, if a foreign investor, as defined in the Foreign Investment Promotion Act, owns in excess of 4 per cent. of a nationwide bank's outstanding voting shares, non-financial business group companies may acquire beneficial ownership of up to 10 per cent. (or, in the case of regional banks, 15 per cent.) of that bank's outstanding voting shares, and in excess of 10 per cent., 25 per cent. or 33 per cent. of that bank's outstanding voting shares with the approval of the FSC in each instance, up to the number of shares owned by the foreign investor. Any other person (whether a Korean national or a foreign investor), with the exception of non-financial business group companies described above, may acquire no more than 10 per cent. of a nationwide bank's total voting shares issued and outstanding, unless they obtain approval from the FSC in each instance where the total holding 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 and outstanding provided that, in addition to the foregoing threshold shareholding ratios, the FSC may, at its discretion, designate a separate and additional threshold shareholding ratio.

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 at a rate determined under the enforcement decree to the Depositor Protection Act. 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 per individual for deposits and interest in a single financial institution, regardless of when the deposits were made and the size of the deposits.

Laws and Regulations Governing Other Business Activities

A bank must register with the MOSF to enter the foreign exchange business, which is governed by the Foreign Exchange Transaction Act of Korea. A bank must obtain the permission of the FSC to enter securities business, which is governed by regulations under the FSCMA. Under these laws, a bank may engage in the foreign exchange business, securities repurchase business, governmental/ public bond underwriting business and governmental bond dealing business.

Trust Business

A bank must obtain approval from the FSC to engage in trust business. The Trust Act and the FSCMA govern the trust business activities of banks, and they are subject to various legal and accounting procedures and requirements, including the following:

- under the Trust Act, assets accepted on trust by a bank in Korea must be segregated from other assets in the accounts of that bank; and

- depositors and other general creditors cannot obtain or assert claims against the assets comprising the trust accounts in the event the bank is liquidated or wound-up.

The bank must make a special reserve of 25 per cent. or more of fees from each unspecified money trust account for 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 whose principal and interest is guaranteed.

Under the FSCMA, which became effective in February 2009, a bank with a trust business licence (such as the Issuer) is permitted to offer both specified money trust account products and unspecified money trust account products. Previously, banks were not permitted to offer unspecified money trust account products pursuant to the Indirect Investment Asset Management Act, which is no longer in effect following the enactment of the FSCMA.

KOREAN LEGAL CONSIDERATIONS

The following is a summary of certain Korean legal issues relevant to prospective investors. The following summary is not intended to be exhaustive. Prospective investors should consider the nature of and investment in covered bonds of this type and the political and legal environment of Korea, and should make such further investigations as they, in their sole discretion, deem appropriate.

Insolvency Laws

Overview

The Debtor Rehabilitation and Bankruptcy Act (the "**DRBA**") is the primary law governing court-supervised insolvency proceedings in Korea.

In the case of rehabilitation proceedings pursuant to Chapter 2 of the DRBA, the ability of secured creditors to enforce their rights to security may be restricted and payment may be subject to rescheduling pursuant to a rehabilitation plan. In bankruptcy proceedings pursuant to Chapter 3 of the DRBA and individual debtor rehabilitation proceedings pursuant to Chapter 4 of the DRBA, however, it is possible for secured creditors to enforce their security interests, subject to certain restrictions.

In addition to the DRBA, the Corporate Restructuring Promotion Act (the "**CRPA**") may restrict certain creditor financial institutions' ability to enforce security interests granted by a "Company Showing Signs of Insolvency" as defined in such Act (a "**Failing Company**"). Also, the Act on Structural Improvement of the Financial Industry (the "**ASIF**") provides regulations regarding improvement of insolvent financial institutions. With respect to individual debtors in financial difficulty, the Korean financial industry's Agreement among Financial Institutions for Assisting the Credit Recovery Support Plan could restrict a creditor financial institution's ability to enforce a mortgage or other security granted by an individual debtor. See "– *Individual Work-out Plans*" below.

Debtor Rehabilitation and Bankruptcy Act

The DRBA contains:

(a) provisions applicable to rehabilitation proceedings under Chapter 2 of the DRBA (hereinafter referred to as "**Chapter 2 Proceedings**"), which primarily deal with rehabilitation of insolvent business entities;

(b) provisions applicable to bankruptcy proceedings, which deal with liquidation of insolvent business entities and individuals;

(c) provisions applicable to individual rehabilitation proceedings under Chapter 4 of the DRBA (hereinafter referred to as "**Chapter 4 Proceedings**"), which are applicable only to certain individual debtors who are wage earners or self-employed earners with debts of no more than a certain specified amount; and

(d) provisions applicable to international insolvency proceedings.

Under the DRBA, the petitioner must specify which procedure he or she wishes to use. For a debtor that has filed for bankruptcy proceedings, a bankruptcy trustee will be appointed to liquidate the assets of the debtor and to distribute the proceeds to its unsecured creditors on a pro-rata basis after the court issues an order preserving the debtor's assets. Secured creditors remain free to exercise their security interests under bankruptcy proceedings.

On the other hand, the goal of Chapter 2 Proceedings and Chapter 4 Proceedings is to rehabilitate insolvent companies or, as the case may be, individuals. In a Chapter 2 Proceedings, secured creditors are not permitted to enforce their security interest. Secured creditors in Chapter 4 Proceedings, however, are permitted to enforce their security interests notwithstanding such Chapter 4 Proceedings (x) unless the court issues an order to suspend or prohibit such exercise during the period after the filing of the petition for Chapter 4 Proceedings but before the court decides to commence Chapter 4 Proceedings, or (y) once the court decides to commence Chapter 4 Proceedings, only after the earlier of (i) the court's approval of the repayment plan or (ii) the final decision by the court to discontinue such Chapter 4 Proceedings.

The DRBA also makes it easier for the court to set aside transactions which the debtor has entered into with certain shareholders or equityholders of the debtor ("**specially related persons**"), by making the presumption that the specially related persons, when entering into such transactions acted with the knowledge that entry into such transactions with the debtor would be prejudicial to other creditors of the debtor. For example, transactions entered into by a debtor for, or relating to, the granting of security by, or the extinguishment of obligations of, the debtor within sixty days before the suspension of payment, without any prior existing obligation to do so, may be set aside. However, this sixty-day period extends to one year in the case of transactions entered into with specially related persons. Further, gratuitous acts or the equivalent thereof performed by the debtor within six months prior to the suspension of payment, etc. by the debtor may be set aside, and this six-month period extends to one year with regards to transactions entered into with specially related persons.

Chapter 2 Proceedings

Chapter 2 Proceedings (i.e. rehabilitation proceedings) are designed for use by insolvent debtors who wish to rehabilitate themselves. This type of proceeding is closely supervised and controlled by the court so that most of the material actions or decisions of the debtor may be taken by, or made only with the approval of, the court.

All types of legal entities, including joint stock companies, limited liability companies and unincorporated foundations or associations, as well as individuals, may avail themselves of Chapter 2 Proceedings.

The DRBA provides that in Chapter 2 Proceedings, in principle, the debtor itself or, in case where the debtor is a company, its own representative, and not a third party, will be appointed as receiver with authority to act on behalf of the debtor, subject to supervision of the court. It is also possible in Chapter 2 Proceedings for a legal entity to be appointed as the receiver. If a legal entity is appointed as the receiver, the legal entity should designate one of its directors to exercise the rights and powers conferred on it as a receiver and report such designation to the court.

Under the DRBA, the debtor may file a petition with the court for commencement of Chapter 2 Proceedings where either, (i) the debtor cannot repay its debts without causing material damage to the continuance of the debtor's business, or (ii) events leading to bankruptcy of the debtor may arise. If the debtor is a joint stock company or a limited liability company, (a) a creditor who has claims in an amount not less than 10 per cent. of the debtor's paid-in capital, or (b) a shareholder or equityholder who holds shares or an equity interest constituting not less than 10 per cent. of the debtor's paid-in capital, may also apply for commencement of Chapter 2 Proceedings. If the debtor

is not a joint stock company or a limited liability company, a creditor who has claims in an amount of not less than ₩50 million or an equityholder who holds an equity interest of not less than 10 per cent. of the debtor's equity can apply for commencement of Chapter 2 Proceedings.

When the debtor itself or a creditor or equityholder of the debtor that satisfies the above requirements applies for commencement of Chapter 2 Proceedings, the court may, upon the request of interested parties or in its sole discretion, but after hearing the opinion of the management committee, issue a preservation order against individual assets of the debtor, and may issue an injunction against bankruptcy proceedings or enforcement proceedings initiated by the debtor's secured or unsecured creditors. Further, if the court determines that the objectives of the Chapter 2 Proceedings may not be achieved through asset preservation orders, it may issue a comprehensive stay order against enforcement proceedings initiated by creditors against the assets of the debtor. If a comprehensive stay order is issued, enforcement proceedings that are already in progress will be suspended, and the court may cancel such enforcement proceedings upon the request of the debtor or, as the case may be, the receiver, if deemed necessary for the continuance of the debtor's business. However, if the court determines that a creditor may sustain unjust damages as a result of such comprehensive stay order, the court may revoke the order for that particular creditor upon request of such creditor.

When a petition for commencement of Chapter 2 Proceedings is filed, the court is required to determine within one month of the date of petition whether to commence such proceeding, although such period may be extended by the court. Once the commencement of Chapter 2 Proceedings is declared, most claims against the debtor that arose prior to such commencement date are automatically stayed, while claims arising after the commencement date are generally not subject to the Chapter 2 Proceedings. Also, the court will appoint a receiver with the power to conduct all of the debtor's business and manage all of the debtor's properties, subject to court supervision.

As a general rule, any creditor whose claim against the debtor arose prior to the commencement of the Chapter 2 Proceedings, whether secured or unsecured, may not enforce such claims other than as provided for in the rehabilitation plan adopted at the meeting of interested parties and approved by the court. The rehabilitation plan may alter or modify the rights of creditors or shareholders. Accordingly, there can be no assurance that the rights of the creditors, whether secured or unsecured, will not be adversely affected by a Chapter 2 Proceedings. Further, a creditor who intends to participate in the rehabilitation plan must file a proof of claim with the court within the period fixed by the court if the receiver had not affirmatively recognised such claim.

In Chapter 2 Proceedings, creditors are classified into three basic categories: (i) creditors with unsecured rehabilitation claims, (ii) creditors with secured rehabilitation claims, and (iii) creditors with claims for the common benefit. The former two categories of creditors are subject to the Chapter 2 Proceedings and generally may not receive payment or repayment for their respective claims other than as provided in the rehabilitation plan. Creditors with claims for the common benefit are not subject to the rehabilitation plan, and include, among others, those creditors whose claims either arose after the commencement of the Chapter 2 Proceedings (subject to certain exceptions) or those creditors whose claims were approved by the court during the preservation period.

If the debtor fails to perform its payment obligations in accordance with its rehabilitation plan, affected creditors are not permitted to initiate lawsuits or enforce their security interests. Instead, they (or the receiver of the debtor) may only request the court to amend the rehabilitation plan. However, if such amendment could have an adverse effect on creditors with rehabilitation claims or shareholders of the debtor, the court may amend the rehabilitation plan, in principle, only after obtaining approval for the amendment through an affirmative vote at a meeting of interested parties. If it becomes apparent, either before or after the court approves the rehabilitation plan, that

the debtor cannot be rehabilitated, the court may, at its sole discretion or upon the request by the receiver or a creditor with a rehabilitation claim, issue an order to discontinue the Chapter 2 Proceedings.

Bankruptcy Proceedings

A bankruptcy proceeding is a court administered process whose purpose is to liquidate an insolvent debtor's assets and distribute the proceeds therefrom to the debtor's creditors on a *pro rata* basis. Bankruptcy proceedings formally commence upon an adjudication by the court that the debtor is indeed "bankrupt". The court will make its determination as to whether grounds for bankruptcy exist based on the written pleadings and oral arguments of the petitioner. The adjudication of bankruptcy also has the effect of automatically staying all unsecured creditors from enforcing their claims against the bankruptcy estate.

The bankruptcy trustee appointed by the court is vested with the exclusive right to manage and dispose of the bankruptcy estate and to conduct an investigation and assessment of the bankruptcy estate. The DRBA permits a legal entity to be appointed as the bankruptcy trustee of the bankruptcy proceeding. If a legal entity is appointed as the bankruptcy trustee, it shall designate one of its directors to exercise the rights and powers conferred to it as bankruptcy trustee and shall report such designation to the court. After reviewing the reports prepared by the bankruptcy trustee, the creditors will have a meeting and vote on a resolution deciding whether to continue or discontinue the debtor's business and the manner of safeguarding the bankruptcy estate.

Subject to certain statutory limitations and approval by the inspection commissioners, the bankruptcy trustee has the power to liquidate the bankruptcy estate, and to determine the manner and timing of such liquidation. The bankruptcy trustee distributes the proceeds from the liquidation of the bankruptcy estate to the creditors in proportion to their claims. The distribution is made in several stages. Claims entitled to distribution are differentiated according to their priority of claims. Bankruptcy creditors are classified as follows in accordance with their priorities: (i) secured creditors, who have the right to enforce their securities on the same terms as would be available if the debtor were not in bankruptcy; (ii) creditors with estate claims, which include costs of judicial proceeding, tax claims, wages and payment of severance, management expenses incurred in connection with management, liquidation and distribution of the bankruptcy estate, and other claims arising from administration of the bankruptcy estate; (iii) creditors with other statutorily preferred claims (including policyholders' claims against an insurance company to the extent of the amount equal to the relevant reserves); (iv) general claims; and (v) less preferred claims.

The DRBA ensures that the priority rights of tenants under the Residential Tenant Protection Act and the Commercial Building Tenant Protection Act are also protected under bankruptcy proceedings.

Chapter 4 Proceedings

Chapter 4 Proceedings (i.e. individual rehabilitation proceedings) are available to persons (i) who are unable, or are likely to become unable, to repay debts when they become due, (ii) who are considered to have the ability to earn consistent wage income or business income in the future, and (iii) whose debt is no more than (x) ₩1 billion in case of debts secured by a mortgage, pledge, *chonsei-kwon* and certain other preferential rights, and (y) ₩500 million in case of any other debts. Only debtors, and not creditors, are able to petition the court for Chapter 4 Proceedings. When a debtor files a petition for Chapter 4 Proceedings, the court may suspend or prohibit bankruptcy proceedings, compulsory execution, provisional attachment, establishment or

enforcement of security or the repayment of claims until the court decides whether to commence Chapter 4 Proceedings. In principle, the court must make such decision within a month after the filing of the petition.

After the commencement order is issued by the court, any bankruptcy proceedings, Chapter 2 Proceedings or actions mentioned above are automatically suspended or prohibited. In addition, after the commencement order is issued by the court, the establishment or enforcement of security interests is automatically suspended or prohibited until the earlier of the date (i) when the repayment plan is approved or (ii) when the approved Chapter 4 Proceedings are later finally determined to be discontinued. Subject to the automatic suspension or prohibition as described above, secured creditors have the right to enforce their security interests on the same terms as would be available if the debtor was not in Chapter 4 Proceedings. In principle, the debtor retains management and disposal rights over his/her assets even after the issuance of a commencement order for Chapter 4 Proceedings. The debtor must submit a list of creditors at the time of application, and any claims that are not disputed by the relevant creditor will be settled as indicated on the creditors list. Claims that are disputed by creditors will be settled through a court decision. The debtor must, in principle, submit a repayment plan within 14 days of the application, and the rehabilitation period must not exceed five years from the commencement of repayment.

The repayment plan must be approved by the court and the court may order its amendment. One important requirement for approval is that the total amount of repayment must not be less than the amount that creditors would have received in a bankruptcy proceeding, unless creditors consent to the court's approval despite the failure of the individual debtor's repayment plan to meet such requirement. The DRBA sets out a list of claims that have priority in payment to the claims listed in the creditor list (e.g. expenses for the Chapter 4 Proceedings, certain taxes, salaries for the debtor's employees, etc.). Once the debtor completes repayment in accordance with the repayment plan, the court will issue an acquittal order with respect to the debtor.

International Insolvency Proceedings

The representative in a foreign insolvency proceeding (i.e. a person or entity recognised by the applicable court as the receiver or representative in the foreign insolvency proceeding) may file with the Korean court for approval of such foreign insolvency proceeding. Once the foreign insolvency proceeding is approved by the Korean court, the representative in such proceeding may apply for insolvency proceedings in Korea or participate in the insolvency proceeding that is already in progress in Korea. On the other hand, the receiver or bankruptcy trustee in the insolvency proceeding in Korea may, for purposes of such proceeding, take actions in foreign jurisdictions to the extent permitted by applicable laws.

Individual Work-out Plans

The Issuer, together with other Korean consumer finance lenders, is subject to the Korean financial industry's 'Agreement among Financial Institutions for Assisting the Credit Recovery Support Plan' (the "**Individual Work-out Plan Agreement**") which took effect on September 25, 2002 (and which has subsequently been amended) to assist qualifying individuals who are in financial difficulty to avoid personal bankruptcy. The Individual Work-out Plan Agreement applies to sole practitioners and to individuals who have a poor credit history, who owes ₩1.5 billion or less to financial institutions and (i) whose income exceeds a specified minimum or (ii) who are determined by the Review Committee (defined below) to be able to repay their debts. The amendment to the Individual Work-out Plan Agreement, which took effect on April 13, 2009, expands the applicability of the Individual Work-out Plan Agreement by introducing the concept of "pre-workout plans" for debtors whose delinquency period is less than the three-month period required to qualify for Individual Work-out Plans.

Under the Individual Work-out Plan Agreement, eligible individuals may apply for protection under the scheme to the Credit Counselling and Recovery Service. On receipt of such an application, the Credit Counselling and Recovery Service notifies each of the debtor's creditor financial institutions and requests them to certify the amount owed to them and their opinion on the application. From the time that the financial institutions receive such a notice, they are subject to a moratorium on their ability, among other things, to enforce any security, including residential mortgage that they hold for the relevant debt.

Under such "pre-work-out plan", an individual may apply to the Credit Counselling and Recovery Service for protection under the scheme if such individual satisfies the following conditions: (i) the aggregate outstanding debt owed to more than one financial institution is ₩1.5 billion or less; (ii) such debt is in arrears for a period exceeding 30 days but less than 90 days based on the credit information obtained from the Korea Information Service, the National Information & Credit Information and the Korea Credit Bureau; (iii) any loan or credit facilities refinanced in the six months period prior to the application is less than 30 per cent. of the aggregate outstanding credit balance; (iv) the aggregate amount of loan or credit facilities redemption in a year exceeds 30 per cent. of gross annual income; and (v) the Review Committee has determined that such individual has difficulties to repay the debt according to the scheduled payment dates due to any reasons (including unemployment, suspension or shutdown of business, disasters, reduction in income).

The application is then considered by a review committee (the "**Review Committee**") established under the Individual Work-out Plan Agreement. The Review Committee can recommend a plan (which can be either an "Individual Work-out Plan" or a "Pre-Work-out Plan") for the rehabilitation of the debtor, including (a) in the case of an Individual Work-Out Plan, extending the repayment period to up to eight years, adjusting interest rates, setting up an instalment plan for a period not exceeding eight years and writing-off the principal amount of the outstanding debt up to an amount equal to one half thereof (while all of the interest due on such debts may be written off) and (b) in the case of a Pre-Work-out Plan, extending the repayment period to up to 10 (for unsecured debt) or 20 (for secured debt) years, adjusting interest rates and setting up an instalment plan for a period not exceeding 10 or 20 years, as applicable. The final Individual Work-out Plan or Pre-Work-out Plan, as applicable, of the Review Committee is put to a vote of the creditors of the relevant debtor and, to be adopted, must be approved by creditor financial institutions representing more than 50 per cent. of the debtor's outstanding unsecured debt and 50 per cent. or more of the debtor's outstanding secured debt. If the first Individual Work-out Plan or Pre-Work-out Plan is rejected, the Review Committee may submit a revised Individual Work-out Plan or Pre-Work-out Plan, as applicable, to the creditor financial institutions, which must be approved by the same majorities.

If the Individual Work-out Plan or Pre-Work-out Plan is adopted, the creditor financial institutions are bound by its terms. Any creditor financial institution which violates the Individual Work-out Plan or Pre-Work-out Plan, for example by seeking to enforce its security, could be fined by the Credit Counselling and Recovery Service in an amount between 5 per cent. and 50 per cent. of the principal amount outstanding of the relevant debtor's borrowings from such creditor financial institution.

Corporate Restructuring Promotion Act

The original Corporate Restructuring Promotion Act (Act No. 6504) ("**Old CRPA**") was enacted on August 14, 2001 in order to facilitate the out-of court restructuring of insolvent companies. This law expired on December 31, 2005, but new Corporate Restructuring Promotion Acts were enacted on August 3, 2007 (expired on December 31, 2010) and May 19, 2011 (expired on December 31, 2013), and the version of the CRPA that is currently in effect was enacted on January 1, 2014 and will continue in force until December 31, 2015.

However, if the 'main Creditor Financial Institution' of a Failing Company provided notice of the convening of a Creditor Committee (defined below) on or before December 31, 2015, any proceedings commenced by such Creditor Committee will remain subject to the CRPA even after December 31, 2015 unless and until such proceedings are completed or discontinued.

The following is a summary of the key provisions of the CRPA. The CRPA applies to creditor financial institutions which are specified in the CRPA and in the presidential decree thereunder ("**Creditor Financial Institutions**"), including, among others, special purpose companies established under the ABS Act ("**SPVs**"), which provide credit to a company which:

(a) has not less than ₩50 billion of credit provided by Creditor Financial Institutions; and

(b) is determined, on the basis of a credit evaluation carried out in the manner set out in the CRPA by its 'main Creditor Financial Institution' or a committee of Creditor Financial Institutions (a "**Creditor Committee**"), to be a Failing Company.

Under the CRPA, the main Creditor Financial Institution of a Failing Company is required to take or arrange one of the following actions if it determines that there is a possibility that the financial condition of the Failing Company may be rehabilitated or brought back to normal in accordance with its business plan:

- assumption of management of the Failing Company by the Creditor Committee;
- assumption of management of the Failing Company by the Committee of the Creditor Banks (the "**Bank Committee**");
- assumption of management of the Failing Company by the main Creditor Financial Institution; or
- rehabilitation proceedings under Chapter 2 of the DRBA.

If the main Creditor Financial Institution determines that the Failing Company is beyond rehabilitation or does not take any of the steps set out above, the main Creditor Financial Institution must require the Failing Company to dissolve or liquidate or must itself commence insolvency proceedings against the Failing Company if the main Creditor Financial Institution determines that there are grounds to do so. If the Creditor Committee assumes the management of the Failing Company, the Creditor Committee may appoint an administrator for the management of funds and other important businesses of the Failing Company from the date of commencement of such management by the Creditor Committee. Management by the Bank Committee or by the main Creditor Financial Institution will be conducted in a manner acceptable to the Creditor Committee.

"**Provision of Credit**" is defined in the CRPA as any transaction determined by the FSC to fall under any of the following:

- loans;
- purchase of promissory notes and debentures or bonds;
- equipment leasing;
- payment guarantees;
- any transaction which may cause a loss to a Creditor Financial Institution as a consequence of a payment failure by its counterparty; or

- any transaction which may have in substance the same effect to a Creditor Financial Institution as the transactions set out above even though it may not have provided credit.

Under the Supervisory Regulations promulgated by the FSC pursuant to the Old CRPA, the Provision of Credit to a company is further defined as all claims for repayment against the company, including loan receivables, payment guarantees, securities and other receivables. In addition, the FSC issued a ruling on November 2, 2001 providing that sale warranties given by an originator to a SPV in respect of securitised assets will be deemed to be a provision of credit under the Old CRPA. Although the ruling discusses only the point of sale warranties, as the new supervisory regulation promulgated by the FSC as required by the CRPA has the same definition in respect of the Provision of Credit to a company, the SPV's claims for payment against the seller in connection with the securitisation would be considered a Provision of Credit by the SPV to the originator in light of such definition.

Under the CRPA, in the event that the main Creditor Financial Institution of the Failing Company decides to assume management of the Failing Company and accordingly calls for a meeting of the Creditor Committee, the main Creditor Financial Institution is required to notify the Governor of the FSS. Upon receipt of such notice, the Governor of the FSS may require the Creditor Financial Institutions to grant a moratorium on the enforcement of claims (including the enforcement of security interest) until the first meeting of the Creditor Committee (which should be held within seven days of the notice of the meeting). In addition, at the first meeting of the Creditor Committee, Creditor Financial Institutions representing at least 75 per cent. of the outstanding credit to the Failing Company may declare a moratorium for up to three months if an investigation of the Failing Company's financial status is necessary or up to one month if such investigation is not necessary (which may be extended by an additional month).

If the Creditor Committee cannot agree on the moratorium period or if the corporate repayment plan is not approved by the date the moratorium period ends, the Creditor Committee's management of the Failing Company shall be deemed to have terminated. The Creditor Committee can approve the rescheduling of the debt owed by the Failing Company or provide new credit to it with the approval of Creditor Financial Institutions representing not less than 75 per cent. of the outstanding secured claims, as well as the approval of Creditor Financial Institutions representing not less than 75 per cent. of all outstanding credit. A Creditor Financial Institution whose outstanding credit to the Failing Company is less than 5 per cent. of the total outstanding credit may be excluded from the Creditor Committee.

A Creditor Financial Institution which does not participate in the relevant Creditor Committee meeting or has opposed the resolutions of the Creditor Committee in respect of the commencement of management of the Failing Company by the Creditor Committee or the rescheduling of claims or provision of new credit (the "**Opposing Creditor Financial Institution**") may, within seven days of such resolution, request the Creditor Financial Institutions that have approved such resolution (the "**Approving Creditor Financial Institutions**") to purchase its outstanding claims against the Failing Company stating the type and number of claims. The Approving Creditor Financial Institutions shall purchase such claims within six months of such request or the Creditor Committee may request the Korea Asset Management Corporation, KDIC or other financial institutions under the Depositor Protection Act or any other institution designated by the Creditor Committee to purchase such claims.

The purchase price and terms of such purchase shall be determined by mutual agreement of the Approving Creditor Financial Institutions and the Opposing Creditor Financial Institution. Pending the agreement of such matters, the payments shall be made at a provisional price, and adjusting payments made once an agreement has been reached. If no such agreement is reached, then such matters shall be determined by the coordination committee established under the CRPA.

The Act on the Structural Improvement of the Financial Industry

The ASIF provides regulations regarding the improvement of insolvent financial institutions. According to the ASIF, where any financial institution's financial status does not meet certain standards such as its capital adequacy ratio or any financial institution's financial status falls below certain standards due to the occurrence of a major financial scandal or accrual of non-performing loans, the FSC, in order to protect the financial institution from becoming insolvent and help the financial institution manage its business soundly, may recommend, request or order the financial institution concerned or the officers of such financial institution to implement the following measures or order them to furnish its implementation plan, including but not limited to:

(a) capital increase or capital deduction, disposal of property holdings or reduction in the number of its branches and downsizing;

(b) ban on the acquisition of such assets as claims with high risks of default or assets prone to price fluctuations, or restrictions on the receiving of deposits at exorbitantly high interest rates;

(c) suspension of officers' duties or appointment of managers to act on behalf of officers;

(d) amortisation or consolidation of stocks;

(e) suspension of all or part of its business;

(f) merger with or assumption of a financial institution;

(g) business transfers or contract transfers pertaining to financial transactions such as deposits or loans (hereinafter referred to as "**contract transfers**"); and

(h) other measures equivalent to those listed in paragraphs (a) through (g), which are deemed necessary to improve any financial institution's financial soundness (collectively, "**timely corrective measures**").

In addition, managers may be appointed by the FSC pursuant to the ASIF in connection with any timely corrective measures requested by the FSC. Such managers may have the authority to make any decisions within the scope of authority of such officer. Such managers may also have the authority to manage and dispose of any assets and liabilities in connection with any decisions made by the FSC with respect to contract transfers.

When the FSC intends "timely corrective measures" to be taken, it shall in advance determine and notify the standards and contents of such measures.

Among the timely corrective measures, certain measures, such as suspension of all business, transfer of all business, transfer of all contracts or orders on amortisation of the total stocks and any equivalent measures, may only be taken if (i) the financial institution is insolvent or (ii) its financial status falls short of certain standards and it is deemed to be a credit risk or to prejudice the rights and interests of depositors. In addition, the ASIF also stipulates measures to be taken by the Government to support insolvent institutions and financial institutions merging with the insolvent financial institutions.

According to the ASIF, the FSC, where any financial institution fails to execute any request or order regarding timely corrective measures, may, on the recommendation of the Governor of the FSS, order the officers of the financial institution concerned to suspend the execution of their business and may appoint managers to conduct the business on behalf of such officers. In cases where:

(a) an insolvent financial institution fails to execute an order regarding timely corrective measures or is unable to execute such order;

(b) the merger of an insolvent financial institution under an order or arrangement given and made under the provisions of the ASIF fails to complete; or

(c) an insolvent financial institution prejudices depositors' rights and interests and becomes a credit risk after it has been unable to pay claims including deposits and repay borrowings due to its poor financial standing,

the FSC may take necessary measures, such as a decision for the transfer of contracts, suspension of business for a certain period against the insolvent financial institution, and cancellation of the authorisation or permission of its business.

Where financial institutions have their authorisation or permission to carry on business cancelled pursuant to the above, they shall be dissolved. If a decision for the transfer of contracts mentioned above is made, the rights and duties of the insolvent financial institution under the contracts which are subject to transfer shall be transferred to the financial institution which takes over those contracts (hereafter referred to as the "undertaking financial institution") at the time when such decision is made. In relation to this, the insolvent financial institution and the undertaking financial institution shall announce the transfer of the contracts in two or more daily newspapers. When the announcement is made, the legal relations of creditors, debtors, pledgors or other interested persons to the insolvent financial institution shall remain the same with the undertaking financial institution.

The FSC, where any financial institution is dissolved or becomes bankrupt, may, notwithstanding the provisions of the Korean Commercial Code and the DRBA, recommend a liquidator or a receiver to be appointed from among financial experts and officers or employees of the KDIC. In addition, when the FSC knows that the total amount of debt of a financial institution exceeds the total amount of its assets, it may make an application for declaration of bankruptcy.

General Laws Relating to the Mortgage Loan Business

There is no specific legislation in Korea for regulating mortgage loan businesses other than basic private laws, including, among others, the Civil Code, the Civil Enforcement Act, and the Registration of Real Estate Act. Financial institutions carrying on mortgage loan businesses, however, are subject to specific laws that regulate such financial institutions, such as the Bank Act, the Credit Specialised Finance Business Act and the Insurance Business Act. Commercial banks, credit specialised finance companies and insurance companies must comply with the relevant laws and regulations in originating and servicing mortgaged loans and are regulated by the FSC under such laws.

Keun-Mortgages

The most frequently used form of loan security for residential property in Korea is the *Keun*-mortgage, which differs from a more traditional mortgage. With more traditional mortgages, a mortgagee's rights are automatically extinguished upon satisfaction of the underlying debt, whereas with a *Keun*-mortgage, the mortgagee's rights are not automatically extinguished upon

satisfaction of the underlying debt. Instead, a mortgagee's rights are extinguished when the term of the *Keun*-mortgage agreement expires or if terminated earlier by the parties. Furthermore, the amount of the secured claim may be increased or decreased within the maximum amount as agreed upon by the mortgagee and the borrower of the secured claim (which is duly registered in the relevant real estate registry) during the term of the *Keun*-mortgage agreement. Since the mortgage rights and obligations are not automatically extinguished, the contracting parties are not required to enter into and record separate mortgage agreements each time a subsequent loan is made.

Keun-mortgages can be enforced in the same manner as various other real estate rights, including enforcement through petition for auction and entitlement to distribution in accordance with recorded priorities.

Korea is a "race" jurisdiction that assigns claim priority in chronological order according to the date of the registration of the mortgages and other security interests. Statutory liens are exceptions to this rule and may rank senior to prior recorded mortgages and other security interests.

Fixing of *Keun*-mortgage

Unless otherwise agreed in the relevant agreement, in general, the approval or consent from the borrower is not required for the transfer of a mortgage. In cases where the mortgage is a *Keun*-mortgage, however, the secured claims must be fixed prior to the transfer of such mortgage. If the secured claims are not fixed, consent from the borrower in order to fix the secured claims is required.

However, the Korean Covered Bond Laws provide that if an underlying asset in the Cover Pool is a claim secured by *Keun*-mortgage and such claim is being disposed of in accordance with the Korean Covered Bond Laws, the *Keun*-mortgage may be transferred together with the secured claim prior to the fixing of the principal of such claim secured by the *Keun*-mortgage.

General Description of Judicial Auction Laws in Korea

General

A mortgagee of record, a creditor in possession of a validly notarised promissory note or a judgment creditor may apply for a court auction of real estate. All foreclosures of real estate based on general claims or mortgage loans must be carried out through a judicial auction. Nevertheless, financial institutions generally use mortgage agreements which provide that, if a mortgagor consents, creditors may dispose of the mortgaged property by any method that is reasonable and customary, with the proceeds of such disposition being applied to satisfy its secured obligations. The procedures for auction are governed by the Civil Enforcement Act.

Requirements for Exercising Remedies

The *Gyongmae Shinchung*, or petition for auction, must be filed with the relevant court having jurisdiction over the district in which the real estate is located. The petition for auction must set forth supporting facts and grounds for requesting an auction, and must be accompanied by various documents including a copy of the mortgage agreement, a certified copy of the court register relevant to the subject property and a registration tax payment certificate.

The court will order an appraisal to determine the value of the real estate. Fees and expenses incurred in connection with an auction generally amount to between 2 and 3 per cent. of the real estate's appraised value. In addition, a registration tax of 0.2 per cent. of the claim amount and an

educational surtax of 20 per cent. of the registration tax must be paid to the relevant municipal office. This registration tax is separate and distinct from the registration tax imposed on the transfer of title to the property.

Procedures for Auction

Once a petition for auction has been filed, the court will examine the petition and the supporting documents and will issue its order to commence the auction (usually within two to three days of the petition). Typically within seven days, the court order for auction is then entered in the *Deungki-Bu* (real estate registry) of the subject property.

The first auction date is generally set approximately five to six months from the date of petition filing. In the absence of any objection filed by the mortgagor or any other interested party, the auction will take place on the date set by the court. On the day of the auction, bidders must deposit 10 per cent. of the minimum price set by the court with the court unless the court decides otherwise. Distribution of auction proceeds will take place approximately 70 to 80 days after the auction date. However, it is not common that the property is sold at the first auction, thus necessitating subsequent auctions. A subsequent auction date is set for a date approximately one month following the first auction date. Each time an auction closes without a successful bid, the minimum price is lowered by 20 to 30 per cent..

There are no restrictions preventing the mortgagee of a property to be auctioned from bidding in the auction for such property. A mortgagee may decide to purchase such property if the minimum auction price falls below a certain level. If a mortgagee is selected as the successful bidder, then such mortgagee may off-set its claim amount against its bidding price. However, the mortgagee purchaser must still pay in cash the amount sufficient to cover the senior claims and statutory liens having priority over its claim.

Priority of Distribution

Although priority among mortgages is determined by chronological order of their registration with the court, certain statutory liens and expenses (arising by operation of law) are given priority over registered mortgages. The statutory liens and expenses that have priority over mortgage claims which are registered prior to the due date of tax claims on the auctioned real estate are as follows (listed in the order of priority):

1. Auction expenses;

2. Refunds of key money deposits for small leases ("**Super-Priority Right for Small Leases**") up to the statutory limit on residential properties (see "– *Key Money Deposit Protection*" below); back wages of the mortgagor's employees for the last three months of employment, severance payments accrued within the last three years and accident compensation allowances under the Labour Standards Act;

3. Certain national taxes and additional dues thereon (e.g. inheritance tax, gift tax and asset revaluation tax) and local taxes and additional dues thereon (e.g. property tax, aggregate real estate tax, city planning tax and common facility tax) directly connected with the auctioned real estate; and

4. Mortgage claims and *Chonsei-kwon* claims registered prior to the due date of tax claims/ refund of key money deposit having Priority Rights for residential properties (see "– *Key Money Deposit Protection*" below).

For mortgage claims registered after the due date of tax claims on the auctioned real estate, other national and local taxes (lower in priority than those identified in paragraph 3 above) would have priority over the mortgage claims.

With respect to the priority among the mortgage claim, a *Chonsei-kwon* claim and the refund of the key money deposit, priority is determined by chronological order of their registration with the court (in the case of a mortgage claim and a *Chonsei-kwon* claim) or satisfaction of all the requirements as specified in "– *Rights of Tenants of Residential Leases – Priority Right*" below (in the case of refund of the key money deposit) (see "– *Key Money Deposit Protection*" below for more detail).

Key Money Deposit Protection

It is common practice in Korea for tenants to pay a lump sum deposit, known as a "key money deposit", to be held by a landlord until the expiration of a lease. During the lease term, the tenant is not required to make monthly rental payment. Instead, the landlord is free to invest the key money deposit and keep the proceeds thereof in lieu of such monthly rental payment. Upon the termination or expiration of the lease, the landlord is required to return the key money deposit to the tenant without any interest thereon.

Chonsei-kwon

A *Chonsei-kwon* is a type of mortgage granted by a lessor to a lessee as security for the repayment of a lessee's key money deposit and also allows the lessee to occupy the leased premises until the later of the date on which (i) the lease term expires or (ii) the lessor returns the key money deposit to the lessee. A *Chonsei-kwon* must be registered with the court. Upon such registration, the lessee with the *Chonsei-kwon* is afforded similar protections as a mortgagor and can initiate foreclosure proceedings against the lessor/debtor until the expiration or termination of the lease. Typically, a *Chonsei-kwon* is granted on the building and not on the land. With respect to priority between a mortgage claim and a *Chonsei-kwon* claim, priority is determined by chronological order of their registration with the court.

Rights of Tenants of Residential Leases

Under the Residential Tenant Protection Act, there are three levels of protection that are afforded to tenants of residential leases (even if they are not registered with the real estate registry) for their key money deposits: the Super-Priority Rights for Small Leases, the priority right (the "**Priority Right**") and the holdover right (the "**Holdover Right**").

Super-Priority Right for Small Leases

In order to secure a Super-Priority Right for Small Leases, the tenant must take possession of the relevant property ("**Occupancy Requirement**") and file his relocation to the property with the local government office ("**Move-in Report Requirement**"). In addition, the key money deposits must be equal to or less than the following amounts (depending on where the property is located): (a) ₩95 million for Seoul, (b) ₩80 million for "concentration control region" (as defined in Seoul Metropolitan Area Readjustment Planning Act) other than Seoul, (c) ₩60 million for other metropolitan areas (such as Busan, Daegu etc.) Ansan, Yongin, Gimpo and Gwangju and (d) ₩45 million for other areas. The tenants satisfying the above requirements have super-priority rights in terms of refund of key money deposits over all mortgages and other security interests on the property for the following amounts out of the total amount of the key money deposit: (a) ₩32 million for Seoul, (b) ₩27 million for "concentration control region" (other than Seoul), (c) ₩20

million for other metropolitan areas (such as Busan, Daegu etc.) Ansan, Yongin, Gimpo and Gwangju, and (d) ₩15 million for other areas; provided that such amounts do not exceed one-half of the sale or auction price of the relevant property.

Priority Right

The requirements for a Priority Right are the Occupancy Requirement and Move-in Report Requirement, plus an additional requirement that the lease document be fixed date-stamped by a notary public, post office, or other government office. Upon the perfection of the Priority Right, the tenant has priority in terms of the refund of the entire key money deposit over all mortgages that are registered after the date on which all of the requirements are satisfied.

Holdover Right

The requirements for a Holdover Right are the Occupancy Requirement and the Move-in Report Requirement. Upon the perfection of the Holdover Right, the tenant has the following rights: (i) if there are no other mortgages perfected ahead of the tenant's rights at the time of auction sale, then the tenant is deemed to have a Holdover Right, in which case the acquirer of the relevant property pursuant to an auction must assume all of the terms and conditions of the lease, including the key money deposits unless the acquirer chooses to terminate the lease and refund the entire amount of the key money deposit; and (ii) if there is any mortgage perfected ahead of the tenant's rights, then the tenant is not deemed to have Holdover Right, in which case the acquirer of the relevant property pursuant to an auction need not assume any of the terms and conditions of the lease, including the key money deposits.

Generally, if a tenant has a Holdover Right, the acquirer of the relevant property will reduce the purchase price by the amount of the Holdover Right which it is obliged to assume. If a tenant refuses to vacate the premises, the acquirer may take the following actions to evict the tenant.

Within six months after the acquirer has paid the purchase price for the property, the acquirer may obtain an eviction order from the court that handled the auction process to evict the tenant. If the tenant refuses to vacate the premises, the tenant may be forcibly removed by court appointed persons. Following the six-month period, the acquirer has to initiate an eviction proceeding, which is separate from the auction proceeding and handled by a different court. In such case, it can take from six months to one year to obtain a court order to evict the tenant. As such, it is more efficient and less time consuming for the acquirer to obtain the eviction order during the six month period following the payment of the purchase price. Moreover, the acquirer may seek an injunction to enjoin the tenant from transferring the lease to a third party.

Objections

An interested party, including the mortgagor, may file an objection to an auction at any time prior to a successful bidder paying the balance of its bid amount. Such parties may also file an objection to the declaration of the successful bidder within one week of such declaration. Objections can be made based on either procedural (e.g. irregularities or defects in the auction procedure) or substantive (e.g. defects in the title of the property or the underlying obligation) grounds. An objecting party may apply for an injunction (to delay the auction) by filing an action challenging the validity of the mortgagee's underlying claim and posting a bond that is usually equivalent to all or substantial part of the amount claimed by the mortgage in the auction petition.

Enforcement of English Judgments in Korea

A judgment duly obtained in the courts of England will be recognised by the Korean courts without re-examination of the merits of the case if:

(1) such judgment was finally and conclusively given by a court having valid jurisdiction in accordance with international jurisdiction principles under Korean law and applicable treaties;

(2) the Issuer received service of process, other than by publication or similar means, in sufficient time to enable such party to prepare its defence in conformity with the laws of England, or in conformance with the laws of Korea if it were made to the Issuer in Korea) or responded to the action without being served with process;

(3) such judgment is not contrary to the public policy of Korea; and

(4) (i) judgments of the courts of Korea are accorded reciprocal treatment under English law or (ii) judgments of the courts of Korea are not treated in England in a manner which is considerably prejudicial to their recognition and their treatment is substantially the same as treatment by the courts of Korea of the judgments obtained in England in material respects.

TAXATION

Korean Taxation

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-sourced income is attributable or with which such relevant Korean-sourced income is effectively connected. Non-Residents without such a Permanent Establishment in Korea are taxed in the manner described below. Non-Residents with such Permanent Establishment are taxed in accordance with different rules.

Income Tax and Corporation Tax on Interest

Interest on the Covered Bonds paid to Non-Residents (excluding payments to their Permanent Establishment in Korea) is exempt from income tax and corporation tax (whether payable by withholding or otherwise) pursuant to the Special Tax Treatment Control Law (the "**STTCL**"), so far as the Covered Bonds fall within "foreign currency denominated bonds" under the STTCL and the issuance of the Covered Bonds is deemed to be an overseas issuance under the STTCL. The term "foreign currency denominated bonds" in this context is not defined under the STTCL. In this regard, the Korean tax authority issued a ruling on September 1, 1990 to the effect that "Notes Issuance Facility, USCP, Euro CP and Banker's Acceptance, etc." are not treated as "foreign currency denominated bonds."

If not exempt under STTCL, the rate of income tax or corporation tax applicable to interest or any premium paid on the Covered Bonds, applicable to a Non-Resident without a Permanent Establishment in Korea, is currently 14.0 per cent. In addition, a tax surcharge called a local income tax is imposed at the rate of 10.0 per cent. of the income tax or corporation tax (raising the total tax rate to 15.4 per cent.).

The tax is withheld by the payer of the interest.

The tax rates may be reduced by applicable tax treaty, convention or agreement between Korea and the country of the recipient of the interest. The relevant tax treaties are discussed below.

Capital Gains Tax

The Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident without a Permanent Establishment in Korea from the sale of the Covered Bonds to a Non-Resident (other than to its Permanent Establishment in Korea). In addition, capital gains earned by a Non-Resident with or without a Permanent Establishment from the transfer outside Korea of the Covered Bonds are currently exempt from taxation by virtue of the STTCL, provided that the issuance of the Covered Bonds is deemed to be an overseas issuance.

In the absence of an applicable tax treaty or any other special tax laws reducing or eliminating capital gains tax, the applicable rate of tax is the lower of 11.0 per cent. of the gross realisation proceeds (the "**Gross Realisation Proceeds**") and (subject to the production of satisfactory evidence of the acquisition cost and certain direct transaction costs of the relevant Covered Bonds) 22.0 per cent. of the gain made. The gain is calculated as the Gross Realisation Proceeds less the acquisition cost and certain direct transaction costs. If such evidence shows that no gain (or a loss)

was made on the sale, no Korean tax would be payable. There is no provision under the relevant Korean law for offsetting gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of securities issued by Korean companies.

The purchaser or any other designated withholding agent of Covered Bonds is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from the tax under an applicable tax treaty or in the absence of the seller producing satisfactory evidence of his acquisition cost and certain direct transaction costs in relation to the Covered Bonds being sold, the purchaser or such withholding agent must withhold an amount equal to 11.0 per cent. of the Gross Realisation Proceeds. Any amounts withheld by the purchaser or such withholding agent must be paid to the relevant Korean tax authority no later than the tenth day of the month following the month in which the sale of the relevant Covered Bonds occurred. Failure to transmit the withheld tax to the Korean tax authorities in time technically subjects the purchaser or the withholding agent to penalties under Korean tax laws and a Non-Resident who is liable for payment of any Korean tax on gains, either as a seller of Covered Bonds or as a purchaser or the withholding agent who is obliged to withhold such tax, is subject to the Korean tax authorities seeking enforcement through attachment of, or other legal proceedings against, payments due to it from its Korean investments and to enforcement against the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea or resided in Korea for at least one year immediately prior to his death and (b) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and vary from 10 per cent. to 50 per cent. depending on the value of the relevant property and the identity of the parties involved.

Under Korean inheritance and gift tax laws, notes issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are held.

Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by the Covered Bondholders in connection with the issue of the Covered Bonds. A securities transaction tax will not be imposed on the transfer of the Covered Bonds.

Tax Treaties

At the date of this Base Prospectus, Korea has tax treaties with, *inter alia*, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America, under which the rate of withholding tax on interest is reduced, generally to between 5 per cent. and 16.5 per cent. (including local income tax), and the tax on capital gains is often eliminated.

Each Covered Bondholder should enquire for itself whether it is entitled to the benefit of a tax treaty with respect to this transaction. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the Issuer a certificate as to its residence. In the absence of sufficient proof, the Issuer must undertake to withhold taxes in accordance with the above discussion.

In order to claim the benefit of a tax rate reduction or tax exemption available under the applicable tax treaties, a Non-Resident holder must submit to the payer of such Korean-sourced income an application (for reduced withholding tax rate, "application for entitlement to reduced tax rate" and in the case of exemption from withholding tax, "application for exemption" under a tax treaty along with a certificate of the non-resident holder's tax residence issued by a competent authority of the Non-Resident holder's residence country) as the beneficial owner ("**BO Application**"). Such application should be submitted to the withholding agent prior to the payment date of the relevant income. Subject to certain exceptions, where the relevant income is paid to an overseas investment vehicle (which is not the beneficial owner of such income) ("**OIV**"), a beneficial owner claiming the benefit of an applicable tax treaty with respect to such income must submit its BO Application to such OIV, which must submit an OIV report and a schedule of beneficial owners (together with the applicable BO Application and certificate of the non-resident holder's tax residence in case of exemption from withholding tax), to the withholding agent prior to the payment date of such income. In the case of a tax exemption application, the withholding agent is required to submit such application (together with the applicable OIV report in the case of income paid to an OIV) to the relevant district tax office by the ninth day of the month following the date of the payment of such income.

At present, Korea has not entered into any tax treaties regarding its inheritance tax or gift tax.

Certain U.S. Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax considerations with respect to the acquisition, ownership and disposition of a Registered Covered Bond by a U.S. Holder (defined below). This summary deals only with purchasers of the Registered Covered Bonds that are U.S. Holders and that will hold the Registered Covered Bonds 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 Registered Covered Bonds by particular investors (including consequences under the alternative minimum tax or net investment income tax), and does not address state, local, non-U.S. 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, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Registered Covered Bonds as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes, investors holding the Registered Covered Bonds in connection with a trade or business conducted outside of the United States, U.S. expatriates or investors whose functional currency is not the U.S. dollar). This discussion only applies to Registered Covered Bonds that are properly treated as debt for U.S. federal income tax purposes. Any special United States federal income tax considerations relevant to a particular issue of Registered Covered Bonds will be provided in the applicable Final Terms.

As used herein, the term "U.S. Holder" means a beneficial owner of Registered Covered Bonds 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, (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 an entity treated as a partnership for U.S. federal income tax purposes that holds Registered Covered Bonds will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities treated as

partnerships for U.S. federal income tax purposes should consult their tax adviser concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Registered Covered Bonds by the partnership.

This 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 promulgated thereunder, published rulings and court decisions, as well as on the income tax treaty between the United States and Korea (the "**Treaty**") all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. IT IS NOT INTENDED TO BE RELIED UPON BY PURCHASERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE U.S. INTERNAL REVENUE CODE. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE REGISTERED COVERED BONDS, INCLUDING THEIR ELIGIBILITY FOR THE BENEFITS OF THE TREATY, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S., AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Payments of Interest

Payments of "qualified stated interest" (as defined below under "– *Original Issue Discount*") on a Registered Covered Bond will be taxable to a U.S. Holder as ordinary interest income at the time that such payments are accrued or are received (in accordance with the U.S. Holder's method of tax accounting). If such payments of interest are made with respect to a Registered Covered Bond that is denominated in a single currency other than the U.S. dollar (a "**Foreign Currency Covered Bond**"), the amount of interest income realised by a U.S. Holder that uses the cash method of tax accounting will be the U.S. dollar value of the Specified Currency payment based on the exchange rate in effect on the date of receipt regardless of whether the payment in fact is converted into U.S. dollars. A U.S. Holder that uses the accrual method of accounting for tax purposes will accrue interest income on a Foreign Currency Covered Bond in the relevant foreign currency and translate the amount accrued into U.S. dollars based on the average exchange rate in effect during the interest accrual period (or portion thereof within the U.S. Holder's taxable year), or, at the accrual basis U.S. Holder's election, at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year), or at the spot rate of exchange on the date of receipt, if such date is within five business days of the last day of the accrual period. A U.S. Holder that makes such election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the U.S. Internal Revenue Service (the "**IRS**"). A U.S. Holder that uses the accrual method of accounting for tax purposes will recognise foreign currency gain or loss, as the case may be, on the receipt of an interest payment made with respect to a Foreign Currency Covered Bond if the exchange rate in effect on the date the payment is received differs from the rate applicable to the accrual of that interest income. This foreign currency gain or loss will be treated as ordinary income or loss but generally will not be treated as an adjustment to interest income received on the Foreign Currency Covered Bond.

Effect of Korean Withholding Taxes

As discussed in "Taxation," under current law payments of interest and OID on the Registered Covered Bonds to foreign investors may be subject to Korean withholding taxes. As discussed under "*Terms and Conditions of the Covered Bonds – Taxation*", the Issuer may be liable for the payment of additional amounts to U.S. Holders so that U.S. Holders receive the same amounts they would have received had no Korean withholding taxes been imposed. For U.S. federal income

tax purposes, U.S. Holders would be treated as having actually received the amount of Korean taxes withheld by the Issuer with respect to a Registered Covered Bond, and as then having actually paid over the withheld taxes to the Korean taxing authorities. As a result, the amount of interest income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest or OID may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Issuer with respect to the payment.

Subject to certain limitations, a U.S. Holder generally will be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Korean income taxes withheld by the Issuer. The rules governing foreign tax credits are complex. Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of Korean withholding taxes.

Purchase, Sale and Retirement of Registered Covered Bonds

A U.S. Holder's tax basis in a Registered Covered Bond generally will equal the cost of the Registered Covered Bond to such holder, increased by any amounts included in income by the holder as original issue discount and market discount and reduced by any amortised premium (each as described below) and any payments other than payments of qualified stated interest made on the Registered Covered Bond. In the case of a Foreign Currency Covered Bond, the cost of the Foreign Currency Covered Bond to a U.S. Holder will be the U.S. dollar value of the foreign currency purchase price on the date of purchase. In the case of a Foreign Currency Covered Bond that is traded on an established securities market, a cash basis U.S. Holder (and, if it so elects, an accrual basis U.S. Holder) will determine the U.S. dollar value of the cost of the Foreign Currency Covered Bond by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. The amount of any subsequent adjustments to a U.S. Holder's tax basis in a Registered Covered Bond in respect of original issue discount, market discount and premium denominated in a Specified Currency will be determined in the manner described under "– *Original Issue Discount*" and "– *Premium and Market Discount*" below. The conversion of U.S. dollars to a Specified Currency and the immediate use of the Specified Currency to purchase a Foreign Currency Covered Bond generally will not result in taxable gain or loss for a U.S. Holder.

Upon the sale, exchange or retirement of a Registered Covered Bond, a U.S. Holder generally will recognise gain or loss equal to the difference between the amount realised on the sale, exchange or retirement (less any accrued qualified stated interest, which will be taxable as such) and the U.S. Holder's tax basis in the Registered Covered Bond. If a U.S. Holder receives a currency other than the U.S. dollar in respect of the sale, exchange or retirement of a Registered Covered Bond, the amount realised will be the U.S. dollar value of the specified currency received calculated at the exchange rate in effect on the date the instrument is disposed of or retired. In the case of a Foreign Currency Covered Bond that is traded on an established securities market, a cash basis U.S. Holder and, if it so elects, an accrual basis U.S. Holder will determine the U.S. dollar value of the amount realised by translating such amount at the spot rate on the settlement date of the sale. The election available to accrual basis U.S. Holders in respect of the purchase and sale of Foreign Currency Covered Bonds traded on an established securities market, discussed above, must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS.

Except as discussed below with respect to market discount, Short-Term Covered Bonds (as defined below under "– *Short-Term Covered Bonds*") and foreign currency gain or loss, gain or loss recognised by a U.S. Holder generally will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder has held a Registered Covered Bond for more than one year at the time of disposition. Long-term capital gains recognised by a non-corporate holder generally are subject to tax at a lower rate than short-term capital gains or ordinary income.

Gain or loss recognised by a U.S. Holder on the sale, exchange or retirement of a Foreign Currency Covered Bond generally will be treated as ordinary income or loss to the extent that the gain or loss is attributable to changes in exchange rates during the period in which the holder held the Foreign Currency Covered Bond. This foreign currency gain or loss will not be treated as an adjustment to interest income received on the Foreign Currency Covered Bonds.

Original Issue Discount

If the Issuer issues Registered Covered Bonds at a discount from their stated redemption price at maturity (as defined below), and the discount is equal to or more than 0.25 per cent. of the stated redemption price at maturity of such Registered Covered Bonds multiplied by the number of full years to their maturity, such Registered Covered Bonds will be "**Original Issue Discount Covered Bonds.**" The difference between the issue price and the stated redemption price at maturity of an Original Issue Discount Covered Bond will be the OID on such Original Issue Discount Covered Bond. The "**issue price**" of a Series of Registered Covered Bonds will be the first price at which a substantial amount of such Series of Registered Covered Bonds are sold to the public (i.e., excluding sales of such Series of Registered Covered Bonds to underwriters, placement agents, wholesalers or similar persons). The "**stated redemption price at maturity**" of a Series of Registered Covered Bonds will be the sum of all scheduled payments under such Series of Registered Covered Bonds other than payments of qualified stated interest. The term "**qualified stated interest**" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments issued by the Issuer) at least annually during the entire term of a Registered Covered Bond at a single fixed interest rate or, subject to certain conditions, based on one or more floating interest rates.

U.S. Holders of Original Issue Discount Covered Bonds generally will be subject to the special tax accounting rules for obligations issued with OID provided by the Code, as amended, and certain regulations promulgated thereunder (the "**OID Regulations**"). U.S. Holders of Original Discount Covered Bonds should be aware that, as described in greater detail below, they generally must include OID in ordinary gross income for United States federal income tax purposes as it accrues, in advance of the receipt of cash attributable to that income.

In general, each U.S. Holder of an Original Issue Discount Covered Bond, whether such holder uses the cash or the accrual method of tax accounting, will be required to include in gross income as ordinary income the sum of the "daily portions" of OID on the Original Issue Discount Covered Bond for all days during the taxable year that the U.S. Holder owns the Original Issue Discount Covered Bond. The daily portions of OID on an Original Issue Discount Covered Bond are determined by allocating to each day in any accrual period a ratable portion of the OID allocable to that accrual period. Accrual periods may be any length and may vary in length over the term of an Original Issue Discount Covered Bond, provided that no accrual period is longer than one year and each scheduled payment of principal or interest occurs on either the final day or the first day of an accrual period. In the case of an initial holder, the amount of OID on an Original Issue Discount Covered Bond allocable to each accrual period is determined by (i) multiplying the "adjusted issue price" (as defined below) of the Original Issue Discount Covered Bond at the beginning of the accrual period by the yield to maturity of such Original Issue Discount Covered Bond (appropriately adjusted to reflect the length of the accrual period) and (ii) subtracting from that product the amount (if any) of qualified stated interest allocable to that accrual period. The yield to maturity of an Original Issue Discount Covered Bond is the discount rate that causes the present value of all payments on the Original Issue Discount Covered Bond as of its original issue date to equal the issue price of the Original Issue Discount Covered Bond. The "**adjusted issue price**" of an Original Issue Discount Covered Bond at the beginning of any accrual period will generally be the sum of its issue price (generally including accrued interest, if any) and the amount of OID allocable to all prior accrual periods, reduced by the amount of all payments other than payments of qualified stated interest (if any) made with respect to the Original Issue Discount

Covered Bond in all prior accrual periods. In the case of an Original Issue Discount Covered Bond that is a Floating Rate Covered Bond, both the "yield to maturity" and "qualified stated interest" will generally be determined for these purposes as though the Original Issue Discount Covered Bond will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to the interest payments on the Original Issue Discount Covered Bond on its date of issue or, in the case of certain Floating Rate Covered Bonds, the rate that reflects the yield that is reasonably expected for the Floating Rate Covered Bond. (Additional rules may apply if interest on a Floating Rate Covered Bond is based on more than one interest index.) As a result of this "constant yield" method of including OID in income, the amounts includible in income by a U.S. Holder in respect of an Original Issue Discount Covered Bond generally are less in the early years and greater in the later years than the amounts that would be includible on a straight-line basis.

A U.S. Holder generally may make an irrevocable election to include in its income its entire return on a Registered Covered Bond (i.e., the excess of all remaining payments to be received on the Registered Covered Bond, including payments of qualified stated interest, over the amount paid by such U.S. Holder for the Registered Covered Bond) under the constant-yield method described above. For Registered Covered Bonds purchased at a premium or bearing market discount in the hands of the U.S. Holder, the U.S. Holder making such election will also be deemed to have made the election (discussed below in "– *Premium and Market Discount*") to amortise premium or to accrue market discount in income currently on a constant-yield basis.

In the case of an Original Issue Discount Covered Bond that is also a Foreign Currency Covered Bond, a U.S. Holder should determine the U.S. dollar amount includible in income as OID for each accrual period by (i) calculating the amount of OID allocable to each accrual period in the Specified Currency using the constant-yield method described above, and (ii) translating the amount of the Specified Currency so derived at the average exchange rate in effect during that accrual period (or portion thereof within a U.S. Holder's taxable year) or, at the U.S. Holder's election (as described above under "– *Payments of Interest*"), at the spot rate of exchange on the last day of the accrual period (or, if the accrual period spans more than one taxable year, at the spot rate on the last day of the first taxable year for the OID accruing in the portion of the accrual period ending on such date and at the spot rate on the last date of the accrual period for the remaining OID accruing during such accrual period), or at the spot rate of exchange on the date of receipt, if such date is within five business days of the last day of the accrual period. Because exchange rates may fluctuate, a U.S. Holder of an Original Issue Discount Covered Bond that is also a Foreign Currency Covered Bond may recognise a different amount of OID income in each accrual period than would the holder of an otherwise similar Original Issue Discount Covered Bond denominated in U.S. dollars. All payments on an Original Issue Discount Covered Bond (other than payments of qualified stated interest) will generally be viewed first as payments of previously accrued OID (to the extent thereof), with payments attributed first to the earliest-accrued OID, and then as payments of principal. Upon the receipt of an amount attributable to previously accrued OID (whether in connection with a payment of an amount that is not qualified stated interest or the sale or retirement of the Original Issue Discount Covered Bond), a U.S. Holder will recognise ordinary income or loss measured by the difference between the amount received (translated into U.S. dollars at the exchange rate in effect on the date of receipt or on the date of disposition of the Original Issue Discount Covered Bond, as the case may be) and the amount accrued (using the exchange rate applicable to such previous accrual).

A subsequent U.S. Holder of an Original Issue Discount Covered Bond that purchases the Original Issue Discount Covered Bond at a cost less than its remaining redemption amount (as defined below), or an initial U.S. Holder that purchases an Original Issue Discount Covered Bond at a price other than the Original Issue Discount Covered Bond's issue price, also generally will be required to include in gross income the daily portions of OID, calculated as described above. However, if the U.S. Holder acquires the Original Issue Discount Covered Bond at a price greater than its adjusted issue price, such holder is required to reduce its periodic inclusions of OID

income to reflect the premium paid over the adjusted issue price. The "**remaining redemption amount**" for an Original Issue Discount Covered Bond is the total of all future payments to be made on the Original Issue Discount Covered Bond other than payments of qualified stated interest.

Floating Rate Covered Bonds generally will be treated as "variable rate debt instruments" under the OID Regulations. Accordingly, the stated interest on a Floating Rate Covered Bond generally will be treated as "qualified stated interest" and Floating Rate Covered Bond will not have OID solely as a result of the fact that it provides for interest at a variable rate. If a Floating Rate Covered Bond does not qualify as a "variable rate debt instrument," the Floating Rate Covered Bond will be subject to special rules (the "**Contingent Payment Regulations**") that govern the tax treatment of debt obligations that provide for contingent payments ("**Contingent Debt Obligations**"). A detailed description of the tax considerations relevant to U.S. Holders of any Floating Rate Covered Bonds will be provided in the applicable Final Terms.

Certain of the Registered Covered Bonds may be subject to special redemption, repayment or interest rate reset features, as indicated in the applicable Final Terms. Registered Covered Bonds containing such features, in particular Original Issue Discount Covered Bonds, may be subject to special rules that differ from the general rules discussed above. Purchasers of Registered Covered Bonds with such features should carefully examine the applicable Final Terms and should consult their own tax advisors with respect to Registered Covered Bonds since the tax consequences with respect to such features, and especially with respect to OID, will depend, in part, on the particular terms of purchased Registered Covered Bonds.

Premium and Market Discount

A U.S. Holder of a Registered Covered Bond that purchases the Registered Covered Bond at a cost greater than its remaining redemption amount (as defined in the third preceding paragraph) will be considered to have purchased the Registered Covered Bond at a premium, and may elect to amortise such premium (as an offset to interest income), using a constant-yield method, over the remaining term of the Registered Covered Bond. Such election, once made, generally applies to all bonds held or subsequently acquired by the U.S. Holder on or after the first taxable year to which the election applies and may not be revoked without the consent of the IRS. A U.S. Holder that elects to amortise such premium must reduce its tax basis in a Registered Covered Bond by the amount of the premium amortised during its holding period. Original Issue Discount Covered Bonds purchased at a premium over the redemption amount will not be subject to the OID rules described above. In the case of premium in respect of a Foreign Currency Covered Bond, a U.S. Holder should calculate the amortisation of such premium in the specified currency. Amortisation deductions attributable to a period reduce interest payments in respect of that period and therefore are translated into U.S. dollars at the exchange rate used by the U.S. Holder for such interest payments. Exchange gain or loss will be realised with respect to amortised bond premium on a Foreign Currency Covered Bond based on the difference between the exchange rate on the date or dates such premium is recovered through interest payments on the Foreign Currency Covered Bond and the exchange rate on the date on which the U.S. Holder acquired the Foreign Currency Covered Bond. With respect to a U.S. Holder that does not elect to amortise bond premium, the amount of bond premium will be included in the U.S. Holder's tax basis when the Foreign Currency Covered Bond matures or is disposed of by the U.S. Holder. Therefore, a U.S. Holder that does not elect to amortise such premium and that holds a Foreign Currency Covered Bond to maturity generally will be required to treat the premium as capital loss when the Foreign Currency Covered Bond matures.

If a U.S. Holder of a Registered Covered Bond purchases the Registered Covered Bond at a price that is lower than its remaining redemption amount or, in the case of an Original Issue Discount Covered Bond, its adjusted issue price, by at least 0.25 per cent. of its remaining redemption

amount multiplied by the number of remaining whole years to maturity, the Registered Covered Bond will be considered to have "market discount" in the hands of such U.S. Holder. In such case, gain realised by the U.S. Holder on the disposition of a Registered Covered Bond generally will be treated as ordinary income to the extent of the market discount that accrued on the Registered Covered Bond while held by such U.S. Holder. In addition, the U.S. Holder could be required to defer the deduction of a portion of the interest paid on any indebtedness incurred or maintained to purchase or carry the Registered Covered Bond. In general terms, market discount on a Registered Covered Bond will be treated as accruing ratably over the term of the Registered Covered Bond, or, at the election of the holder, under a constant-yield method. Market discount on a Foreign Currency Covered Bond will be accrued by a U.S. Holder in the specified currency. The amount includible in income by a U.S. Holder in respect of such accrued market discount will be the U.S. dollar value of the amount accrued, generally calculated at the exchange rate in effect on the date that the Registered Covered Bond is disposed of by the U.S. Holder.

A U.S. Holder may elect to include market discount in income on a current basis as it accrues (on either a ratable or constant-yield basis), in lieu of treating a portion of any gain realised on a sale of a Registered Covered Bond as ordinary income. If a U.S. Holder elects to include market discount on a current basis, the interest deduction deferral rule described above will not apply. Any accrued market discount on a Foreign Currency Covered Bond that is currently includible in income 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). Any such election, if made, applies to all market discount bonds acquired by the taxpayer on or after the first day of the first taxable year to which such election applies and is revocable only with the consent of the IRS.

Short-Term Covered Bonds

The rules set forth above will also generally apply to Registered Covered Bonds having maturities of not more than one year ("**Short-Term Covered Bonds**"), but with certain modifications.

First, pursuant to the OID Regulations, no interest on a Short-Term Covered Bond will be qualified stated interest. Thus, all Short-Term Covered Bonds will be Original Issue Discount Covered Bonds. OID will be treated as accruing on a Short-Term Covered Bond ratably or, at the election of a U.S. Holder, under a constant-yield method.

Second, a U.S. Holder of a Short-Term Covered Bond that uses the cash method of tax accounting and is not a bank, securities dealer, regulated investment company or common trust fund, and does not identify the Short-Term Covered Bond as part of a hedging transaction, will generally not be required to include OID in income on a current basis. Such a U.S. Holder may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry the Short-Term Covered Bond until its maturity or its earlier disposition in a taxable transaction. In addition, such a U.S. Holder will be required to treat any gain realised on a sale, exchange or retirement of a Short-Term Covered Bond as ordinary income to the extent such gain does not exceed the OID accrued with respect to the Short-Term Covered Bond during the period the U.S. Holder held such Short-Term Covered Bond. Notwithstanding the foregoing, a cash-basis U.S. Holder of a Short-Term Covered Bond may elect to accrue OID into income on a current basis or to accrue the "acquisition discount" on the Short-Term Covered Bond under the rules described below. If the U.S. Holder elects to accrue OID or acquisition discount, the limitation on the deductibility of interest described above will not apply.

A U.S. Holder using the accrual method of tax accounting and certain cash-basis U.S. Holders (including banks, securities dealers, regulated investment companies and common trust funds) generally will be required to include original issue discount on a Short-Term Covered Bond in income on a current basis. Alternatively, a U.S. Holder of a Short-Term Covered Bond can elect to accrue the "acquisition discount," if any, with respect to the Short-Term Covered Bond on a

current basis. If such an election is made, the OID rules will not apply to the Short-Term Covered Bond. Acquisition discount is the excess of the stated redemption price at maturity of the Short-Term Covered Bond over the U.S. Holder's basis for the Short-Term Covered Bond. Acquisition discount will be treated as accruing ratably or, at the election of the U.S. Holder, under a constant-yield method based on daily compounding.

Finally, the market discount rules generally will not apply to a Short-Term Covered Bond.

Information Reporting and Backup Withholding

The Paying Agent will be required to file information returns with the IRS with respect to payments made to, and OID accrued in respect of, certain U.S. Holders of Registered Covered Bonds. In addition, certain U.S. Holders may be subject to backup withholding in respect of such payments if they do not provide their taxpayer identification numbers or certification of their exempt status to the Paying Agent or fail to comply with applicable certification requirements.

Information with Respect to Foreign Financial Assets

Individual U.S. Holders that own "specified foreign financial assets" with an aggregate value in excess of U.S.$50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. "Specified foreign financial assets" include any financial accounts held at a non-United States financial institution, as well as securities issued by a non-United States issuer (which would include the Registered Covered Bonds) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. U.S. Holders who fail to report the required information could be subject to substantial penalties. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in Covered Bonds, including the application of the rules to their particular circumstances.

Foreign Account Tax Compliance Act

Certain provisions commonly known as FATCA impose a withholding tax of 30 per cent. on (i) certain U.S. source payments and (ii) payments of gross proceeds from the disposition of assets that produce U.S. source interest or dividends made to persons that fail to meet certain certification or reporting requirements. In order to avoid becoming subject to this withholding tax, non-U.S. financial institutions must enter into agreements with the IRS ("**IRS Agreements**") (as described below) or otherwise be exempt from the requirements of FATCA. Non-U.S. financial institutions that enter into IRS Agreements or become subject to provisions of local law ("**IGA legislation**") intended to implement an intergovernmental agreement entered into pursuant to FATCA (an "**IGA**"), may be required to identify and report to the government of the United States or another relevant jurisdiction certain information regarding "financial accounts" held by U.S. persons or entities with substantial U.S. ownership, as well as accounts of other financial institutions that are not themselves participating in (or otherwise exempt from) the FATCA reporting regime. In addition, in order (a) to obtain an exemption from FATCA withholding on payments it receives and/or (b) to comply with any applicable IGA legislation, a financial institution that enters into an IRS Agreement or is subject to IGA legislation may be required to withhold 30 per cent. from all, or a portion of, certain payments made to persons that fail to provide the financial institution information, consents and forms or other documentation that may be necessary for such financial institution to determine whether such person is compliant with FATCA or otherwise exempt from FATCA withholding.

Under FATCA, withholding is required with respect to payments to persons that are not compliant with FATCA or that do not provide the necessary information, consents or documentation made on or after (i) July 1, 2014, in respect of certain U.S. source payments, (ii) January 1, 2017, in respect of payments of gross proceeds (including principal repayments from the disposition of property that can produce US source interest or dividends and (iii) January 1, 2017 (at the earliest) in respect of "foreign passthru payments". FATCA withholding in respect of foreign passthru payments is not required for "obligations" that are not treated as equity for U.S. federal income tax purposes unless such obligations are issued or materially modified after the date that is six months after the date on which the final regulations defining "foreign passthru payments" are filed with the Federal Register.

The application of FATCA to interest, principal or other amounts paid with respect to the Covered Bonds and the information reporting obligations of the Issuer and other entities in the payment chain is still developing. In particular, a number of jurisdictions (including Korea) have entered into, or have announced their intention to enter into, IGAs, which modify the way in which FATCA applies in their jurisdictions. The full impact of such agreements (and the laws implementing such agreements in such jurisdictions) on reporting and withholding responsibilities under FATCA is unclear. The Issuer and other entities in the payment chain may be required to report certain information on their U.S. account holders to government authorities in their respective jurisdictions or the United States in order (i) to obtain an exemption from FATCA withholding on payments they receive and/or (ii) to comply with applicable law in their jurisdiction. It is not yet certain how the United States and the jurisdictions which enter into IGAs will address withholding on "foreign passthru payments" (which may include payments on the Covered Bonds) or if such withholding will be required at all.

Whilst the Covered Bonds are in global form and held within Euroclear or Clearstream, Luxembourg, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Covered Bonds by the Issuer, any paying agent and the common depositary, given that each of the entities in the payment chain from the Issuer to Euroclear or Clearstream, Luxembourg is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Covered Bonds. The documentation expressly contemplates the possibility that the Covered Bonds may go into definitive form and therefore that they may be taken out of Euroclear or Clearstream, Luxembourg. If this were to happen, then a non-FATCA-compliant holder could be subject to withholding. However, Definitive Covered Bonds will only be printed in remote circumstances.

If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Covered Bonds as a result of FATCA, none of the Issuer, any paying agent or any other person would, pursuant to the Terms and Conditions of the Covered Bonds be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected.

The application of FATCA to Covered Bonds issued or materially modified after the date that is six months after the date on which the final regulations applicable to "foreign passthru payments" are filed with the Federal Register, may be addressed in the relevant Final Terms.

FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE ISSUER, THE COVERED BONDS AND THE HOLDERS IS SUBJECT TO CHANGE. EACH HOLDER OF COVERED BONDS SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO LEARN HOW FATCA MIGHT AFFECT EACH HOLDER IN ITS PARTICULAR CIRCUMSTANCE.

EU Information Reporting and Withholding

The Savings Directive requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or secured by such a person for the benefit of) an individual resident, or to (or secured for) certain other types of entity established, in that other EU Member State, except that Austria will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period it elects otherwise.

The Council of the European Union has adopted the Amending Savings Directive which would, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above, including by expanding the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and by expanding the circumstances in which payments must be reported or paid subject to withholding. The Amending Savings Directive requires EU Member States to adopt national legislation necessary to comply with it by January 1, 2016, which legislation must apply from January 1, 2017.

The Council of the European Union has also adopted a Directive (the "**Amending Cooperation Directive**") amending Council Directive 2011/16/EU on administrative cooperation in the field of taxation so as to introduce an extended automatic exchange of information regime in accordance with the Global Standard released by the OECD Council in July 2014. The Amending Cooperation Directive requires EU Member States to adopt national legislation necessary to comply with it by December 31, 2015, which legislation must apply from January 1, 2016 (January 1, 2017 in the case of Austria). The Amending Cooperation Directive is generally broader in scope than the Savings Directive, although it does not impose withholding taxes, and provides that to the extent there is overlap of scope, the Amending Cooperation Directive prevails. The European Commission has therefore published a proposal for a Council Directive repealing the Savings Directive from January 1, 2016 (January 1, 2017 in the case of Austria) (in each case subject to transitional arrangements). The proposal also provides that, if it is adopted, EU Member States will not be required to implement the Amending Savings Directive. Information reporting and exchange will however still be required under Council Directive 2011/16/EU (as amended).

Investors who are in any doubt as to their position or would like to know more should consult their professional advisers.

The proposed financial transactions tax ("FTT")

On February 14, 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The Commission's Proposal has a very broad scope and could, if introduced, apply to certain dealings in the Covered Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of the Covered Bonds should, however, be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Covered Bonds 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.

Joint statements issued by participating Member States indicate an intention to implement the FTT by January 1, 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional Member States of the European Union may decide to participate.

Prospective holders of the Covered Bonds are advised to seek their own professional advice in relation to the FTT.

UNITED STATES ERISA CONSIDERATIONS

The following is a summary of certain considerations associated with the purchase of the Covered Bonds by employee benefit plans that are subject to Title I of ERISA, plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Code or Similar Law, and entities whose underlying assets are considered to include "plan assets" of such plans, accounts and arrangements.

ERISA imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) that are subject to Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "**ERISA Plans**") and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "**Plans**")) and certain persons (defined as "parties in interest" or "disqualified persons" under ERISA and the Code, respectively) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction.

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any Covered Bonds are acquired by a Plan with respect to which any of the Issuer, the Arranger, the Dealers or any of their respective affiliates are a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire the Covered Bonds and the circumstances under which such decision is made. There can be no assurance that any exemption will be available with respect to any particular transaction involving the Covered Bonds, or that, if an exemption is available, it will cover all aspects of any particular transaction. By its purchase of any Covered Bonds (or an interest in the Covered Bonds) whether in the case of the initial purchase or in the case of a subsequent transfer, the purchaser thereof will be deemed to have represented and agreed that either (i) it is not and is not acting on behalf of, and for so long as it holds the Covered Bonds (or an interest in the Covered Bonds), will not be and will not be acting on behalf of, an ERISA Plan or other Plan, an entity whose underlying assets include the assets of any such ERISA Plan or other Plan, or a governmental or other employee benefit plan which is subject to Similar Law, or (ii) its purchase and holding of the Covered Bonds (or an interest in the Covered Bonds) will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or other employee benefit plan, any Similar Law) for which an exemption is not available.

Governmental plans (as defined in Section 3(32) of ERISA) and certain church plans (as defined in Section 3(33) of ERISA) and other non-U.S. plans (as described in Section 4(b)(4) of ERISA), while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to Similar Law. Fiduciaries of any such plans should consult with their counsel before purchasing any Covered Bonds.

The foregoing discussion is general in nature and not intended to be all-inclusive. Any Plan fiduciary who proposes to cause a Plan to purchase any Covered Bonds should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction

provisions of ERISA and Section 4975 of the Code or Similar Law to such an investment, and to confirm that such investment will not constitute or result in a prohibited transaction or any other violation of an applicable requirement of ERISA, the Code or Similar Law.

The sale of the Covered Bonds to a Plan is in no respect a representation by the Issuer or the Dealers that such an investment meets all relevant requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems 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 neither 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 Covered Bonds 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

DTC

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 ("**Direct Participants**"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**").

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**Rules**"), DTC makes book-entry transfers of Registered Covered Bonds among Direct Participants on whose behalf it acts with respect to Covered Bonds accepted into DTC's book-entry settlement system ("**DTC Covered Bonds**") as described below and receives and transmits distributions of principal and interest on DTC Covered Bonds. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Covered Bonds ("**Owners**") have accounts with respect to the DTC Covered Bonds 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 Covered Bonds through Direct Participants or Indirect Participants will not possess Registered Covered Bonds, 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 Covered Bonds.

Purchases of DTC Covered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Covered Bonds on DTC's records. The ownership interest of each actual purchaser of each DTC Covered Bond ("**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 Covered Bonds 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 Covered Bonds, except in the event that use of the book-entry system for the DTC Covered Bonds is discontinued.

To facilitate subsequent transfers, all DTC Covered Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Covered Bonds 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 Covered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Covered Bonds 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 Covered Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Covered Bonds. 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 Covered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Covered Bonds 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, DTC will exchange the DTC Covered Bonds for Definitive Covered Bonds, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Global Certificate, 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 Covered Bonds to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Covered Bonds, will be required to withdraw its Registered Covered Bonds 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 worldwide 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 Covered Bonds

The Issuer may apply to DTC in order to have any Tranche of Covered Bonds represented by a Global Certificate accepted in its book-entry settlement system. Upon the issue of any such Global Certificate, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Global Certificate to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the Arranger and/or the relevant Dealer. Ownership of beneficial interests in such a Global Certificate will be limited to Direct Participants or Indirect Participants, including, in the case of any Unrestricted Global Certificate, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Global Certificate 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 Global Certificate accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Covered Bond. 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 Global Certificate in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Covered Bonds 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 Trustee, the Issuing and Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Covered Bonds to DTC is the responsibility of the Issuer.

Transfers of Covered Bonds represented by Global Certificates

Transfers of any interests in Covered Bonds represented by a Global Certificate 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 Covered Bonds represented by a Global Certificate to such persons may depend upon the ability to exchange such Covered Bonds for Covered Bonds 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 Covered Bonds represented by a Global Certificate accepted by DTC to pledge such Covered Bonds to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Covered Bonds may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. The ability of any holder of Covered Bonds represented by a Global Certificate accepted by DTC to resell, pledge or otherwise transfer such Covered Bonds may be impaired if the proposed transferee of such Covered Bonds is not eligible to hold such Covered Bonds through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Covered Bonds 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 Issuing and Paying Agent and any custodian with whom the relevant Global Certificates have been deposited.

On or after the Issue Date, transfers of the Covered Bonds between accountholders in Clearstream, Luxembourg and Euroclear and transfers of the Covered Bonds 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 Global Certificates will be effected through the Registrar, the Issuing and 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 Global Certificates 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, the Trustee, the Registrars, the Arranger 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 Covered Bonds represented by Global Certificates or for maintaining, supervising or reviewing any records relating to such beneficial interests.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Arranger and the Dealers have in a dealer agreement dated June 12, 2015 (as amended, supplemented and/or restated from time to time, the "**Dealer Agreement**") agreed with the Issuer a basis upon which they or any other Dealer appointed from time to time in respect of a specific issue of Covered Bonds may from time to time agree to purchase Covered Bonds. Any such agreement will extend to those matters stated under "*Summary of Provisions Relating to the Covered Bonds While in Global Form*" and "*Terms and Conditions of the Covered Bonds*" above. In the Dealer Agreement, the Issuer has agreed to reimburse the Arranger and the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Covered Bonds under the Programme and to indemnify the Arranger and the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Covered Bonds, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Covered Bonds during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Covered Bonds for their own account by selling more Covered Bonds than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Covered Bonds in the open market. In addition, such persons may stabilise or maintain the price of the Covered Bonds by bidding for or purchasing Covered Bonds 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 Covered Bonds are reclaimed if Covered Bonds 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 Covered Bonds 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 Covered Bonds 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. Under UK laws and regulations stabilising activities may only be carried on by the Stabilising Manager named in the applicable Final Terms and must end no later than the earlier of 30 days following the Issue Date of the relevant Tranche of Covered Bonds and 60 days following the date of the allotment of the relevant Tranche of Covered Bonds.

Certain relationships

The Arranger and the Dealers and certain of their affiliates may have performed certain investment banking and advisory services for the Issuer 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 Issuer or its affiliates in the ordinary course of business. The Arranger and the Dealers and certain of their affiliates may purchase Covered Bonds and be allocated Covered Bonds for asset management and/or proprietary purposes but not with a view to distribution.

The Arranger and the Dealers and their respective affiliates may purchase Covered Bonds for their own accounts and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to Covered Bonds and/or other securities of the Issuer or its subsidiaries or associates, at the same time as the offer and sale of Covered Bonds 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 Covered Bonds to which this Base Prospectus relates (notwithstanding that such selected counterparties may also be purchasers of Covered Bonds).

Transfer restrictions

As a result of the following restrictions, purchasers of Covered Bonds in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Covered Bonds.

Each purchaser of Registered Covered Bonds (other than a person purchasing an interest in a Global Certificate with a view to holding it in the form of an interest in the same Global Certificate) or person wishing to transfer an interest from one Global Certificate 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 Covered Bonds 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 outside the United States and is not a U.S. person;

(ii) that the Covered Bonds 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 Covered Bonds 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 Unrestricted Global Certificate and either is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Covered Bonds or any beneficial interests in the Covered Bonds, it will do so, prior to the date which is one year after the later of the last Issue Date and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Covered Bonds, 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 Covered Bonds from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;

(v) that Covered Bonds initially offered in the United States to QIBs will be represented by one or more Restricted Global Certificates and that Covered Bonds offered outside the United States in reliance on Regulation S will be represented by one or more Unrestricted Global Certificates;

(vi) that the Covered Bonds, other than the Unrestricted Global Certificates, 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 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, (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE TRUST DEED 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 Covered Bonds 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 Covered Bonds), it will do so only (a)(i) outside the United States in compliance with Rule 903 or 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 Unrestricted Global Certificates 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 TRUST DEED 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 COVERED BONDS OF THE TRANCHE OF WHICH THIS COVERED BOND 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 Covered Bonds 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.

No sale of Restricted Covered Bonds in the United States to any one purchaser will be for less than U.S.$200,000 (or its foreign currency equivalent) principal amount and no Restricted Covered Bond 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.$200,000 (or its foreign currency equivalent) of Registered Covered Bonds.

Selling restrictions

United States

The Covered Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Bearer Covered Bonds 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 U.S. 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.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it will not offer, sell or, in the case of Bearer Covered Bonds, deliver Covered Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Covered Bonds are a part, as determined and certified to the Issuing and Paying Agent by such Dealer, as the case may be (or, in the case of an identifiable tranche of Covered Bonds sold to or through more than one Dealer (including the Arranger), by each of such Dealers with respect to Covered Bonds of an identifiable tranche purchased by or through it, in which case the Issuing and Paying Agent shall notify such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Covered Bonds during the Distribution Compliance Period (other than resales pursuant to Rule 144A) a confirmation or other notice setting out the restrictions on offers and sales of the Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Covered Bonds are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. The Dealer Agreement provides that the Arranger and the Dealers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Covered Bonds within the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of Covered Bonds, an offer or sale of Covered Bonds within the United States by any dealer (whether or not participating in the offering of such tranche of Covered Bonds) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

This Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Covered Bonds outside the United States and for the resale of the Covered Bonds in the United States. The Issuer, the Arranger and the Dealers reserve the right to reject any offer to purchase the Covered Bonds, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States or to any U.S. person, other than any QIB within the meaning of Rule 144A to whom an offer has been made directly by the Arranger and/or one of the Dealers or its U.S. broker-dealer affiliate. Distribution of this Base Prospectus by any non-U.S. person outside the United States or by any QIB in the United States to any U.S. person or to any other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB, is prohibited.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each 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 Covered Bonds which are the subject of the offering contemplated by this Base Prospectus 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 Covered Bonds to the public in that Relevant Member State:

(a) if the final terms in relation to the Covered Bonds specify that an offer of those Covered Bonds 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 Covered Bonds 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 150 natural or legal persons (other than qualified investors as defined in 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 Covered Bonds 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 Covered Bonds to the public**" in relation to any Covered Bonds 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 Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, as

the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in each Relevant Member State.

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 Covered Bonds which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Covered Bonds 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 Covered Bonds 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 Covered Bonds 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 Covered Bonds in, from or otherwise involving the United Kingdom.

Japan

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each Dealer has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any covered bonds 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 Act (Act No. 229 of 1949, as amended)) or to others for re-offering or re-sale, 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 Financial Instruments and Exchange Act and other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

This Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore and the Covered Bonds will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"). Accordingly, each Dealer has represented and agreed, and each further Dealers appointed under the Programme will be required to represent and agree, that it has not offered or sold any Covered Bonds or caused such Covered Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Covered Bonds or cause such Covered Bonds 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 Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Covered Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Covered Bonds 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 Covered Bonds pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

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, by means of any document, any Covered Bonds (except for Covered Bonds which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) other than (i) to "professional investors" as defined in the Securities and Futures Ordinance ((Cap. 571) of Hong Kong) and any rules made under that Ordinance; or (ii) 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 Covered Bonds 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

Covered Bonds 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 ((Cap. 571) of Hong Kong) of Hong Kong and any rules made under that Ordinance.

Korea

The Covered Bonds have not been and will not be registered under the FSCMA. Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that (i) the Covered Bonds have not been and will 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) or to others for re-offering or resale directly or indirectly in Korea or to any resident of Korea, and (ii) the Covered Bonds may not be transferred to any resident of Korea until the expiration of one year after the issuance of the Covered Bonds, in each case, except 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 the Covered Bonds confirms that it is purchasing such Covered Bonds as principal and agrees with such Dealer that it will comply with the restrictions described above.

Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (the "**Corporations Act**") in relation to the Programme or any Covered Bond has been or will be lodged with the Australian Securities and Investments Commission ("**ASIC**"). Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it:

(a) has not (directly or indirectly) offered, and will not offer for issue or sale and has not invited, and will not invite, applications for issue, or offers to purchase, the Covered Bond in, to or from Australia (including an offer or invitation which is received by a person in Australia); and

(b) has not distributed or published, and will not distribute or publish, any information memorandum, advertisement or other offering material relating to the Covered Bond in Australia,

unless (1) the aggregate consideration payable by each offeree or invitee is at least AUD 500,000 (or its equivalent in other currencies, disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 of the Corporations Act, (2) such action complies with all applicable laws, regulations and directives, and (3) such action does not require any document to be lodged with ASIC.

Italy

Each Dealer has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, the Covered Bonds to the public in the Republic of Italy, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in the Republic of Italy, the Base Prospectus, the relevant Final Terms or any other offering material relating to the Covered Bonds.

France

Each of the Dealers has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, Covered Bonds to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Base Prospectus, the relevant Final Terms or any other offering material relating to the Covered Bonds, and that such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties and/or (b) qualified investors (investisseurs qualifiés), other than individuals, and/or (c) a restricted group of investors (cercle restreint d'investisseurs), all as defined in, and in accordance with, Articles L.411-1, L.411-2, D.411-1 and D.411-4 of the French Code monétaire et financier.

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 the Covered Bonds or possesses or distributes this Base Prospectus, and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of the Covered Bonds 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 none of the Issuer, the Arranger or any other Dealer shall have any responsibility therefor.

If a jurisdiction requires that any offering of the Covered Bonds under the Programme be made by a licensed broker or dealer and the Arranger or any Dealer or any affiliate of the Arranger or any Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Arranger, such Dealer or such affiliate on behalf of the Issuer in such jurisdiction.

None of the Issuer, the Arranger or any of the Dealers represents that the Covered Bonds 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 Arranger and the relevant Dealer will be required to comply with such other additional restrictions as the Issuer, the Arranger and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

GENERAL INFORMATION

Authorisation

The establishment of the Programme was duly authorised by the Asset-Liability Management Committee of the Issuer dated November 25, 2014. Each issue of the Covered Bonds under the Programme will be authorised by the Board of Directors of the Issuer at the time of issue or at a meeting held annually to approve the issue of the Covered Bonds to be issued in the following fiscal year.

Listing of the Covered Bonds on the Luxembourg Stock Exchange

Application has been made to the CSSF in its capacity as competent authority under the Luxembourg Act dated July 10, 2005 relating to prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) for the approval of this document as a base prospectus for the purposes of the Prospectus Directive. Application has also been made to the Luxembourg Stock Exchange for the Covered Bonds issued under the Programme during the period of 12 months from date of the approval by the CSSF to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. References in this Base Prospectus to the Covered Bonds being "listed" (and all related references) shall mean that such Covered Bonds are intended to be admitted to trading on the Luxembourg Stock Exchange's regulated market and are intended to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Investment Services Directive.

Documents available

From the date hereof and so long as the Covered Bonds are capable of being issued under the Programme, copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified office of the Issuing and Paying Agent for the time being in London:

(i) the constitutional documents (together with English translations) of the Issuer;

(ii) the audit reports and the audited consolidated and separate financial statements of the Issuer in respect of the financial years ended December 31, 2012, 2013 and 2014 (together with English translations);

(iii) the review reports and the unaudited consolidated and separate interim financial statements of the Issuer in respect of the three months ended March 31, 2014 and 2015 (together with English translations);

(iv) the most recently published (if available) audited consolidated annual financial statements of the Issuer and the most recently published interim financial statements of the Issuer (together with English translations);

(v) the Dealer Agreement, the Trust Deed, the Agency Agreement, the forms of the Global Covered Bonds, the Global Certificates, the Definitive Covered Bonds, the Coupons and the Talons;

(vi) the Establishment Deed, the Asset Monitor Agreement, the Account Bank Agreement and the Swap Agreements;

(vii) a copy of this Base Prospectus;

(viii) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms (save that Final Terms relating to an unlisted Covered Bond will only be available for inspection by a holder of such Covered Bond and such holder must produce evidence satisfactory to the Issuer and the Issuing and Paying Agent as to its holding of the Covered Bonds and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference; and

(ix) in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Bearer Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. In addition, the Issuer may make an application for any Covered Bonds in registered form to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Covered Bonds, together with the relevant ISIN and common code, will be specified in the applicable Final Terms. If the Covered Bonds are to clear through an additional or Alternative Clearing System the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B. 1210 Brussels, Belgium; the address of Clearstream, Luxembourg is 42 Avenue J. F. Kennedy, L-1855 Luxembourg; and the address of DTC is 55 Water Street, New York, New York 10041-0099, USA.

Significant or material change

There has been no significant change in the financial or trading position of the Issuer and its subsidiaries since March 31, 2015 and there has been no material adverse change in the financial position or prospects of the Issuer and its subsidiaries since March 31, 2015.

Litigation

The Issuer nor any of its subsidiaries is or has been involved in any legal, arbitration, administrative or other proceedings, which might have or have had in the recent past (covering at least the previous 12 months preceding the date of this document) 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.

Legal matters

Certain legal matters in connection with the offering of the Covered Bonds will be passed upon for the Issuer by Linklaters LLP, U.S. and English legal counsel to the Issuer, and by Kim & Chang, Korean legal counsel to the Issuer. Certain legal matters in connection with the offering of the Covered Bonds will be passed upon for the Arranger by Allen & Overy, U.S. and English legal counsel to the Arranger and the Dealers, and by Shin & Kim, Korean legal counsel to the Arranger and the Dealers.

Independent Accountants

With respect to the Issuer's unaudited interim consolidated financial statements as of March 31, 2015 and for the three months ended March 31, 2015 and 2014 included in this Base Prospectus, Samil PricewaterhouseCoopers, independent accountants, have reported that they have applied

limited procedures in accordance with professional standards for a review of such information. Their separate report included herein states that they did not audit and they do not express an opinion on such interim consolidated financial statements. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. The Issuer's consolidated financial statements as of December 31, 2014 and 2013 and January 1, 2013 and for the years ended December 31 2014 and 2013 included in this Base Prospectus have been audited by Samil PricewaterhouseCoopers, independent accountants, as stated in their report contained herein. The Issuer's consolidated financial statements as of December 31, 2013 and 2012 and January 1, 2012 and for the years ended December 31 2013 and 2012 included in this Base Prospectus have been audited by Samil PricewaterhouseCoopers, independent accountants, as stated in their report contained herein. Samil PricewaterhouseCoopers is a member of the Korean Institute of Certified Public Accountants.

"Acceleration Notice"	has the meaning given in Condition 10(b).
"Account Bank"	means: (a) the Transaction Account Bank in connection with the Transaction Account; and/or (b) the Reserve Account Bank in connection with the Cover Pool Cash Accounts (other than the Transaction Account), or, in each case, any successors, assigns and replacements acting as such.
"Account Bank Agreement"	means the account bank agreement entered into on or about the Initial Filing Date between the Transaction Account Bank, the Reserve Account Bank, the Issuer, the Trustee and the Asset Monitor and includes any replacement account bank agreement entered into pursuant to the terms of the Account Bank Agreement following an Account Bank Termination Event.
"Account Bank Termination Event"	means a Transaction Account Bank Termination Event or Reserve Account Bank Termination Event, as applicable.
"Additional Filing Date"	means, in respect of any additional asset in the Cover Pool, the date on which an additional filing to amend or supplement the Covered Bond Issuance Plan is made with the FSC to register such asset as part of the Cover Pool.
"Adjusted Aggregate Loan Amount"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Asset Coverage Test.*"
"Agency Agreement"	has the meaning given in the Conditions.
"Agents"	means the Issuing and Paying Agent, the other Paying Agents, the Calculation Agent, the Registrars, the Exchange Agent and the Transfer Agents or any of them and shall include such other Agent or Agents as may be appointed from time to time under the Agency Agreement.
"Agreed Procedures"	means certain procedures set out in the Asset Monitor Agreement, as amended from time to time by agreement between the Issuer and the Asset Monitor, to test the arithmetical accuracy of the Asset Coverage Test and the Amortisation Test.
"Amortisation Test"	has the meaning given in "*Summary of the Principal Documents – Asset Monitor Agreement – Amortisation Test.*"
"Amortisation Test Adjusted Aggregate Loan Amount"	has the meaning given in "*Summary of the Principal Documents – Asset Monitor Agreement – Amortisation Test.*"
"Appointee"	means any attorney, manager, agent, delegate, nominee, custodian or other person appointed by the Trustee under the Trust Deed.

"Asset Coverage Test"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Asset Coverage Test.*"
"Asset Coverage Test Breach Notice"	means the notice required to be served by the Asset Monitor pursuant to the Establishment Deed if the Asset Coverage Test has not been met.
"Asset Monitor"	means Deloitte Anjin LLC or any successors, assigns and replacements acting as asset monitor under the Asset Monitor Agreement.
"Asset Monitor ACT Calculation Date"	means each Calculation Date in respect of which the Asset Monitor shall perform the Agreed Procedures in relating to the Issuer's calculation of the Asset Coverage Test, as determined pursuant to the Asset Monitor Agreement.
"Asset Monitor Agreement"	means the asset monitor agreement entered into on or about the Initial Filing Date between the Asset Monitor, the Issuer and the Trustee.
"Asset Monitor Fee Letter"	means the letter between the Asset Monitor and the Issuer with respect to, *inter alia*, the fees payable by the Issuer to the Asset Monitor.
"Asset Monitor Report"	has the meaning given in "*Summary of the Principal Documents – Asset Monitor Agreement – Asset Monitor Report.*"
"Asset Monitor Report Date"	has the meaning given in "*Summary of the Principal Documents – Asset Monitor Agreement – Asset Monitor Report.*"
"Asset Percentage"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Asset Coverage Test.*"
"Asset Percentage Adjusted Loan Amount"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Asset Coverage Test.*"
"Attributed Moody's Asset Percentage"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Asset Coverage Test.*"
"Borrower"	means, in relation to a Mortgage Loan Asset, the borrower under the related Mortgage Loan Agreement.

"Business Day"	means: (a) in respect of the Conditions, "Business Day" as defined in Condition 4(g) (*Definitions*); (b) in respect of the Agency Agreement and each Covered Bond, (i) a day (other than a Saturday or Sunday) on which Euroclear, Clearstream, Luxembourg and DTC are operating and (ii) a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for general business in the city of the Issuing and Paying Agent's (and, in the case of Registered Covered Bonds, the city of the Registrar's) specified office in London, New York, Hong Kong and Seoul and (iii) (if a payment is to be made on that day) a day on which banks and foreign exchange markets are open for general business in the principal financial centre for the currency of the payment or, in the case of euro, a day on which the TARGET System is operating; or (c) otherwise, a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for general business in London, New York, Hong Kong and Seoul.
"Business Day Convention"	has the meaning given to it in Condition 4(b)(ii) (*Business Day Convention*).
"Calculation Agent"	has the meaning given in the Conditions.
"Calculation Date"	means the last day of each Calculation Period.
"Calculation Period"	means the period from, and including, the first day of each month to, and including, the last day of each month except that the first Calculation Period means the period from and including Programme Date to and including the last day of the month in which the Programme Date falls.
"Cash Release Conditions"	means each of the following conditions in which cash standing to the credit of the Transaction Account may be withdrawn by the Issuer: (a) the amount standing to the credit of the Reserve Ledger of the Reserve Cash Account (if any) is not less than the Reserve Fund Required Amount; (b) for so long as the Issuer is in breach of the Pre-Maturity Test, the Pre-Maturity Test Cure Requirement has been satisfied; (c) the Asset Coverage Test was satisfied on the immediately preceding Calculation Date; and (d) there is no breach of the Korean Covered Bond Act both before and after the withdrawal.
"Cause of Disposal Event"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Registration and Amendment of the Covered Bond Issuance Plan.*"
"Collateral Security"	means, in respect of a Mortgage Loan: (a) any Mortgage; (b) any: (i) guarantee, indemnity or other assurance; or (ii) asset, which, in either case, secures or otherwise provides for the repayment or payment of that mortgage loan but does not include the Mortgage relating to that Mortgage Loan; or (c) any MCI in respect of the Mortgage Loan.

"Collateral Security Provider"	means, with respect to any Collateral Security, the provider of such Collateral Security.
"Contingent Swap Effective Date"	means, in relation to a Swap, a rating or default based trigger event that is specified as such by the Issuer and the relevant Swap Provider in the relevant Swap.
"Convertibility Costs"	in respect of a Swap, has the meaning given to it in the relevant Swap Agreement.
"Coupons"	has the meaning given in the Conditions.
"Cover Pool"	means all assets of the Issuer and rights of the Issuer under the Swaps from time to time registered with the FSC as comprising the cover pool in respect of the Programme under the Korean Covered Bond Laws and the Covered Bond Issuance Plan.
"Cover Pool Account"	means each Cover Pool Cash Account and each Cover Pool Securities Account.
"Cover Pool Cash Account"	means each of the following accounts registered with the FSC as accounts of the Cover Pool: (a) Transaction Account; (b) each Swap Cash Collateral Account; (c) Reserve Cash Account; and one or more additional KRW and/or non-KRW denominated cash accounts with the Reserve Account Bank or such other bank as may be approved by the Trustee and the Asset Monitor.
"Cover Pool Ledger"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Establishment and Segregation of the Cover Pool.*"
"Cover Pool Priority of Payments"	means the order of priority for the allocation and distribution of amounts from the Cover Pool among the Priority Payment Right Holders as described in "*Summary of the Principal Documents – Establishment Deed – Cover Pool Priority of Payments.*"
"Cover Pool Securities Accounts"	means each of the following accounts registered with the FSC as accounts of the Cover Pool: (a) each Swap Securities Collateral Account; and (b) Reserve Securities Account.
"Cover Pool Value"	means the value of the Cover Pool, as determined in accordance with the Korean Covered Bond Laws.
"Covered Bond Event of Default"	has the meaning given in Condition 10(b).
"Covered Bond Issuance Plan"	means the issuance plan filed by the Issuer on or about the Initial Filing Date in respect of the Programme, as may be amended or supplemented from time to time.

"Daily Cash Release"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Payments and Cash Release.*"
"Data File"	has the meaning given in "*Summary of the Principal Documents – Asset Monitor Agreement – Provision of Information and Assistance to the Asset Monitor.*"
"Dealer Agreement"	has the meaning given in "*Subscription and Sale and Transfer and Selling Restrictions*."
"Deemed Reductions"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Asset Coverage Test.*"
"Defaulted Mortgage Loan"	means any Mortgage Loan that is more than 90 days in arrears.
"Delegate"	has the meaning given in "*Summary of the Principal Documents – Asset Monitor Agreement – The Asset Monitor to Monitor the Cover Pool.*"
"DTI Ratio"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Eligibility Criteria.*"
"Eligibility Criteria"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Eligibility Criteria.*"
"Eligible Asset Monitor"	means an entity which satisfies the requirements in respect of an asset monitor as set out in the Korean Covered Bond Laws.
"Eligible Liquid Asset"	means a Liquid Asset that, as at the relevant Calculation Date or other applicable date of determination, satisfies the Fitch Qualified Investment Criteria (for so long as any Covered Bonds are rated by Fitch) and has the Moody's Liquid Asset Required Rating (for so long as any Covered Bonds are rated by Moody's).
"Establishment Deed"	means the establishment deed entered into on or about the Initial Filing Date between the Issuer, the Asset Monitor and the Trustee.
"Extended Covered Bonds"	means each Series of Covered Bonds for which an Extended Maturity Date is specified in the relevant Final Terms in respect of which a Maturity Extension Event has occurred.
"Extended Maturity Date"	has the meaning given in "*Risk Factors – Risks Relating to the Covered Bonds – There may be extendable obligations under the Covered Bonds*."
"Extension Charges Balance"	in respect of a Swap, has the meaning given to it in the relevant Swap Agreement.

"Extraordinary Resolution"	means a resolution of the Covered Bondholders passed as such under the terms of the Trust Deed.
"Final Exchange Date"	in respect of a Swap, has the meaning given to it in the relevant Swap Agreement.
"Final Redemption Amount"	means the Final Redemption Amount determined in accordance with the Conditions.
"Fitch Qualified Investment Criteria"	means, for so long as any Covered Bonds are rated by Fitch, that: (i) in respect of assets that mature in 30 days or less: (a) such assets have a short-term issuer default rating of at least "F2" by Fitch and/or a long-term issuer default rating of at least "A-" by Fitch; and (b) the assets are scheduled to mature within 30 days; or (ii) in respect of assets that mature in at least 30 days and not more than 365 days: (a) such assets have a short-term issuer default rating of at least "F1+" by Fitch and/or a long-term issuer default rating of at least "AA-" by Fitch; and (b) the assets are scheduled to mature within 365 days, or, in each case, such other rating or ratings as published by Fitch in its most recent rating criteria from time to time to maintain the then current ratings of the Covered Bonds by Fitch.
"Fixed Rate Covered Bonds"	means a Covered Bond which bears interest on its outstanding nominal amount in accordance with Condition 4(a) (*Interest of Fixed Rate Covered Bonds*).
"Floating Rate Covered Bonds"	means a Covered Bond which bears interest on its outstanding nominal amount in accordance with Condition 4(b) (*Interest of Floating Rate Covered Bonds*).
"FSC Regulations"	means the Supervision Regulations on Issuance of Covered Bonds (FSC Notification No. 2014-12).
"Hard Bullet Covered Bonds"	means Covered Bonds which are scheduled to be redeemed in full on their relevant Maturity Date without any provision for extension of their scheduled redemption past their Maturity Date and for which an Extended Maturity Date is not specified in the relevant Final Terms.
"Housing Act"	means the housing act of Korea (No. 12646), as amended.
"Indexed Valuation"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Asset Coverage Test.*"
"Ineligible Liquid Asset"	means any Liquid Asset that was excluded from the calculation of the Asset Coverage Test on the previous Calculation Date because it failed to satisfy the Fitch Qualified Investment Criteria or have the Moody's Liquid Asset Required Rating.
"Ineligible Mortgage Loan"	means any Mortgage Loan that is in breach of any Mortgage Loan Warranties.

"Initial Cover Pool"	means the portfolio of Underlying Assets, Liquid Assets and Other Assets, particulars of which will be included in the Covered Bond Issuance Plan on or about the Intial Filing Date and registered with the FSC in accordance with the Korean Covered Bond Laws.
"Initial Filing Date"	means, in respect of the initial assets in the Cover Pool, the date on which filing of the Covered Bond Issuance Plan is made with the FSC to register such assets as part of the Cover Pool.
"Interest Calculation Period"	has the meaning given to it in Condition 4(g).
"Interest Payment Date"	has the meaning given to it in Condition 4(b)(i) (*Interest Payment Dates*).
"Investor Report"	means each monthly report prepared by the Issuer (or, following the appointment of a Replacement Servicer, the Replacement Servicer) in accordance with the Establishment Deed and made available to the Covered Bondholders, the Trustee and the Rating Agencies detailing, *inter alia,* compliance with the Asset Coverage Test and which is to be posted on the Issuer's website (or, following the appointment of a Replacement Servicer, as directed by the Asset Monitor).
"Investor Report Date"	means the 20th day of the month immediately following the relevant Calculation Period, or if such day is not a Korean Business Day, the immediately following Korean Business Day.
"ISDA"	means International Swaps and Derivatives Association, Inc.
"ISDA Master Agreement"	means the 1992 ISDA Master Agreement (Multicurrency Cross Border), as published by ISDA.
"Issue Date"	has the meaning given in the Conditions.
"Issuer Covenant"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Issuer Covenants.*"
"Issuer EOD Notice"	has the meaning given in Condition 10(a).
"Issuer Event of Default"	has the meaning given in Condition 10(a).
"KB Index"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Asset Coverage Test.*"
"KB Market Prices"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Asset Coverage Test.*"
"KFTC"	means the Korea Financial Telecommunications & Clearings Institute.

"KFTC Notices" has the meaning given in "*Summary of the Principal Documents – Account Bank Agreement.*"

"Korean Business Day" means a day (other than Saturday and Sunday) on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in Korea.

"Korean Covered Bond Laws" has the meaning given in Condition 3.

"Korean Privacy Laws" means Personal Information Protection Act, the Real Name Act (No. 5493 of 31 December 1997) of Korea, as amended, and the Use and Protection of Credit Information Act (No. 4866 of 5 January 1995) of Korea, as amended.

"KRW Equivalent" means in relation to an amount which is denominated in (i) a currency other than Korean Won, the Korean Won equivalent of such amount ascertained using (x) the relevant Swap Rate relating to such Covered Bond if such amount relates to the interest or principal (including the outstanding principal amount) in respect of a Covered Bond; or (y) where the relevant Swap Agreement has terminated, there is no Swap Agreement or the amount is not related to the interest or principal in respect of a Covered Bond, the Spot Rate, and (ii) Korean Won, the applicable amount in Korean Won.

"Liquid Asset" means any of the following assets (other than any Swap Collateral):

(a) cash (excluding Other Assets and Underlying Assets);

(b) certificates of deposit with a maturity of no more than 100 days issued by financial companies (as defined in the Korean Covered Bond Act) other than the Issuer; and

(c) (x) bonds (other than Korean government bonds) issued by any government rated "AAA" to "AA-" by credit rating agencies; (y) financial instruments issued by any bank or securities company (other than any bank or securities company incorporated in Korea) which is rated "A" by credit rating agencies and otherwise satisfies the requirements as set out under the Korean Covered Bond Laws; and (z) deposits and term deposits at either domestic financing companies (as defined in the Korean Covered Bond Act) or foreign financial companies as prescribed by the FSC with a maturity of three months or less, in each case, which the Issuer or (following the service of an Issuer EOD Notice on the Issuer) the Asset Monitor has determined are readily able to be liquidated within three months.

"Liquid Assets Ledger" means either (i) the ledger in the Reserve Cash Account of such name maintained by the Issuer pursuant to the Account Bank Agreement, to record the crediting and the debiting of Liquid Assets which are in the form of cash; or (ii) the ledger in the Reserve Securities Account of such name maintained by the Issuer pursuant to the Account Bank Agreement to record the credits and debits of Liquid Assets which are other than in the form of cash, in each case in accordance with the terms of the Establishment Deed.

"Liquid Assets Value" means, in respect of any day, the aggregate value of the Eligible Liquid Assets (if any) in the Cover Pool as of such day in KRW, determined in accordance with the below: (a) in respect of any assets falling within sub-paragraph (c)(x) of the definition of Liquid Assets, an aggregate value determined as being equal to the product, for each such asset of: (i) the value of such asset as determined in accordance with the Korean Covered Bond Laws; and (ii) the relevant Moody's Valuation Percentage; (b) in respect of any assets falling within sub-paragraph (c)(y) of the definition of Liquid Assets, an aggregate value determined as being equal to the product, for each such asset of: (i) the value of such asset as determined in accordance with the Korean Covered Bond Laws; and (ii) the percentage figure (1) as may be determined from time to time by the Issuer and notified in writing to Moody's and the Asset Monitor on such Calculation Date or (2) where the Issuer has not notified Moody's and the Asset Monitor in writing of the minimum percentage figure on the relevant Calculation Date, on the last date of such notification, and such percentage figure in (1) or (2) being in each case the difference between 100 per cent. and the amount of credit enhancement required to support the then current ratings of the Covered Bonds under Moody's expected loss methodology, provided that for as long as any Covered Bonds remain outstanding whose ratings have been downgraded by Moody's at any point since their relevant original Issue Date, the Asset Percentage shall not be greater than the higher of (A) the Asset Percentage last notified to Moody's and the Asset Monitor in writing by the Issuer prior to the first such downgrade, or (B) the lowest value for (X) in respect of each downgrade where (X) in respect of each such downgrade is equal to the respective Attributed Moody's Asset Percentage specified in the relevant Investor Report most recently delivered prior to such downgrade; or (C) in respect of any other Liquid Asset, the aggregate value as determined in accordance with the Korean Covered Bond Laws.

"LTV Adjusted Loan Amount" has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Asset Coverage Test.*"

"LTV Limit" has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Asset Coverage Test.*"

"Margin"	means, in respect of a Series of Covered Bonds, the Margin (if any) specified in the relevant Final Terms.
"Material Adverse Effect"	means any event or condition which would have a material adverse effect on: (a) the collectability or value of any Underlying Assets, Liquid Assets or Other Assets (whether as a result of a material adverse effect on the business, condition (financial or otherwise), operations, performance or properties of the Issuer); or (b) the ability of the Issuer to perform its obligations under the Transaction Documents; or (c) the interests of the Covered Bondholders.
"Maturity Extension Event"	means, in respect of any Series of Covered Bonds to which an Extended Maturity Date is specified as applicable in the Final Terms, the Issuer fails to redeem all those Covered Bonds in full on the Maturity Date of such Covered Bonds or within 10 calendar days thereafter.
"Maximum Liquid Assets Requirement"	means the requirement, pursuant to Article 5(3) of the Korean Covered Bond Act (or any successor provision), that the KRW Equivalent of the value of the Liquid Assets forming part of the Cover Pool (as determined in accordance with the Korean Covered Bond Laws) shall not exceed 10 per cent. of the Cover Pool Value, or such other limit on Liquid Assets as may be specified by the Korean Covered Bond Laws from time to time.
"MCI"	means with respect to a Mortgage Loan, if applicable, mortgage credit insurance issued by SGIC in favour of the Issuer pursuant to the Master MCI Agreement.

"Minimum Required Ratings" means the required ratings specified below in relation to the Issuer (or, in the case of rating requirements of Fitch mentioned in sub-paragraphs (a)(ii), (b)(ii), (b)(iii) and (c)(ii) of this definition, such other rating or ratings as published by Fitch in its most recent rating criteria which are required from time to time to maintain the then current ratings of the Covered Bonds by Fitch): (a) in relation to the satisfaction of the Pre-Maturity Test pursuant to the Establishment Deed (i) a short-term counterparty risk assessment rating, or, if such short-term counterparty risk assessment rating in respect of the Issuer is not available, a senior unsecured rating or an issuer rating, of at least "P-1" by Moody's; and (ii) a short-term issuer default rating of at least "F1" by Fitch; (b) in relation to the funding of the Reserve Ledger of the Reserve Cash Account with an amount equal to the Reserve Fund Required Amount pursuant to the Establishment Deed (i) a long-term counterparty risk assessment rating, or, if such long-term counterparty risk assessment rating in respect of the Issuer is not available, a senior unsecured rating or an issuer rating, of at least "A2" by Moody's; and (ii) a short-term issuer default rating of at least "F1" by Fitch; and (iii) a long-term issuer default rating of at least "A" by Fitch; and (c) in relation to conducting the Agreed Procedures pursuant to the Asset Monitor Agreement (i) a long-term counterparty risk assessment rating, or, if such long-term counterparty risk assessment rating in respect of the Issuer is not available, a senior unsecured rating or an issuer rating, of at least "Baa3" by Moody's; and (ii) a long-term issuer default rating of at least "BBB-" by Fitch.

"Monthly Distribution Date" means, following the service of an Issuer EOD Notice, the day falling one Korean Business Day following each Test Date.

"Moody's Liquid Asset Required Ratings" means, in respect of Liquid Assets other than cash, that such Liquid Assets have: (a) in respect of Liquid Assets falling within paragraph (b) and (c)(z) of the definition of Liquid Assets, a long-term deposit rating or, as the case may be, a long-term issuer rating in respect of the relevant financial company, domestic financing company or foreign financial company of at least "A3" by Moody's; (b) in respect of Liquid Assets falling within paragraph (c)(x) of the definition of Liquid Assets, a long-term issuer or senior unsecured rating of at least "A3" by Moody's; or (c) in respect of Liquid Assets falling within paragraph (c)(y) of the definition of Liquid Assets, a deposit rating or, as the case may be, a debt rating of at least "A3" by Moody's, or, in each case, such other rating or ratings as published by Moody's in its most recent rating criteria from time to time to maintain the then current ratings of the Covered Bonds by Moody's provided that a Rating Agency Confirmation is obtained from Moody's in respect of the applicability of such other rating or ratings to the Liquid Assets in the context of the ratings by Moody's of the Covered Bonds.

"Moody's Valuation Percentage"	means the applicable valuation percentage as set out in Table 11 of the rating methodology 'Approach to Assessing Swap Counterparties in Structured Finance Cash Flow Transactions' published by Moody's dated 12 November 2013 but construed so that (i) references in Table 11 to "Yen" or "Japanese Yen" are references to Korean Won instead, (ii) references in Table 11 to instruments denominated in "Sterling" include instruments denominated in Japanese Yen, (iii) references in Table 11 to "Japanese Government Bonds" are references to "Korean Government Bonds" and (iv) references in Table 11 to "United Kingdom Gilts" include "Japanese Government Bonds", or such other rating methodology or rating methodologies as published by Moody's in its most recent rating criteria which are required from time to time to maintain the then current ratings of the Covered Bonds by Moody's provided that a Rating Agency Confirmation is obtained from Moody's in respect of the applicability of such other rating methodology or rating methodologies to the applicable valuation percentages in the context of the ratings by Moody's of the Covered Bonds.
"Mortgage"	means, with respect to a Mortgage Loan Agreement or a Mortgage Loan, a *Keun*-mortgage (as such term is used under Korean law) securing the obligations of the Borrower or any third party under or in relation to such Mortgage Loan Agreement or Mortgage Loan.
"Mortgage Loan"	means, at any time, a transaction constituted by a Mortgage Loan Agreement between the Issuer as lender and the related Borrower(s), together with the related Mortgage and any other Related Assets in respect of such Mortgage Loan Agreement that is registered as part of the Cover Pool.
"Mortgage Loan Agreement"	means, with respect to a Mortgage Loan, the mortgage loan agreement between the Issuer as lender and the related Borrower, which mortgage loan agreement governs the terms and conditions on which, among other things, a loan was advanced to, and is to be repaid by, such Borrower and the payment of interest on such loan, as such mortgage loan agreement may be amended, modified or otherwise changed from time to time and any other agreements entered into in connection with such Mortgage Loan, including but not limited to, the general terms and conditions for credit transactions, the mortgage creation agreement between the Issuer, as mortgagee, and the relevant Mortgagor, and the mortgage loan application forms.
"Mortgage Loan Assets"	means, at any time, all of the right, title, interest and benefit in, to, under and in respect of Mortgage Loans that are part of the Cover Pool at such time.
"Mortgage Loan Warranties"	means the warranties set out in "*Summary of the Principal Documents – Establishment Deed – Mortgage Loan Warranties.*"

"Mortgaged Property"	means, in relation to any Mortgage, the property which is subject to such Mortgage.
"Mortgagor"	means, in relation to a Mortgage Loan, the mortgagor under the related Mortgage.
"Negative Carry Factor"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Asset Coverage Test.*"
"New Mortgage Loan"	means any Mortgage Loan, other than the Mortgage Loans forming part of the Initial Cover Pool, which the Issuer may add to the Cover Pool in accordance with the Korean Covered Bond Laws after the Initial Filing Date.
"Obligors"	means, collectively, all of the Borrowers and the Mortgagors, and each an "**Obligor**."
"Other Assets"	has the meaning given in "*Summary of Korean Legislation Regarding Covered Bonds – Cover Pool – Composition of Assets and Eligibility Criteria.*"
"Perfection Notice"	means a perfection notice signed by the Issuer and delivered as soon as practicable and, in any event, within 15 Korean Business Days following the occurrence of a Cause of Disposal Event, by content and delivery proof mail to the Borrowers or to SGIC, in accordance with the Korean Covered Bond Laws and the Korean Civil Code.
"PMT Ongoing Test Series"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Pre-Maturity Liquidity.*"
"PMT Shortfall Amount"	means, in respect of all PMT Ongoing Test Series and a PMT Shortfall Valuation Date, the amount by which the portion of the Required Redemption Amount which relates to PMT Ongoing Test Series exceeds the Pre-Maturity Liquidity Assets Value in respect of such PMT Shortfall Valuation Date.
"PMT Shortfall Valuation Date"	means, in respect of all PMT Ongoing Test Series, the Friday of each week, provided that if such day is not a Korean Business Day, such PMT Shortfall Valuation Date shall be the next following Korean Business Day.
"Portfolio Criteria"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Eligibility Criteria.*"
"Pre-Maturity Liquidity Assets"	means any of the following assets deposited by the Issuer into the Pre-Maturity Liquidity Ledger of the Reserve Cash Account and/or of the Reserve Securities Account (as applicable): (a) Liquid Assets; and (b) Underlying Assets other than (i) residential mortgage loans or (ii) loans secured by vessels or aircraft.

"Pre-Maturity Liquidity Assets Value"	means, at any time, in respect of Pre-Maturity Liquidity Assets, the aggregate of: (a) in respect of Pre-Maturity Liquidity Assets that are Eligible Liquid Assets, the portion of the Liquid Assets Value relating to such Eligible Liquid Assets; and (b) in respect of Pre-Maturity Liquidity Assets that are Underlying Assets, the aggregate value of such Underlying Assets in KRW, as determined in accordance with the Korean Covered Bond Laws, multiplied by the haircut percentage applicable to each such Underlying Asset as specified below: (i) in respect of Underlying Assets that are fixed rate Korean government bonds with a remaining maturity of: (1) less than or equal to one year, 100 per cent.; (2) more than one year but less than or equal to two years, 99 per cent.; (3) more than two years but less than or equal to three years, 98 per cent.; (4) more than three years but less than or equal to five years, 98 per cent.; (5) more than five years but less than or equal to seven years, 97 per cent.; (6) more than seven years but less than or equal to ten years, 95 per cent.; (7) more than ten years but less than or equal to twenty years, 92 per cent.; (8) more than twenty years, 90 per cent.; or (ii) in respect of Underlying Assets that are floating rate Korean government bonds of any remaining maturity, 99 per cent.; and (c) in respect of Underlying Assets which are not Korean government bonds, zero, in each case subject to update from time to time in accordance with the most recent applicable rating criteria published by Moody's to maintain the then current ratings of the Covered Bonds by Moody's provided that a Rating Agency Confirmation is obtained from Moody's in respect of the applicability of such other rating criteria to Pre-Maturity Liquidity Assets in the context of the ratings by Moody's of the Covered Bonds.
"Pre-Maturity Liquidity Ledger"	means either (i) the ledger in the Reserve Cash Account of such name maintained by the Issuer pursuant to the Account Bank Agreement to record the credits and debits of Pre-Maturity Liquidity Assets which are in the form of cash; or (ii) the ledger in the Reserve Securities Account of such name maintained by the Issuer pursuant to the Account Bank Agreement to record the credits and debits of Pre-Maturity Liquidity Assets which are other than in the form of cash, in each case available to repay any series of Hard Bullet Covered Bonds on the Maturity Date thereof if the Pre-Maturity Test has been breached.
"Pre-Maturity Test"	means a test in relation to a Series of Hard Bullet Covered Bonds on a Pre-Maturity Test Date to see whether the Issuer ceases to have the applicable Minimum Required Ratings from one or both Rating Agencies.
"Pre-Maturity Test Cure Requirement"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Pre-Maturity Liquidity.*"
"Pre-Maturity Test Date"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Pre-Maturity Liquidity.*"

"Pre-Maturity Test Period"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Pre-Maturity Liquidity.*"
"Preceding Business Day Convention"	has the meaning given in Condition 4(b)(ii) (*Interest on Floating Rate Covered Bonds – Business Day Convention*).
"Priority Payment Right Holders"	means any person with a Priority Payment Right.
"Priority Payment Rights"	means each of the following: (a) any fees, costs or expenses of the Asset Monitor or any Delegate; (b) any fees, costs or expenses (including properly incurred legal fees and expenses) of or any other amounts (including by way of indemnity) owing to the Trustee, any Appointee or any Agent; (c) any fees, costs or expenses of (i) the Transaction Account Bank in relation to the Transaction Account and (ii) the Reserve Account Bank in relation to the Cover Pool Cash Accounts (other than the Transaction Account); (d) any amounts payable to the Covered Bondholders under the Covered Bonds; and (e) any amounts payable to any Swap Provider under any Swap.
"Programme Date"	means June 12, 2015.
"Rating Agencies"	means Moody's and Fitch, in each case, for so long as it continues to provide a rating in respect of Covered Bonds and each a "**Rating Agency**."
"Rating Agency Confirmation"	means (i) a written confirmation from a Rating Agency that the relevant amendment, action, determination or appointment will not result in the reduction, qualification, suspension or withdrawal of the then current ratings assigned to any outstanding Covered Bonds rated by that Rating Agency, provided that a Rating Agency shall be deemed to have given such written confirmation if such Rating Agency does not express any written objection to the relevant amendment, action, determination or appointment within two weeks after being notified in writing by the Issuer of such proposed action; or (ii) a certification in writing by an authorised signatory of the Issuer to the Trustee (upon which the certificate the Trustee may rely absolutely and without further enquiry or liability) stating that the relevant amendment, action, determination or appointment has been notified to the Rating Agencies and, in the Issuer's opinion, would not cause the then current ratings assigned to any outstanding Covered Bonds to be reduced, qualified, suspended or withdrawn by any Rating Agency and, where a Rating Agency was prepared to consult with the Issuer, such opinion is based on such consultation with the relevant Rating Agency; provided however that it is understood that the Rating Agencies shall be under no obligation to provide a Rating Agency Confirmation.

"Regulatory Requirements"	means any law, rule, code or regulatory requirement of any Governmental Authority.
"Relevant Filing Date"	means, the Initial Filing Date or any Additional Filing Date as the case may be.
"Replacement Servicer"	has the meaning given in "*Summary of the Principal Documents – Asset Monitor Agreement – The Asset Monitor to Monitor the Cover Pool.*"
"Required Collateralisation Ratio"	means that the Cover Pool Value is equal to or greater than 105 per cent. of the KRW Equivalent of the aggregate outstanding principal amount of all Covered Bonds issued under the Programme together with all interest accrued on such Covered Bonds, or such other overcollateralisation requirement as may apply to the Covered Bonds pursuant to the Korean Covered Bond Laws from time to time.
"Required Redemption Amount"	means, in respect of the Pre-Maturity Test, the aggregate principal amount outstanding of all Series of Hard Bullet Covered Bonds which are scheduled to mature within 12 months of the relevant Pre-Maturity Test Date.
"Reserve Account"	means Reserve Cash Account and Reserve Securities Account.
"Reserve Account Bank"	means Kookmin Bank or any successors, assigns and replacements acting as account bank of any Cover Pool Cash Account (other than the Transaction Account) in connection with the Cover Pool and appointed pursuant to the Account Bank Agreement.
"Reserve Account Bank Relevant Entity"	means the Reserve Account Bank and any financial institution having the Reserve Account Bank Required Ratings who has provided a guarantee of the Reserve Account Bank's obligations under the Account Bank Agreement (provided that a Rating Agency Confirmation is obtained in respect of such guarantee).
"Reserve Account Bank Required Ratings"	means the required ratings specified below in relation to the Reserve Account Bank (or such other rating or ratings as published by the relevant Rating Agency in its most recent ratings criteria from time to time to maintain the then current ratings of the Covered Bonds by such Rating Agency provided that, in the case of other rating(s) published by Moody's, a Rating Agency Confirmation is obtained from Moody's in respect of the applicability of such other rating criteria to the Reserve Account Bank in the context of the ratings by Moody's of the Covered Bonds), except that the relevant ratings shall be those of the guarantor, if the obligations of such Reserve Account Bank are guaranteed by a guarantor: (a) both a short-term issuer default rating of at least "F2" by Fitch and a long-term issuer default rating of at least "A-" by Fitch; and (b) a long-term foreign currency issuer credit rating of at least "Baa3" by Moody's.

"Reserve Account Bank Termination Event"	has the meaning given in "*Summary of the Principal Documents – Account Bank Agreement.*"
"Reserve Cash Account"	means the account designated as such in the name of the Issuer held with the Reserve Account Bank or such other bank from time to time, as applicable, into which the Reserve Fund, Pre-Maturity Liquidity Assets in the form of cash and Liquid Assets in the form of cash may be deposited in accordance with the terms of the Establishment Deed.
"Reserve Fund"	means the reserve fund that the Issuer will be required to establish in the Reserve Cash Account which will be credited with an aggregate amount equal to the Reserve Fund Required Amount.
"Reserve Fund Required Amount"	means: (a) if, and for so long as, the Issuer's credit rating is equal to or higher than the then applicable Minimum Required Ratings, nil; or (b) if, and for so long as, the Issuer's credit rating is below one or more of the Minimum Required Ratings, an amount equal to the KRW Equivalent of the sum of: (i) the aggregate amounts due to the Swap Provider in respect of interest under each Series of Covered Bonds in the immediately following three months, provided that, in determining the Reserve Fund Required Amount, where any amount in respect of a Swap is determined by reference to a floating rate, the applicable rate for the purposes of such determination will be the then current floating rate as at the date on which the amount is calculated; (ii) prior to service of Perfection Notices, the greater of (x) KRW 500,000,000 and (y) the product of KRW 7,500 and the total number of Borrowers as of the date of determination (representing the amount reimburseable for the costs of preparing and delivering Perfection Notices in accordance with the Establishment Deed), and thereafter, zero; and (iii) the aggregate amounts known to be due to the Trustee, any Appointee, Agents, Asset Monitor (and Delegates), Replacement Servicer, Transaction Account Bank and Reserve Account Bank, in each case pursuant to the terms of the relevant Transaction Documents or applicable fee letters, in the immediately following three months.
"Reserve Ledger"	means the ledger in the Reserve Cash Account of such name maintained by the Issuer pursuant to the Account Bank Agreement, to record the crediting and the debiting of the Reserve Fund in accordance with the terms of the Establishment Deed.
"Reserve Securities Account"	means the account designated as such in the name of the Issuer held with the Securities Depositary or such other custodian or securities depositary from time to time, as applicable, into which Liquid Assets or Pre-Maturity Liquidity Assets other than cash may be deposited in accordance with the terms of the Establishment Deed.

"Securities Depositary"	means the Korea Securities Depositary.
"Series"	means a series of Covered Bonds comprising one or more Tranches, whether or not issued on the same date, that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number.
"Series Required Redemption Amount"	means, in respect of the Pre-Maturity Test and a Series of Hard Bullet Covered Bonds which are scheduled to mature during the relevant Pre-Maturity Test Period, the aggregate principal amount outstanding of such Series.
"Series Required Redemption Amount Cut-off Date"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Pre-Maturity Liquidity.*"
"Series Reserved Matter"	means, in respect of a Series, those matters to which special quorum provisions of the Trust Deed apply.
"Servicer Replacement Event"	means the Issuer ceases to have a long-term counterparty risk assessment rating, or, if such long-term counterparty risk assessment rating in respect of the Issuer is not available, a senior unsecured rating or an issuer rating, of at least "Baa3" by Moody's or its long-term issuer default rating is rated below "BBB-" by Fitch or such other rating or ratings as published by Fitch in its most recent rating criteria from time to time to maintain the then current ratings of the Covered Bonds by Fitch.
"Set-Off Amount"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Asset Coverage Test.*"
"Set-Off Rating Event"	has the meaning given in "*Summary of the Principal Documents – Establishment Deed – Asset Coverage Test.*"
"SGIC"	means Seoul Guarantee Insurance Company.
"Spot Rate"	means a spot rate for the sale of KRW against the purchase of the currency of the relevant amount other than KRW in the foreign exchange market in Seoul quoted by any leading bank selected by (i) the Issuer; (ii) following service of an Issuer EOD Notice, the Asset Monitor; or (iii) in respect of a determination to be made by the Trustee, the Trustee, in each case on the relevant day of calculation.
"Subscription Agreement"	means an agreement between two or more Relevant Dealers and the Issuer made pursuant to the Dealer Agreement.
"Substitution Resolution"	means the substitution of any entity for the Issuer (or any previous substitute) as principal debtor under the Trust Deed and the other Transaction Documents to which the Issuer is a party, provided that such substitution is permitted under the Korean Covered Bond Laws.

"Swap"	means any cross-currency swap transaction governed by any Swap Agreement.
"Swap Agreement"	means each agreement between the Issuer, a Swap Provider and the Trustee governing a Swap entered into with such Swap Provider in the form of an ISDA Master Agreement, including a schedule and confirmation and any credit support annex entered into pursuant thereto.
"Swap Cash Collateral Account"	means an account in the name of the Issuer held with the Reserve Account Bank or such other bank from time to time, as applicable, into which Swap Collateral in the form of cash in respect of any Swap may be deposited.
"Swap Collateral"	means, at any time, any asset (including, without limitation, cash and/or securities) which is paid or transferred by a Swap Provider to the Issuer as collateral to secure the performance by such Swap Provider of its obligations under the relevant Swap Agreement together with any income or distributions received in respect of such asset and any equivalent of such asset into which such asset is transformed.
"Swap Collateral Available Amounts"	means, at any time, the amount of Swap Collateral which under the terms of the relevant Swap Agreement may be applied at that time in satisfaction of the relevant Swap Provider's obligations to the Issuer.
"Swap Collateral Excluded Amounts"	means: (a) the amount of Swap Collateral which may not be applied under the terms of the relevant Swap Agreement at that time in satisfaction of the relevant Swap Provider's obligations to the Issuer, including Swap Collateral which is to be returned to the relevant Swap Provider from time to time in accordance with the terms of the Swap Agreements and ultimately upon termination of the relevant Swap Agreement; and (b) any cash benefit relating to any Tax Credits received or obtained in respect of a Swap (the amount of such cash benefit as determined in accordance with the relevant Swap Agreement), which is to be returned to the relevant Swap Provider from time to time in accordance with the terms of the Swap Agreements.
"Swap Payment Date"	means, in respect of a Series of Covered Bond, any date on which the Issuer is obligated to pay under the relevant Swap.
"Swap Provider"	means each provider of a Swap under a Swap Agreement.
"Swap Provider Default"	means the occurrence of an Event of Default or Termination Event (other than a Termination Event that is an "Illegality" or "Tax Event"), each as defined in the relevant Swap Agreement where the relevant Swap Provider is the Defaulting Party or the sole Affected Party (each as defined in the relevant Swap Agreement), as applicable.

"Swap Rate"	means the foreign exchange conversion rate of the currency of the relevant Series of Covered Bonds and KRW specified as the 'Covered Bond Swap Rate' in the confirmation relating to the relevant Swap.
"Swap Securities Collateral Account"	means an account in the name of the Issuer held with the Securities Depositary or Euroclear into which Swap Collateral in the form of securities in respect of any Swap may be deposited.
"Swap Termination Payment"	means in relation to a Swap Agreement, an amount equal to the amount of any termination payment due and payable to the relevant Swap Provider as a result of a termination of such Swap Agreement in accordance with its terms.
"Talons"	has the meaning given in the Conditions.
"TARGET System"	has the meaning given in Condition 4(g).
"Tax Credit"	means a credit against any Tax or any relief or remission for Tax (or its repayment).
"Taxes"	means all present and future taxes, levies, imposts, duties (including stamp and transaction duties), fees, deductions, withholdings or charges of any nature whatsoever and wheresoever imposed, except if imposed on, or calculated having regard to the net income of the relevant party, but including, without limitation, income tax, company tax, corporation tax, goods and services tax or value added tax or other tax in respect of added value and any franchise, transfer, sales, gross receipts, use, business, occupation, excise, personal property, real property or other tax imposed by any national, local or supranational taxing or fiscal authority or agency, together with any penalties, fines or interest, and "**Tax**" and "**Taxation**" shall be construed accordingly.
"Test Date"	means: (a) in respect of a Calculation Period and the Asset Coverage Test, the first Korean Business Day of the month immediately following such Calculation Period; and (b) in respect of a Calculation Period and the Amortisation Test, the sixth Korean Business Day of the month immediately following such Calculation Period.
"Tranche"	means, in relation to a Series, those Covered Bonds of that Series that are issued on the same date at the same issue price and in respect of which the first payment of interest is identical.

"Transaction Account"	means the account designated as such in the name of the Issuer held with the Transaction Account Bank and maintained subject to the terms of the Account Bank Agreement or such other account as may for the time being be in place with the prior consent of the Asset Monitor and designated as such.
"Transaction Account Bank"	means Kookmin Bank or any successors, assigns and replacements acting as account bank of the Transaction Account in connection with the Cover Pool and appointed pursuant to the Account Bank Agreement.
"Transaction Account Bank Relevant Entity"	means the Transaction Account Bank and any financial institution who has provided a guarantee of the Transaction Account Bank's obligations under the Account Bank Agreement (provided that a Rating Agency Confirmation is obtained in respect of such guarantee).
"Transaction Account Bank Required Ratings"	means the required ratings specified below in relation to the Transaction Account Bank (or such other rating or ratings as published by the relevant Rating Agency in its most recent ratings criteria from time to time to maintain the then current ratings of the Covered Bonds by such Rating Agency provided that, in the case of other rating(s) published by Moody's, a Rating Agency Confirmation is obtained from Moody's in respect of the applicability of such other rating criteria to the Transaction Account Bank in the context of the ratings by Moody's of the Covered Bonds), except that the relevant ratings shall be those of the guarantor, if the obligations of such Transaction Account Bank are guaranteed by a guarantor: (a) (x) if the Issuer is the Transaction Account Bank, both a short-term issuer default rating of at least "F2" by Fitch and a long-term issuer default rating of at least "BBB-" by Fitch; or (y) if the Issuer is the not Transaction Account Bank, both a short-term issuer default rating of at least "F2" by Fitch and a long-term issuer default rating of at least "A-" by Fitch; and (b) a long-term foreign currency issuer credit rating of at least "Baa3" by Moody's.
"Transaction Account Bank Termination Event"	has the meaning given in "*Summary of the Principal Documents – Account Bank Agreement.*"

"Transaction Documents"	means each of the following: (a) Account Bank Agreement; (b) Agency Agreement; (c) Asset Monitor Agreement; (d) each Swap Agreement; (e) Establishment Deed; (f) Master Definitions Agreement; (g) each Final Terms (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement); (h) Dealer Agreement; (i) each Subscription Agreement (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement); (j) Trust Deed (including the Conditions); (k) each document, agreement or deed ancillary or supplemental to any of the documents specified in paragraphs (a) to (j) (inclusive) above; and (l) any other agreement or document from time to time designated as such by the Issuer and the Trustee.
"Transaction Party"	means any person who is a party to a Transaction Document and "**Transaction Parties**" means some or all of them.
"Trust Deed"	has the meaning given in the Conditions.
"Trustee"	has the meaning given in the Conditions.
"Underlying Asset"	means any assets that complies with sub-paragraph 1 of Article 5(1) of the Korean Covered Bond Act (or any successor provision).

INDEX TO FINANCIAL STATEMENTS

Unaudited Interim Consolidated Financial Statements as of March 31, 2015 and for the Three Months Ended March 31, 2015 and 2014

Report on Review of Interim Financial Statements F-2

Interim Consolidated Statements of Financial Position as of March 31, 2015 and December 31, 2014 . . . . . F-4

Interim Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2015 and 2014 . . . . . F-5

Interim Consolidated Statements of Changes in Equity for the Three Months Ended March 31, 2015 and 2014 . . . . . F-6

Interim Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014 . . . . . F-7

Notes to Interim Consolidated Financial Statements F-8

Audited Consolidated Financial Statements for the Years Ended December 31, 2014 and 2013

Independent Auditor's Report F-149

Consolidated Statements of Financial Position as of December 31, 2014 and 2013 and January 1, 2013 . . . . . F-151

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2014 and 2013 . . . . . F-152

Consolidated Statements of Changes in Equity for the Years Ended December 31, 2014 and 2013 . . . . . F-153

Consolidated Statements of Cash Flows for the Years Ended December 31, 2014 and 2013 . . . . . F-154

Notes to Consolidated Financial Statements F-155

Audited Consolidated Financial Statements for the Years Ended December 31, 2013 and 2012

Independent Auditor's Report F-323

Consolidated Statements of Financial Position as of December 31, 2013 and 2012 and January 1, 2012 . . . . . F-325

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2013 and 2012 . . . . . F-326

Consolidated Statements of Changes in Equity for the Years Ended December 31, 2013 and 2012 . . . . . F-327

Consolidated Statements of Cash Flows for the Years Ended December 31, 2013 and 2012 . . . . . F-328

Notes to Consolidated Financial Statements F-329

Report on Review of Interim Financial Statements

(English Translation of a Report Originally Issued in Korean)

To the Shareholders and Board of Directors of Kookmin Bank

Reviewed Financial Statements

We have reviewed the accompanying interim consolidated financial statements of Kookmin Bank and its subsidiaries (collectively the "Group"). These financial statements consist of the interim consolidated statement of financial position of the Group as of March 31, 2015, the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2015 and 2014, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS") 1034, *Interim Financial Reporting*, 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.

Auditor's Responsibility

Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with the quarterly and semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of Korea and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our reviews, nothing has come to our attention that causes us to believe the accompanying interim consolidated financial statements do not present fairly, in all material respects, in accordance with the Korean IFRS 1034, *Interim Financial Reporting*.

Other Matters
We have audited the consolidated statement of financial position of the Group as of 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 the Korean Standards of Auditing. We expressed an unqualified opinion on those financial statements in our audit report dated March 10, 2015. These financial statements except the statement of financial position are not included in this review report. The consolidated statement of financial position as of December 31, 2014, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as of December 31, 2014.

Review standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries.

/s/ Samil PricewaterhouseCoopers
Seoul, Korea
May 14, 2015

The report is effective as of May 14, 2015, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying interim consolidated financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Kookmin Bank and Subsidiaries

Interim Consolidated Statements of Financial Position

March 31, 2015 (Unaudited) and December 31, 2014

(In millions of Korean won)	Notes	March 31, 2015	December 31, 2014
Assets			
Cash and due from financial institutions	4,6,7,36	₩ 13,196,414	₩ 13,973,510
Financial assets at fair value through profit or loss	4,6,12	7,592,841	7,520,471
Derivative financial assets	4,6,9	1,987,424	1,910,217
Loans	4,6,10,11	218,178,715	211,525,560
Financial investments	4,6,8,12	28,969,290	29,258,527
Investments in associates	13	678,781	667,332
Property and equipment	14	2,857,999	2,888,194
Investment property	14	412,779	409,266
Intangible assets	15	197,613	206,895
Current income tax assets	32	137,992	305,831
Deferred income tax assets	16,32	5,481	5,314
Assets held for sale	18	49,328	54,034
Other assets	4,6,17	7,865,145	6,728,513
Total assets		₩ 282,129,802	₩ 275,453,664
Liabilities			
Financial liabilities at fair value through profit or loss	4,6	₩ 56,659	₩ 51,650
Derivative financial liabilities	4,6,9	1,880,403	1,759,099
Deposits	4,6,19	213,750,975	211,611,432
Debts	4,6,20	15,360,871	14,297,460
Debentures	4,6,21	14,889,355	15,250,464
Provisions	22	465,112	483,375
Net defined benefit liabilities	23	99,823	57,493
Current income tax liabilities	32	7,055	7,585
Deferred income tax liabilities	16,32	111,692	110,358
Other liabilities	4,6,24,30	13,224,961	9,884,275
Total liabilities		259,846,906	253,513,191
Equity	25		
Capital stock		2,021,896	2,021,896
Capital surplus		5,219,704	5,219,704
Accumulated other comprehensive income	34	667,538	570,811
Retained earnings	33	14,373,758	14,128,062
(Provision of regulatory reserve for credit losses Mar. 31, 2015 : ₩ 1,867,761 million Dec. 31, 2014 : ₩ 1,690,979 million) (Amounts estimated to be appropriated Mar. 31, 2015 : ₩ 42,848 million Dec. 31, 2014 : ₩ 176,782 million)			
Equity attributable to shareholders of the parent company		22,282,896	21,940,473
Non-controlling interest equity		-	-
Total equity		22,282,896	21,940,473
Total liabilities and equity		₩ 282,129,802	₩ 275,453,664

The accompanying notes are an integral part of these interim consolidated financial statements.

Kookmin Bank and Subsidiaries

Interim Consolidated Statements of Comprehensive Income

Three-month periods ended March 31, 2015 and 2014 (Unaudited)

(In millions of Korean won)	Notes	Period Ended March 31 2015	2014
Interest income		₩ 2,228,933	₩ 2,464,699
Interest expense		(1,051,294)	(1,255,582)
Net interest income	26	1,177,639	1,209,117
Fee and commission income		335,965	297,049
Fee and commission expense		(49,516)	(43,899)
Net fee and commission income	27	286,449	253,150
Net gains on financial assets/liabilities at fair value through profit or loss	28	111,077	41,308
Net other operating expenses	29	(201,658)	(117,984)
General and administrative expenses	14,15,23,30,40	(901,462)	(840,921)
Operating profit before provision for credit losses		472,045	544,670
Provision for credit losses	11,17,22	(124,796)	(222,314)
Operating profit		347,249	322,356
Share of profit of associates	13	17,902	13,652
Net other non-operating income	31	189,450	3,890
Net non-operating profit		207,352	17,542
Profit before income tax expense		554,601	339,898
Income tax expense	32	(78,409)	(95,957)
Profit for the period		476,192	243,941
(Adjusted profit after provision of regulatory reverse for credit losses)	25		
March 31, 2015 : ₩433,344 million			
March 31, 2014 : ₩242,100 million)			
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liabilities		(2,150)	(2,518)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		3,449	4,961
Gains on valuation of financial investments		97,022	32,004
Share of other comprehensive income of associates		(1,594)	(32,134)
Other comprehensive income for the period net of tax	34	96,727	2,313
Total comprehensive income for the period		₩ 572,919	₩ 246,254
Profit attributable to:			
Shareholders of the parent company		476,192	243,941
Non-controlling interests		-	-
		₩ 476,192	₩ 243,941
Total comprehensive income for the period attributable to:			
Shareholders of the parent company		572,919	246,254
Non-controlling interests		-	-
		₩ 572,919	₩ 246,254

The accompanying notes are an integral part of these interim consolidated financial statements.

Kookmin Bank and Subsidiaries

Interim Consolidated Statements of Changes in Equity

Three-month periods ended March 31, 2015 and 2014 (Unaudited)

(In millions of Korean won)	Capital Stock	Capital Surplus	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Non-controlling interests	Total Equity
Balance at January 1, 2014	₩ 2,021,896	₩ 5,219,704	₩ 447,619	₩ 13,257,538	₩ -	₩ 20,946,757
Comprehensive income for the period						
Profit for the period	-	-	-	243,941	-	243,941
Remeasurements of net defined benefit liabilities	-	-	(2,518)	-	-	(2,518)
Currency translation differences	-	-	4,961	-	-	4,961
Gains on valuation of financial investments	-	-	32,004	-	-	32,004
Share of other comprehensive income of associates accounted for using the equity method	-	-	(32,134)	-	-	(32,134)
Total comprehensive income for the period	-	-	2,313	243,941	-	246,254
Transactions with shareholders						
Dividends	-	-	-	(158,517)	-	(158,517)
Total transactions with shareholders	-	-	-	(158,517)	-	(158,517)
Balance at March 31, 2014	₩ 2,021,896	₩ 5,219,704	₩ 449,932	₩ 13,342,962	₩ -	₩ 21,034,494
Balance at January 1, 2015	₩ 2,021,896	₩ 5,219,704	₩ 570,811	₩ 14,128,062	₩ -	₩ 21,940,473
Comprehensive income for the period						
Profit for the period	-	-	-	476,192	-	476,192
Remeasurements of net defined benefit liabilities	-	-	(2,150)	-	-	(2,150)
Currency translation differences	-	-	3,449	-	-	3,449
Gains on valuation of financial investments	-	-	97,022	-	-	97,022
Share of other comprehensive income of associates accounted for using the equity method	-	-	(1,594)	-	-	(1,594)
Total comprehensive income for the period	-	-	96,727	476,192	-	572,919
Transactions with shareholders						
Dividends	-	-	-	(230,496)	-	(230,496)
Total transactions with shareholders	-	-	-	(230,496)	-	(230,496)
Balance at March 31, 2015	₩ 2,021,896	₩ 5,219,704	₩ 667,538	₩ 14,373,758	₩ -	₩ 22,282,896

The accompanying notes are an integral part of these interim consolidated financial statements.

Kookmin Bank and Subsidiaries
Interim Consolidated Statements of Cash Flows
Three-month periods ended March 31, 2015 and 2014 (Unaudited)

(In millions of Korean won)	Notes	Period Ended March 31 2015	2014
Cash flows from operating activities			
Profit for the period		₩ 476,192	₩ 243,941
Adjustment for non-cash items			
Net losses(gains) on financial assets/liabilities at fair value through profit or loss		(54,757)	13,962
Gains on derivative financial investments for hedging purposes		(6,779)	(10,598)
Adjustment of fair value of derivative financial instruments		999	(1,267)
Provision for credit losses		124,796	222,314
Net losses on financial investments		42,058	14,869
Net profits on associates		(17,902)	(13,652)
Depreciation and amortization expense		45,652	50,126
Other net losses(gains) on property and equipment/intangible assets		(438)	9,504
Share-based payment		3,935	(275)
Post-employment benefits		41,044	37,040
Net interest income		103,474	49,630
Losses on foreign currency translation		58,761	14,997
Other expense(income)		21,277	(2,605)
		362,120	384,045
Changes in operating assets and liabilities			
Financial assets at fair value through profit or loss		(27,372)	185,605
Derivative financial instruments		66,670	10,584
Loans		(6,874,271)	(2,309,223)
Current income tax assets		167,839	14,291
Deferred income tax assets		(157)	131
Other assets		(1,485,458)	1,243,524
Financial liabilities at fair value through profit or loss		4,988	5,787
Deposits		2,135,391	1,403,943
Deferred income tax liabilities		(29,458)	29,847
Other liabilities		2,963,434	(120,016)
		(3,078,394)	464,473
Net cash generated from (used in) operating activities		(2,240,082)	1,092,459
Cash flows from investing activities			
Disposal of financial investments		4,542,309	3,636,983
Acquisition of financial investments		(4,096,016)	(3,396,770)
Decrease in investments in associates		5,530	51,571
Acquisition of investments in associates		(633)	(10,900)
Disposal of property and equipment		278	(52)
Acquisition of property and equipment		(10,170)	(10,308)
Disposal of intangible assets		1,301	77
Acquisition of intangible assets		(3,919)	(856)
Others		1,234,931	(259,560)
Net cash provided by investing activities		1,673,611	10,185
Cash flows from financing activities			
Net cash flows from derivative financial instrument for hedging purposes		(1,900)	(5,087)
Net increase in debts		1,045,005	2,204,443
Increase in debentures		997,286	1,545,215
Decrease in debentures		(1,388,140)	(2,040,263)
Payment of dividends		(230,496)	(158,517)
Net increase(decrease) in other payables from trust accounts		135,580	(698,260)
Others		30,698	(840,906)
Net cash provided by financing activities		588,033	6,625
Exchange gains on cash and cash equivalents		4,536	8,615
Net increase in cash and cash equivalents		26,098	1,117,884
Cash and cash equivalents at the beginning of the period	36	6,332,060	5,832,640
Cash and cash equivalents at the end of the period	36	₩ 6,358,158	₩ 6,950,524

The accompanying notes are an integral part of these interim consolidated financial statements.

1. The Bank

Kookmin Bank (the "Bank") was incorporated in 1963 under the Citizens National Bank Act to provide banking services to the general public and to small and medium-sized enterprises. Pursuant to the Repeal Act of the Citizens National Bank Act, effective January 5, 1995, the Bank's status changed to a financial institution which operates under the Banking Act and Commercial Act.

The Bank merged with Korea Long Term Credit Bank on December 31, 1998, and with its subsidiaries, Daegu, Busan, Jeonnam Kookmin Mutual Savings & Finance Co., Ltd., on August 22, 1999. Also, pursuant to the directive from the Financial Services Commission related to the Structural Improvement of the Financial Industry Act, the Bank acquired certain assets, including performing loans, and assumed most of the liabilities of Daedong Bank on June 29, 1998. Also, the Bank completed the merger with Housing and Commercial Bank ("H&CB") on October 31, 2001, and merged with Kookmin Credit Card Co., Ltd., a majority-owned subsidiary, on September 30, 2003. Meanwhile, the Bank spun off its credit card business segment on February 28, 2011, and KB Kookmin Card Co., Ltd. became a subsidiary of KB Financial Group Inc.

The Bank listed its shares on the Stock Market Division of the Korea Exchange ("KRX," formerly Korea Stock Exchange) in September 1994. As a result of the merger with H&CB, the shareholders of the former Kookmin Bank and H&CB received new common shares of the Bank which were relisted on the KRX on November 9, 2001. In addition, H&CB listed its American Depositary Shares ("ADS") on the New York Stock Exchange ("NYSE") on October 3, 2000, prior to the merger. Following the merger with H&CB, the Bank listed its ADS on the NYSE on November 1, 2001. The Bank became a wholly owned subsidiary of KB Financial Group Inc. through a comprehensive stock transfer on September 29, 2008. Subsequently, the Bank's shares and its ADS, each listed on the KRX and the NYSE, were delisted on October 10, 2008 and September 26, 2008, respectively. As of March 31, 2015, the Bank's paid-in capital is ₩2,021,896 million.

The Bank engages in the banking business in accordance with the Banking Act, trust business in accordance with the Financial Investment Services and Capital Markets Act, and other relevant businesses. As of March 31, 2015, the Bank operates 1,147 domestic branches and offices, and five overseas branches (excluding four subsidiaries and three offices).

2. Basis of Preparation

2.1 Application of Korean IFRS

The interim consolidated financial statements of the Bank and its subsidiaries (“The Group”) have been prepared in accordance with Korean IFRS. These are the standards and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The preparation of interim consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the interim consolidated financial statements are disclosed in Note 2.4.

The Group’s interim consolidated financial statements as of and for the three-month period ended March 31, 2015, have been prepared in accordance with Korean IFRS 1034, *Interim Financial Reporting*. These interim consolidated financial statements as of and for the three-month period ended March 31, 2015, of the Group have been prepared in accordance with Korean IFRS standards issued and early adopted at the reporting date.

New standards, amendments and interpretations adopted by the Group for the year beginning on January 1, 2015, are as follows, and the application of these amendments and improvements does not have a material impact on the interim consolidated financial statements.

- Amendment to Korean IFRS 1019, *Employment Benefits*
- Annual improvements to Korean IFRSs 2010-2012 Cycle
- Annual improvements to Korean IFRSs 2011-2013 Cycle

The Group expects that new standards, amendments and interpretations issued but not effective for the annual period beginning on January 1, 2015, and not early adopted would not have a material impact on its interim consolidated financial statements.

For the periods prior to the nine-month period ended September 30, 2014, pursuant to Korean IFRS 1037, if an uncertain tax position satisfied the criteria for provisions, the Group measured the best estimate of expenditures for the uncertain tax position. The amount in relation to the claim of refund and the appeal on the levied amount by the tax authority was then treated as contingent assets. However, in 2014, the Group retrospectively applied the accounting policy in accordance with the Korean IFRS 1012, which allows recognition of the tax payment as income tax assets when it is probable to receive a tax refund. The comparative interim consolidated financial statements for the three-month period ended March 31, 2014, are restated reflecting adjustments resulting from the retrospective application.

The effect of these changes in accounting policy to comprehensive income for the three-month period ended March 31, 2014 is as follows:

(In millions of Korean won)	**March 31, 2014**
Increase in income tax expense	₩ (14,291)

2.2 Measurement Basis

The interim consolidated financial statements have been prepared under the historical cost convention unless otherwise specified.

2.3 Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The interim consolidated financial statements are presented in Korean won, which is the parent company’s functional and presentation currency. Refer to Notes 3.2.1 and 3.2.2.

2.4 Significant Estimates

The preparation of interim consolidated financial statements requires the application of accounting policies, certain critical accounting estimates and assumptions that may have a significant impact on the assets (liabilities) and incomes (expenses). Management’s estimates of outcomes may differ from actual outcomes if management’s estimates and assumptions based on management’s best judgment at the reporting date are different from the actual environment.

Estimates and assumptions are continually evaluated and any change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only. Alternatively if the change in accounting estimate affects both the period of change and future periods, that change is recognized in the profit or loss of all those periods.

Uncertainty in estimates and assumptions with significant risk that may result in material adjustment to the interim consolidated financial statements are as follows:

2.4.1 Income taxes

The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain.

2.4.2 Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Refer to Note 6 for details on valuation techniques and inputs used to determine the fair value of financial instruments.

2.4.3 Provisions for credit losses (allowances for loan losses, provisions for acceptances and guarantees, and unused loan commitments)

The Group determines and recognizes allowances for losses on loans through impairment testing and recognizes provisions for guarantees, and unused loan commitments. The accuracy of provisions for credit losses is determined by the methodology and assumptions used for estimating expected cash flows of the borrower for individually assessed allowances of loans, collectively assessed allowances for groups of loans, guarantees and unused loan commitments.

2.4.4 Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions (Note 23).

2.4.5 Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations (Note 15).

3. Significant Accounting Policies

The significant accounting policies applied in the preparation of these interim consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

3.1 Consolidation

3.1.1 Subsidiaries

Subsidiaries are companies that are controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effects of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date when control is transferred to the Group and de-consolidated from the date when control is lost.

If a subsidiary uses accounting policies other than those adopted in the interim consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to make the subsidiary's accounting policies conform to those of the Group when the subsidiary's financial statements are used by the Group in preparing the interim consolidated financial statements.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests, if any. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in

the non-controlling interests having a deficit balance.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

3.1.2 Associates

Associates are entities over which the Group has significant influence in the financial and operating policy decisions. If the Group holds 20% or more of the voting power of the investee, it is presumed that the Group has significant influence.

Under the equity method, investments in associates are initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the investee and changes in the investee's equity after the date of acquisition. The Group's share of the profit or loss of the investee is recognized in the Group's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Profit and loss resulting from 'upstream' and 'downstream' transactions between the Group and associates are eliminated to the extent at the Group's interest in associates.

If associates use accounting policies other than those adopted in the interim consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to make the associate's accounting policies conform to those of the Group when the associate's financial statements are used by the Group in applying equity method.

After the carrying amount of the investment is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

The Group determines at each reporting date whether there is any objective evidence that the investments in the associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates and its carrying value and recognizes the amount as 'share of profit or loss of associates' in the statements of comprehensive income.

3.1.3 Structured entity

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. When the Group decides whether it has power to the structured entities in which the Group has interests, it considers factors such as the purpose, the form, the practical ability to direct the relevant activities of a structured entity, the nature of its relationship with a structured entity and the amount of exposure to variable returns.

3.1.4 Trusts and funds

The Group provides management services for trust assets, collective investment and other funds. These trusts and funds are not consolidated in the Group's interim consolidated financial statements, except for trusts and funds over which the Group has control.

3.1.5 Intra-group transactions

All intra-group balances and transactions, and any unrealized gains arising on intra-group transactions, are eliminated in preparing the interim consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

3.2 Foreign Currency

3.2.1 Foreign currency transactions and balances

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period, foreign currency monetary items are translated using the closing rate which is the spot exchange rate at the end of the reporting period. Non-monetary items that are measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined and non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous interim consolidated financial statements are recognized in profit or loss in the period in which they arise. When gains or losses on a non-monetary item are recognized in other comprehensive income, any exchange component of those gains or losses are also recognized in other comprehensive income. Conversely, when gains or losses on a non-monetary item are recognized in profit or loss, any exchange component of those gains or losses are also recognized in profit or loss.

3.2.2 Foreign operations

The financial performance and financial position of all foreign operations, whose functional currencies differ from the Group's presentation currency, are translated into the Group's presentation currency using the following procedures:

Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period. Income and expenses in the statement of comprehensive income presented are translated at average exchange rates for the period. All resulting exchange differences are recognized in other comprehensive income.

Any goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation. Thus, they are expressed in the functional currency of the foreign operation and are translated into the presentation currency at the closing rate.

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss (as a reclassification adjustment) when the gains or losses on disposal are recognized. On the partial disposal of a subsidiary that includes a foreign operation, the Group re-attributes the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation, the Group reclassifies to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income.

3.3 Recognition and Measurement of Financial Instruments

3.3.1 Initial recognition

The Group recognizes a financial asset or a financial liability in its statement of financial position when the Group becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets (a purchase or sale of a financial asset under a contract whose terms require delivery of the financial instruments within the time frame established generally by market regulation or practice) is recognized and derecognized using trade date accounting.

The Group classifies financial assets as financial assets at fair value through profit or loss, held-to-maturity financial assets, available-for-sale financial assets, or loans and receivables, or other financial assets. The Group classifies financial liabilities as financial liabilities at fair value through profit or loss, or other financial liabilities. The classification depends on the nature and holding purpose of the financial instrument at initial recognition in the interim consolidated financial statements.

At initial recognition, a financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value of a financial instrument on initial recognition is normally the transaction price (that is, the fair value of the consideration given or received) in an arm's length transaction.

3.3.2 Subsequent measurement

After initial recognition, financial instruments are measured at amortized cost or fair value based on classification at initial recognition.

Amortized cost

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition and adjusted to reflect principal repayments, cumulative amortization using the effective interest method and any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Fair value

Fair values, which the Group primarily uses for the measurement of financial instruments, are the published price quotations based on market prices or dealer price quotations of financial instruments traded in an active market where available. These are the best evidence of fair value. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity in the same industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the market for a financial instrument is not active, fair value is determined either by using a valuation technique or independent third-party valuation service. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, referencing to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

The Group uses valuation models that are commonly used by market participants and customized for the Group to determine fair values of common over-the-counter (OTC) derivatives such as options, interest rate swaps and currency swaps which are based on the inputs observable in markets. For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally recognized as standard within the industry, or a value measured by an independent external valuation institution as the fair values if all or some of the inputs to the valuation models are not market observable and therefore it is necessary to estimate fair value based on certain assumptions.

The Group’s Fair Value Evaluation Committee, which consists of the risk management department, trading department and accounting department, reviews the appropriateness of internally developed valuation models, and approves the selection and changing of the external valuation institution and other considerations related to fair value measurement. The review results on the fair valuation models are reported to the Market Risk Management subcommittee by the Fair Value Evaluation Committee on a regular basis.

If the valuation technique does not reflect all factors which market participants would consider in setting a price, the fair value is adjusted to reflect those factors. These factors include counterparty credit risk, bid-ask spread, liquidity risk and others.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the Group calibrates the valuation technique and tests it for validity using prices from observable current market transactions of the same instrument or based on other relevant observable market data.

3.3.3 Derecognition

Derecognition is the removal of a previously recognized financial asset or financial liability from the statement of financial position. The Group derecognizes a financial asset or a financial liability when, and only when:

Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or the financial assets have been transferred and substantially all the risks and rewards of ownership of the financial assets are also transferred, or all the risks and rewards of ownership of the financial assets are neither substantially transferred nor retained and the Group has not retained control. If the Group neither transfers nor disposes of substantially all the risks and rewards of ownership of the financial assets, the Group continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

If the Group transfers the contractual rights to receive the cash flows of the financial asset, but retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognize the transferred asset in its entirely and recognize a financial liability for the consideration received.

Derecognition of financial liabilities

Financial liabilities are derecognized from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

3.3.4 Offsetting

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.4 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, foreign currency, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.5 Non-derivative Financial Assets

3.5.1 Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Group as at fair value through profit or loss upon initial recognition.

A non-derivative financial asset is classified as held for trading if either:

- It is acquired for the purpose of selling in the near term, or
- It is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The Group may designate certain financial assets, other than held for trading, upon initial recognition as at fair value through profit or loss when one of the following conditions is met:

- It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.
- A group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel.
- A contract contains one or more embedded derivatives; the Group may designate the entire hybrid (combined) contract as a financial asset at fair value through profit or loss if allowed by Korean IFRS 1039, *Financial Instruments: Recognition and measurement*.

After initial recognition, a financial asset at fair value through profit or loss is measured at fair value and gains or losses arising from a change in the fair value are recognized in profit or loss. Interest income, dividend income, and gains or losses from sale and repayment from financial assets at fair value through profit or loss are recognized in the statement of comprehensive income as net gains on financial instruments at fair value through profit or loss.

3.5.2 Financial investments

Available-for-sale and held-to-maturity financial assets are presented as financial investments.

Available-for-sale financial assets

Profit or loss of financial assets classified as available for sale, except for impairment loss and foreign exchange gains and losses resulting from changes in amortized cost of debt securities, is recognized as other comprehensive income, and cumulative profit or loss is reclassified from equity to current profit or loss at the derecognition of the financial asset, and it is recognized as part of other operating profit or loss in the statement of comprehensive income.

However, interest income measured using the effective interest method is recognized in current profit or loss, and dividends of financial assets classified as available-for-sale are recognized

when the right to receive payment is established.

Available-for-sale financial assets denominated in foreign currencies are translated at the closing rate. For available-for-sale debt securities denominated in foreign currency, exchange differences resulting from changes in amortized cost are recognized in profit or loss as part of other operating income and expenses. For available-for-sale equity securities denominated in foreign currency, the entire change in fair value including any exchange component is recognized in other comprehensive income.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method after initial recognition and interest income is recognized using the effective interest method.

3.5.3 Loans and receivables

Non-derivative financial assets which meet the following conditions are classified as loans and receivables:

- Those with fixed or determinable payments.
- Those that are not quoted in an active market.
- Those that the Group does not intend to sell immediately or in the near term.
- Those that the Group, upon initial recognition, does not designate as available-for-sale or as at fair value through profit or loss.

After initial recognition, these are subsequently measured at amortized cost using the effective interest method.

If the financial asset is purchased under an agreement to resale the asset at a fixed price or at a price that provides a lender's return on the purchase price, the consideration paid is recognized as loans and receivables.

3.6 Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets except for financial assets at fair value through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. However, losses expected as a result of future events, no matter how likely, are not recognized.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about 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 becomes probable that the borrower will declare bankruptcy or undergo financial reorganization.
-The disappearance of an active market for that financial asset because of financial difficulties.
-Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio.

In addition to the types of events in the preceding paragraphs, objective evidence of impairment for an investment in an equity instrument classified as an available-for-sale financial asset includes a significant or prolonged decline in the fair value below its cost. The Group considers the decline in the fair value of over 30% against the original cost as a "significant decline". A decline is considered as prolonged if the period, in which the fair value of the financial asset has been below its original cost at initial recognition, is same as or more than six months.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured and recognized in profit or loss as either provisions for credit loss or other operating income and expenses.

3.6.1 Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant (individual assessment of impairment), and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (collective assessment of impairment).

Individual assessment of impairment

Individual assessment of impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. This process normally encompasses management's best estimate, such as operating cash flow of the borrower and net realizable

value of any collateral held.

Collective assessment of impairment

A methodology based on historical loss experience is used to estimate inherent incurred loss on groups of assets for collective assessment of impairment. Such methodology incorporates factors such as type of collateral, product and borrowers, credit rating, loss emergence period, recovery period and applies probability of default on a group of assets and loss given default by type of recovery method. Also, consistent assumptions are applied to form a formula-based model in estimating inherent loss and to determine factors on the basis of historical loss experience and current condition. The methodology and assumptions used for collective assessment of impairment are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment loss on loans reduces the carrying amount of the asset through use of an allowance account, and when a loan becomes uncollectable, it is written off against the related allowance account. If, in a subsequent period, the amount of the impairment loss decreases and is objectively related to the subsequent event after recognition of impairment, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

3.6.2 Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss (the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) that had been recognized in other comprehensive income is reclassified from equity to profit or loss as part of other operating income and expenses.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, a portion of the impairment loss is reversed up to but not exceeding the previously recorded impairment loss, with the amount of the reversal recognized in profit or loss as part of other operating income and expenses in the statement of comprehensive income. However, impairment losses recognized in profit or loss for an available-for-sale equity instrument classified as available for sale are not reversed through profit or loss.

3.6.3 Held-to-maturity financial assets

If there is objective evidence that an impairment loss on held-to-maturity financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognized in profit or loss as part of other operating income and expenses. The impairment loss on held-to-maturity financial assets is directly deducted from the carrying amount.

In the case of a financial asset classified as held to maturity, if, in a subsequent period, the amount of the impairment loss decreases and it is objectively related to an event occurring after the impairment is recognized, a portion of the previously recognized impairment loss is reversed up to but not exceeding the extent of amortized cost at the date of recovery. The amount of reversal is recognized in profit or loss as part of other operating income and expenses in the statement of comprehensive income.

3.7 Derivative Financial Instruments

The Group enters into numerous derivative financial instrument contracts such as currency forwards, interest rate swaps, currency swaps and others for trading purposes or to manage its exposures to fluctuations in interest rates and currency exchange, amongst others. These derivative financial instruments are presented as derivative financial instruments within the interim consolidated financial statements irrespective of transaction purpose and subsequent measurement requirement.

The Group designates certain derivatives as hedging instruments to hedge the risk of changes in fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge).

At the inception of the hedge, there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk.

3.7.1 Derivative financial instruments held for trading

All derivative financial instruments, except for derivatives that are designated and qualify for hedge accounting, are measured at fair value. Gains or losses arising from a change in fair value are recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss.

3.7.2 Fair value hedges

If derivatives qualify for a fair value hedge, the change in fair value of the hedging instrument and the change in fair value of the hedged item attributable to the hedged risk are recognized in profit or loss as part of other operating income and expenses. Fair value hedge accounting is discontinued prospectively if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Once fair value hedge accounting is discontinued, the adjustment to the carrying amount of a hedged item is fully amortized to profit or loss by the maturity of the financial instrument using the effective interest method.

3.7.3 Embedded derivatives

An embedded derivative is separated from the host contract and accounted for as a

derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss. Gains or losses arising from a change in the fair value of an embedded derivative separated from the host contract are recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss.

3.7.4 Day one gain and loss

If the Group uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of the financial instrument, there may be a difference between the transaction price and the amount determined using that valuation technique. In these circumstances, the difference is deferred and not recognized in profit or loss, and is amortized by using the straight-line method over the life of the financial instrument. If the fair value of the financial instrument is subsequently determined using observable market inputs, the remaining deferred amount is recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss or other operating income and expenses.

3.8 Property and Equipment

3.8.1 Recognition and measurement

All property and equipment that qualify for recognition as an asset are measured at cost and subsequently carried at cost less any accumulated depreciation and any accumulated impairment losses.

The cost of property and equipment includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent expenditures are capitalized only when they prolong the useful life or enhance values of the assets but the costs of the day-to-day servicing of the assets such as repair and maintenance costs are recognized in profit or loss as incurred.

3.8.2 Depreciation

Land is not depreciated whereas other property and equipment are depreciated using the method that reflects the pattern in which the asset’s future economic benefits are expected to be consumed by the Group. The depreciable amount of an asset is determined after deducting its residual value. As for leased assets, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

The depreciation methods and estimated useful lives of the assets are as follows:

Property and equipment	Depreciation method	Estimated useful lives
Buildings and structures	Straight-line	40 years
Leasehold improvements	Declining-balance	4 years
Equipment and vehicles	Declining-balance	4 ~ 5.7 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least at each financial year end and, if expectations differ from previous estimates or if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the changes are accounted for as a change in an accounting estimate.

3.9 Investment Properties

3.9.1 Recognition and Measurement

Properties held to earn rentals or for capital appreciation or both are classified as investment properties. Investment properties are measured initially at their cost and subsequently the cost model is used.

3.9.2 Depreciation

Land is not depreciated, whereas other investment properties are depreciated using the method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group. The depreciable amount of an asset is determined after deducting its residual value.

The depreciation method and estimated useful lives of the assets are as follows:

Property and equipment	Depreciation method	Estimated useful lives
Buildings	Straight-line	40 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least at each financial year end and, if expectations differ from previous estimates or if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the changes are accounted for as a change in an accounting estimate.

3.10 Intangible Assets

Intangible assets are measured initially at cost and subsequently carried at their cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets, except for goodwill and membership rights, are amortized using the straight-line method with no residual value over their estimated useful economic life since the asset is available for use.

Intangible assets	Amortization method	Estimated useful lives
Industrial property rights	Straight-line	5~10 years
Software	Straight-line	4 years
Others	Straight-line	4~30 years

The amortization year and the amortization method for intangible assets with a finite useful life are reviewed at least at each financial year end. Where an intangible asset is not being amortized, because its useful life is considered to be indefinite, the Group carries out a review in each accounting period to confirm whether or not events and circumstances still support the assumption of an indefinite useful life. If they do not, the change from the indefinite to finite useful life is accounted for as a change in an accounting estimate.

3.10.1 Goodwill

Recognition and measurement

Goodwill acquired from business combinations before January 1, 2010, is stated at its carrying amount which was recognized under the Group's previous accounting policy, prior to the transition to Korean IFRS.

Goodwill acquired from business combinations after January 1, 2010, is initially measured as the excess of the aggregate of the consideration transferred, fair value of non-controlling interest and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the business acquired, the difference is recognized in profit or loss.

For each business combination, the Group decides whether the non-controlling interest in the acquiree is initially measured at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets at the acquisition date.

Acquisition-related costs incurred to effect a business combination are charged to expenses in the periods in which the costs are incurred and the services are received, except for the costs to issue debt or equity securities.

Additional acquisitions of non-controlling interest

Additional acquisitions of non-controlling interests are accounted for as equity transactions. Therefore, no additional goodwill is recognized.

Subsequent measurement

Goodwill is not amortized and is stated at cost less accumulated impairment losses. However, goodwill that forms part of the carrying amount of an investment in associates is not separately recognized and an impairment loss recognized is not allocated to any asset, including goodwill, which forms part of the carrying amount of the investment in the associates.

3.10.2 Subsequent expenditure

Subsequent expenditure is capitalized only when it enhances values of the assets. Internally generated intangible assets, such as goodwill and trade name, are not recognized as assets but expensed as incurred.

3.11 Leases

3.11.1 Finance lease

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. At the commencement of the lease term, the Group recognizes finance leases as assets and liabilities in its statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs of the lessee are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Group adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is fully depreciated over the shorter of the lease term and its useful life.

3.11.2 Operating lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Leases in the financial statements of lessees

Lease payments under an operating lease (net of any incentives received from the lessor) are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the asset's benefit.

Leases in the financial statements of lessors

Lease income from operating leases are recognized in income on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred by the lessors in negotiating and arranging an operating lease are added to the carrying amount of the

leased asset and recognized as an expense over the lease term on the same basis as the lease income.

3.12 Greenhouse Gas Emission Rights and Liabilities

The Group measured emission rights received free of charge from the government following Enforcement of Allocation and Trading of Greenhouse Gas Emissions Allowances at zero. Emission rights purchased are measured initially at cost and subsequently carried at their costs less any accumulated impairment losses. Emission liabilities are measured as the sum of the carrying amount of emission allowances held by the Group and best estimate of the expenditure required to settle the obligation for any excess emissions at the end of reporting period. The emission rights and liabilities are classified as 'intangible assets' and 'provisions', respectively, in the consolidated statement of financial position.

The emission rights held for trading are measured at fair value and the changes in fair value are recognized in profit or loss. The changes in fair value and gain or loss on disposal are classified as other income and expenses.

3.13 Impairment of Non-Financial Assets

The Group assesses at the end of each reporting period whether there is any indication that a non-financial asset, except for (i) deferred income tax assets, (ii) assets arising from employee benefits and (iii) non-current assets (or group of assets to be sold) classified as held for sale, may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. However, irrespective of whether there is any indication of impairment, the Group tests (i) goodwill acquired in a business combination, (ii) intangible assets with an indefinite useful life and (iii) intangible assets not yet available for use for impairment annually by comparing their carrying amount with their recoverable amount.

The recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit that are discounted by a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss and recognized immediately in profit or loss. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

An impairment loss recognized for goodwill is not reversed in a subsequent period. The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset, other than goodwill, may no longer exist or may have decreased, and an impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

3.14 Non-Current Assets Held for Sale

A non-current asset or disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. A non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell which is measured in accordance with the applicable Korean IFRS, immediately before the initial classification of the asset (or disposal group) as held for sale.

A non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale is not depreciated (or amortized).

Impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. Gains are recognized for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized.

3.15 Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. After initial recognition, financial liabilities at fair value through profit or loss are measured at fair value and gains or losses arising from changes in the fair value, and gains or losses from sale and repayment of financial liabilities at fair value through profit or loss are recognized as net gains on financial instruments at fair value through profit or loss in the statement of comprehensive income.

3.16 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of provisions, and where the effect of the time value of money is material, the amount of provisions are the present value of the expenditures expected to be required to settle the obligation.

Provisions on confirmed and unconfirmed acceptances and guarantees, unfunded commitments of credit cards and unused credit lines of consumer and corporate loans are recognized using a valuation model that applies the credit conversion factor, probability of default, and loss given default.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provisions are reversed.

If the Group has a contract that is onerous, the present obligation under the contract is recognized and measured as provisions. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the minimum net cost to exit from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

3.17 Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer (the Group) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognized at fair value. After initial recognition, financial guarantee contracts are measured at the higher of:

– The amount determined in accordance with Korean IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets, and*
– The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with Korean IFRS 1018, *Revenue.*

3.18 Equity Instrument issued by the Group

An equity instrument is any contract or agreement that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted, net of tax, from the equity.

3.19 Revenue Recognition

3.19.1 Interest income and expense

Interest income and expense are recognized 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 (or groups of financial assets or financial liabilities) 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 receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Group uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Interest on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.19.2 Fee and commission income

The Group recognizes financial service fees in accordance with the accounting standard of the financial instrument related to the fees earned.

Fees that are an integral part of the effective interest of a financial instrument

Such fees are generally treated as adjustments of effective interest. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction and origination fees received on issuing financial liabilities measured at amortized cost. However, fees relating to the creation or acquisition of a financial instrument at fair value through profit or loss are recognized as revenue immediately.

Fees earned as services are provided

Such fees are recognized as revenue as the services are provided. The fees include fees charged for servicing a financial instrument and charged for managing investments.

Fees that are earned on the execution of a significant act

Such fees are recognized as revenue when the significant act has been completed.

Commission on the allotment of shares to a client is recognized as revenue when the shares have been allotted and placement fees for arranging a loan between a borrower and an investor is recognized as revenue when the loan has been arranged.

A syndication fee received by the Group that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants) is compensation for the service of syndication. Such a fee is recognized as revenue when the syndication has been completed.

3.19.3 Dividend income

Dividend income is recognized in profit or loss when the right to receive payment is established. Dividend income from financial assets at fair value through profit or loss and financial investment is recognized in profit or loss as part of net gains on financial assets at fair value through profit or loss and other operating income and expenses, respectively.

3.20 Employee Compensation and Benefits

3.20.1 Post-employment benefits:

Defined benefit plans

All post-employment benefits, other than defined contribution plans, are classified as defined benefit plans. The amount recognized as a net defined benefit liability is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period.

The present value of the defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit method. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. Actuarial gains and losses including experience adjustments and the effects of changes in actuarial assumptions are recognized in other comprehensive income(loss).

When the total of the present value of the defined benefit obligation minus the fair value of plan assets results in an asset, it is recognized to the extent of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Past service cost is the change in the present value of the defined benefit obligation, which arises when the Group introduces a defined benefit plan or changes the benefits of an existing defined benefit plan. Such past service cost is immediately recognized as an expense for the year.

Defined contribution plans

The contributions are recognized as employee benefit expense when they are due.

3.20.2 Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service. The undiscounted amount of short-term employee benefits expected to be paid in exchange for that service is recognized as a liability (accrued expense), after deducting any amount already paid.

The expected cost of profit-sharing and bonus payments are recognized as liabilities when the Group has a present legal or constructive obligation to make such payments as a result of past events rendered by employees and a reliable estimate of the obligation can be made.

3.20.3 Share-based payment

The Group operates share-based payment arrangements granting awards to directors and employees of the Group. The Group has a choice of whether to settle the awards in cash or by issuing equity instruments of the parent company at the date of settlement.

For a share-based payment transaction in which the terms of the arrangement provide the Group with the choice of whether to settle in cash or by issuing equity instruments, the Group determines that it has a present obligation to settle in cash because the Group has a past practice and a stated policy of settling in cash. Therefore, the Group accounts for the transaction in accordance with the requirements of cash-settled share-based payment transactions.

The Group measures the services acquired and the liability incurred at fair value. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

3.20.4 Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. An entity shall recognize a liability and expense for termination benefits at the earlier of the following dates: when the entity can no longer withdraw the offer of those benefits and when the entity recognizes costs for a restructuring that is within the scope of Korean IFRS 1037 and involves the payment of termination benefits. Termination benefits are measured by considering the number of employees expected to accept the offer in the case of a voluntary early retirement. Termination benefits over 12 months after the reporting period are discounted to present value.

3.21 Income Tax Expenses

Income tax expense (tax income) comprises current tax expense (current tax income) and deferred income tax expense (deferred income tax income). Current and deferred income tax are recognized as income or expense and included in profit or loss for the period, except to the extent that the tax arises from (a) a transaction or an event which is recognized, in the same or a different period outside profit or loss, either in other comprehensive income or directly in equity and (b) a business combination.

3.21.1 Current income tax

The Group offsets current income tax assets and current income tax liabilities if, and only if, the Group (a) has a legally enforceable right to set off the recognized amounts and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.21.2 Deferred income tax

Deferred income tax is recognized, using the asset-liability method, on temporary differences arising between the tax based amount of assets and liabilities and their carrying amount in the interim consolidated financial statements. Deferred income tax liabilities are recognized for all taxable temporary differences and deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, and associates, except for deferred income tax liabilities for which the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period. The Group reduces the carrying amount of a deferred income tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred income tax asset to be utilized.

The Group offsets deferred income tax assets and deferred income tax liabilities when the Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity; or different taxable entities which intend either to settle current income tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered.

3.21.3 Uncertain tax positions

Uncertain tax positions arise from tax treatments applied by the Group which may be challenged by the tax authorities due to the complexity of the transaction or different interpretation of the tax laws, a claim for rectification brought by the Group, or an appeal for a refund claimed from the tax authorities related to additional assessments. The Group recognizes its uncertain tax positions in the interim consolidated financial statements based on the guidance in Korean IFRS 1012. The income tax asset is recognized if a tax refund is probable for taxes paid and levied by the tax authority. However, interest and penalties related to income tax are recognized in accordance with Korean IFRS 1037.

3.22 Transactions with the Trust Accounts

Under the Financial Investment Services and Capital Markets Act, the Group recognizes trust accounts ("the trust accounts") as separate. The borrowings from trust accounts represent transfer of funds in trust accounts into banking accounts. Such borrowings from trust accounts are recorded as receivables from the banking accounts in the trust accounts and as borrowings from trust accounts in the banking accounts. The Group's banking accounts earn trust fees from the trust accounts for its management of trust assets and operations. The reserves for future profits and losses are set up in the trust accounts for profits and losses related to those trust funds with a guarantee of the principal or of the principal and a certain minimum rate of return in accordance with the relevant laws and regulations applicable to trust operations. The reserves are used to provide for the losses on such trust funds and, if the losses incurred are in excess of the reserves for future losses, the excess losses are compensation paid as a loss on trust management in other operating expenses and the trust accounts recognize the corresponding compensation as compensation from banking accounts.

3.23 Operating Segments

Operating segments are components of the Group where separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Segment information includes items which are directly attributable and reasonably allocated to the segment.

4. Financial Risk Management

4.1 Summary

4.1.1 Overview of Financial Risk Management Policy

The financial risks that the Group is exposed to are credit risk, market risk, liquidity risk, operational risk and others.

The note regarding financial risk management provides information about the risks that the Group is exposed to, including the objectives, policies and processes for managing the risks, the methods used to measure the risks, and capital adequacy. Additional quantitative information is disclosed throughout the interim consolidated financial statements.

The Group's risk management system focuses on increasing transparency, developing the risk management environment, preventing transmission of risk to other related subsidiaries, and the preemptive response to risk due to rapid changes in the financial environment to support the Group's long-term strategy and business decisions efficiently. Credit risk, market risk, liquidity risk, and operational risk have been recognized as the Group's key risks. These risks are measured in Economic Capital or Value at Risk (VaR) and are managed using a statistical method.

4.1.2 Risk Management Organization

Risk Management Committee

The Risk Management Committee establishes risk management strategies in accordance with the directives of the Board of Directors and determines the Group's target risk appetite, approves significant risk matters and reviews the level of risks that the Group is exposed to and the appropriateness of the Group's risk management operations as an ultimate decision-making authority.

Risk Management Council

The Risk Management Council is a consultative group which reviews and makes decisions on matters delegated by the Risk Management Committee and discusses the detailed issues relating to the Group's risk management.

Risk Management Subcommittee

The Risk Management Committee enforces decisions made by Risk Management Council, and makes practical decisions to implement risk management policies and procedures.

- Credit Risk Management Subcommittee
  The Credit Risk Management Subcommittee reviews the newly developed credit derivatives and exotic products, and the establishment and modification of calculation guideline and measurement methodology on credit exposure limits.
- Market Risk Management Subcommittee
  The Market Risk Management Subcommittee makes decisions on setting risk limits and approving the standard for investments in newly developed standard, exotic and hybrid products.

- Operational Risk Management Subcommittee
  The Operational Risk Management Subcommittee reviews operational risk impacts and non-financial impacts arising from establishment, amendment and abolition of major system, process and others.

Risk Management Group

The Risk Management Group is responsible for managing specific policies, procedures and work processes relating to the Group's risk management.

4.2 Credit Risk

4.2.1 Overview of Credit Risk

Credit risk is the risk of possible losses in an asset portfolio in the event of a counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. For risk management reporting purposes, the individual borrower's default risk, country risk, specific risks and other credit risk exposure components are considered as a whole.

4.2.2 Credit Risk Management

The Group measures expected losses and economic capital on assets that are subject to credit risk management whether on- or off-balance items and uses expected losses and economic capital as a management indicator. The Group manages credit risk by allocating credit risk economic capital limits.

In addition, the Group controls the credit concentration risk exposure by applying and managing total exposure limits to prevent an excessive risk concentration to each industry and borrower.

The Group has organized a credit risk management team that focuses on credit risk management in accordance with the Group's credit risk management policy. The Group's credit group, customer service group and SME/SOHO service group which are independent from the sales department are responsible for loan policy, loan limit, loan review, credit evaluation, restructuring and subsequent events. Kookmin Bank's risk management group is also responsible for planning risk management policy, applying limits of credit lines, measuring the credit risk economic capital, adjusting credit limits, reviewing credit and verifying credit evaluation models.

4.2.3 Maximum exposure to credit risk

The Group's maximum exposures of financial instruments, excluding equity securities, to credit risk without consideration of collateral values as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	**March 31, 2015**	**Dec, 31, 2014**
Financial assets		
Due from financial institutions	₩ 10,430,255	₩ 11,429,305
Financial assets at fair value through profit or loss		
Financial assets held for trading[1]	7,501,473	7,420,128
Derivatives	1,987,424	1,910,217
Loans[2]	218,178,715	211,525,560
Financial investments		
Available-for-sale financial assets	16,492,459	16,415,900
Held-to-maturity financial assets	9,774,171	10,124,136
Other financial assets	7,608,373	6,529,032
	271,972,870	265,354,278
Off-balance items		
Acceptances and guarantees contracts	8,522,101	8,957,888
Financial guarantee contracts	4,459,240	4,438,399
Commitments	58,758,030	59,458,332
	71,739,371	72,854,619
	₩ 343,712,241	₩ 338,208,897

[1] The amounts of ₩ 56,676 million and ₩ 51,345 million as of March 31, 2015 and December 31, 2014, respectively, related to financial instruments indexed to the price of gold are included.
[2] Loans and other financial assets are presented net of allowance for doubtful accounts.

4.2.4 Credit risk of loans

The Group maintains an allowance for loan losses associated with credit risk on loans to manage its credit risk.

Loans are categorized as follows:

(In millions of Korean won)

	March 31, 2015					
Loans	**Retail**		**Corporate**		**Total**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Neither past due nor impaired	₩ 109,817,721	98.11	₩ 105,764,168	97.75	₩ 215,581,889	97.93
Past due but not impaired	1,464,370	1.31	430,853	0.40	1,895,223	0.86
Impaired	651,616	0.58	2,005,781	1.85	2,657,397	1.21
	111,933,707	100.00	108,200,802	100.00	220,134,509	100.00
Allowances	(460,578)	0.41	(1,495,216)	1.38	(1,955,794)	0.89
Carrying amount	₩ 111,473,129		₩ 106,705,586		₩ 218,178,715	

(In millions of Korean won)

	December 31, 2014					
Loans	**Retail**		**Corporate**		**Total**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Neither past due nor impaired	₩ 110,154,228	98.14	₩ 98,992,267	97.81	₩ 209,146,495	97.98
Past due but not impaired	1,437,183	1.28	328,393	0.32	1,765,576	0.83
Impaired	652,092	0.58	1,888,994	1.87	2,541,086	1.19
	112,243,503	100.00	101,209,654	100.00	213,453,157	100.00
Allowances	(476,974)	0.42	(1,450,623)	1.43	(1,927,597)	0.90
Carrying amount	₩ 111,766,529		₩ 99,759,031		₩ 211,525,560	

Credit quality of loans that are neither past due nor impaired are as follows:

(In millions of Korean won)

	March 31, 2015		
	Retail	**Corporate**	**Total**
Grade 1	₩ 97,755,374	₩ 47,669,487	₩ 145,424,861
Grade 2	10,663,924	45,567,054	56,230,978
Grade 3	808,669	10,465,518	11,274,187
Grade 4	394,402	1,720,888	2,115,290
Grade 5	195,352	341,221	536,573
	₩ 109,817,721	₩ 105,764,168	₩ 215,581,889

(In millions of Korean won)

	December 31, 2014		
	Retail	**Corporate**	**Total**
Grade 1	₩ 97,566,588	₩ 42,053,952	₩ 139,620,540
Grade 2	11,043,769	43,764,285	54,808,054
Grade 3	872,739	10,949,734	11,822,473
Grade 4	453,942	1,858,963	2,312,905
Grade 5	217,190	365,333	582,523
	₩ 110,154,228	₩ 98,992,267	₩ 209,146,495

Credit quality of loans graded according to internal credit ratings are as follows:

	Retail	**Corporate**
Grade 1	1 to 5 grade	AAA to BBB+
Grade 2	6 to 8 grade	BBB to BB
Grade 3	9 to 10 grade	BB- to B
Grade 4	11 grade	B- to CCC
Grade 5	12 grade or under	CC or under

Loans that are past due but not impaired are as follows:

(In millions of Korean won)

	March 31, 2015			
	1 ~ 29 days	**30 ~ 59 days**	**60 ~ 89 days**	**Total**
Retail	₩1,284,227	₩ 109,035	₩ 71,108	₩1,464,370
Corporate	359,564	45,844	25,445	430,853
	₩1,643,791	₩ 154,879	₩ 96,553	₩1,895,223

(In millions of Korean won)

	December 31, 2014			
	1 ~ 29 days	**30 ~ 59 days**	**60 ~ 89 days**	**Total**
Retail	₩1,231,819	₩ 138,947	₩ 66,417	₩1,437,183
Corporate	277,288	37,090	14,015	328,393
	₩1,509,107	₩ 176,037	₩ 80,432	₩1,765,576

Impaired loans are as follows:

(In millions of Korean won)

	March 31, 2015		
	Retail	**Corporate**	**Total**
Loans	₩ 651,616	₩ 2,005,781	₩ 2,657,397
Allowances	(246,551)	(1,035,515)	(1,282,066)
Individual	-	(820,184)	(820,184)
Collective	(246,551)	(215,331)	(461,882)
	₩ 405,065	₩ 970,266	₩ 1,375,331

(In millions of Korean won)

	December 31, 2014		
	Retail	**Corporate**	**Total**
Loans	₩ 652,092	₩ 1,888,994	₩ 2,541,086
Allowances	(257,641)	(986,848)	(1,244,489)
Individual	-	(780,376)	(780,376)
Collective	(257,641)	(206,472)	(464,113)
	₩ 394,451	₩ 902,146	₩ 1,296,597

A quantification of the extent to which collateral and other credit enhancements mitigate credit risk as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

	March 31, 2015				
	Impaired Loans		**Non-impaired Loans**		
	Individual	**Collective**	**Past due**	**Not past due**	**Total**
Guarantee	₩ 15,553	₩ 167,709	₩ 326,361	₩ 36,222,958	₩ 36,732,581
Deposits and savings	409	13,008	42,680	1,654,358	1,710,455
Property and equipment	7,763	5,152	7,718	1,235,976	1,256,609
Real estate	187,074	568,065	1,171,565	124,755,541	126,682,245
	₩ 210,799	₩ 753,934	₩ 1,548,324	₩ 163,868,833	₩166,381,890

(In millions of Korean won)

	December 31, 2014				
	Impaired Loans		**Non-impaired Loans**		
	Individual	**Collective**	**Past due**	**Not past due**	**Total**
Guarantee	₩ 18,255	₩ 143,431	₩ 277,607	₩ 34,969,421	₩ 35,408,714
Deposits and savings	948	15,466	35,568	1,781,548	1,833,530
Property and equipment	7,604	4,806	1,943	1,151,842	1,166,195
Real estate	177,623	507,705	1,124,130	123,011,312	124,820,770
	₩ 204,430	₩ 671,408	₩1,439,248	₩160,914,123	₩163,229,209

4.2.5 Credit quality of securities

The financial assets at fair value through profit or loss and financial investments (debt securities) excluding equity securities, that are exposed to credit risk are as follows:

(In millions of Korean won)	March 31, 2015	December 31, 2014
Securities that are neither past due nor impaired	₩ 33,711,427	₩ 33,908,029
Impaired securities	-	790
	₩ 33,711,427	₩ 33,908,819

The credit quality of securities (debt securities) that are neither past due nor impaired as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

	March 31, 2015					
	Grade 1	Grade 2	Grade 3[1]	Grade 4	Grade 5	Total
Financial assets held for trading	₩ 6,258,491	₩ 1,186,306	₩ -	₩ -	₩ -	₩ 7,444,797
Available-for-sale financial assets	16,114,614	315,727	62,118	-	-	16,492,459
Held-to-maturity financial assets	9,774,171	-	-	-	-	9,774,171
	₩ 32,147,276	₩ 1,502,033	₩ 62,118	₩ -	₩ -	₩ 33,711,427

(In millions of Korean won)

	December 31, 2014					
	Grade 1	Grade 2	Grade 3[1]	Grade 4	Grade 5	Total
Financial assets held for trading	₩ 6,187,646	₩ 1,181,137	₩ -	₩ -	₩ -	₩ 7,368,783
Available-for-sale financial assets	16,062,648	288,531	63,931	-	-	16,415,110
Held-to-maturity financial assets	10,124,136	-	-	-	-	10,124,136
	₩ 32,374,430	₩ 1,469,668	₩ 63,931	₩ -	₩ -	₩ 33,908,029

[1] As there is no foreign credit rating, it is classified as Grade 3.

The credit qualities of securities (debt securities) according to the credit ratings by external rating agencies are as follows:

Credit quality	Domestic			Foreign		
	KAP	KIS	NICE P&I	S&P	Fitch-IBCA	Moody's
Grade 1	AA0 to AAA	AA0 to AAA	AA0 to AAA	A- to AAA	A- to AAA	A3 to Aaa
Grade 2	A- to AA-	A- to AA-	A- to AA-	BBB- to BBB+	BBB- to BBB+	Baa3 to Baa1
Grade 3	BBB0 to BBB+	BBB0 to BBB+	BBB0 to BBB+	BB to BB+	BB to BB+	Ba2 to Ba1
Grade 4	BB0 to BBB-	BB0 to BBB-	BB0 to BBB-	B+ to BB-	B+ to BB-	B1 to Ba3
Grade 5	BB- or under	BB- or under	BB- or under	B or under	B or under	B2 or under

Debt securities' credit qualities denominated in Korean won are based on the lowest credit rating by the three domestic credit rating agencies above, and those denominated in foreign currencies are based on the lowest credit ratings by the three foreign credit rating agencies above.

4.2.6 Credit risk mitigation of derivative financial instruments

A quantification of the extent to which collateral mitigates credit risk of derivative financial instruments as of March 31, 2015 and December 31, 2014, is as follows:

(In millions of Korean won)	March 31, 2015	December 31, 2014
Deposits and savings, securities and others	₩ 278,743	₩ 329,482

4.2.7 Credit risk concentration analysis

The details of the Group's loans by country as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

	March 31, 2015					
	Retail	Corporate	Total	%	Allowances	Carrying amount
Korea	₩ 111,890,221	₩ 106,183,787	₩ 218,074,008	99.06	₩ (1,905,704)	₩ 216,168,304
China	71	724,078	724,149	0.33	(17,779)	706,370
Japan	2,320	216,212	218,532	0.10	(28,971)	189,561
U.S.	-	738,150	738,150	0.34	(695)	737,455
Europe	5	166,703	166,708	0.08	(360)	166,348
Others	41,090	171,872	212,962	0.09	(2,285)	210,677
Total	₩ 111,933,707	₩ 108,200,802	₩ 220,134,509	100.00	₩ (1,955,794)	₩ 218,178,715

(In millions of Korean won)

	December 31, 2014					
	Retail	Corporate	Total	%	Allowances	Carrying amount
Korea	₩ 112,193,456	₩ 99,117,030	₩ 211,310,486	99.00	₩ (1,876,968)	₩ 209,433,518
China	84	764,415	764,499	0.36	(15,543)	748,956
Japan	2,581	271,914	274,495	0.13	(31,393)	243,102
U.S.	-	698,294	698,294	0.33	(629)	697,665
Europe	9	184,307	184,316	0.09	(389)	183,927
Others	47,373	173,694	221,067	0.09	(2,675)	218,392
Total	₩ 112,243,503	₩ 101,209,654	₩ 213,453,157	100.00	₩ (1,927,597)	₩ 211,525,560

The details of the Group's corporate loans by industry as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

	March 31, 2015			
	Loans	%	Allowances	Carrying amount
Financial institutions	₩ 12,846,887	11.87	₩ (87,851)	₩ 12,759,036
Manufacturing	33,899,739	31.33	(542,989)	33,356,750
Service	40,174,684	37.13	(275,277)	39,899,407
Wholesale and retail	13,398,079	12.38	(160,007)	13,238,072
Construction	3,888,698	3.59	(407,450)	3,481,248
Public	756,915	0.70	(7,537)	749,378
Others	3,235,800	3.00	(14,105)	3,221,695
	₩ 108,200,802	100.00	₩ (1,495,216)	₩ 106,705,586

(In millions of Korean won)

	December 31, 2014			
	Loans	%	Allowances	Carrying amount
Financial institutions	₩ 8,988,881	8.88	₩ (81,715)	₩ 8,907,166
Manufacturing	32,644,110	32.25	(520,898)	32,123,212
Service	39,106,240	38.64	(276,889)	38,829,351
Wholesale and retail	13,150,375	12.99	(150,237)	13,000,138
Construction	3,688,014	3.64	(396,672)	3,291,342
Public	741,679	0.74	(6,718)	734,961
Others	2,890,355	2.86	(17,494)	2,872,861
	₩ 101,209,654	100.00	₩ (1,450,623)	₩ 99,759,031

The details of the Group's retail loans by type as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015			
	Loans	%	Allowances	Carrying amount
Housing purpose	₩ 52,226,968	46.66	₩ (29,081)	₩ 52,197,887
General purpose	59,706,739	53.34	(431,497)	59,275,242
	₩ 111,933,707	100.00	₩ (460,578)	₩ 111,473,129

(In millions of Korean won)	December 31, 2014			
	Loans	%	Allowances	Carrying amount
Housing purpose	₩ 52,456,336	46.73	₩ (30,199)	₩ 52,426,137
General purpose	59,787,167	53.27	(446,775)	59,340,392
	₩ 112,243,503	100.00	₩ (476,974)	₩ 111,766,529

The details of the Group's securities (debt securities) and derivative financial instruments by industry as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015	
	Amount	%
Financial assets held for trading		
Government and government funded institutions	₩ 2,558,488	34.37
Banking and Insurance	4,017,975	53.97
Others	868,334	11.66
	7,444,797	100.00
Derivative financial assets		
Government and government funded institutions	23,020	1.16
Banking and Insurance	1,825,215	91.84
Others	139,189	7.00
	1,987,424	100.00
Available-for-sale financial assets		
Government and government funded institutions	5,568,599	33.76
Banking and Insurance	9,102,556	55.20
Others	1,821,304	11.04
	16,492,459	100.00
Held-to-maturity financial assets		
Government and government funded institutions	7,528,749	77.03
Banking and Insurance	1,693,323	17.32
Others	552,099	5.65
	9,774,171	100.00
	₩ 35,698,851	

(In millions of Korean won)	December 31, 2014	
	Amount	%
Financial assets held for trading		
Government and government funded institutions	₩ 2,683,605	36.42
Banking and Insurance	3,863,046	52.42
Others	822,132	11.16
	7,368,783	100.00
Derivative financial assets		
Government and government funded institutions	19,732	1.03
Banking and Insurance	1,755,495	91.90
Others	134,990	7.07
	1,910,217	100.00
Available-for-sale financial assets		
Government and government funded institutions	7,204,867	43.89
Banking and Insurance	7,458,222	45.43
Others	1,752,811	10.68
	16,415,900	100.00
Held-to-maturity financial assets		
Government and government funded institutions	8,072,831	79.74
Banking and Insurance	1,519,324	15.01
Others	531,981	5.25
	10,124,136	100.00
	₩ 35,819,036	

The details of the Group's securities (debt securities) and derivative financial instruments by country, as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015	
	Amount	%
Financial assets held for trading		
Korea	₩ 7,398,090	99.38
India	3,298	0.04
Others	43,409	0.58
	7,444,797	100.00
Derivative financial assets		
Korea	793,268	39.91
United States	335,769	16.89
Others	858,387	43.20
	1,987,424	100.00
Available-for-sale financial assets		
Korea	16,375,476	99.29
Others	116,983	0.71
	16,492,459	100.00
Held-to-maturity financial assets		
Korea	9,774,171	100.00
	9,774,171	100.00
	₩ 35,698,851	

(In millions of Korean won)	December 31, 2014	
	Amount	%
Financial assets held for trading		
Korea	₩ 7,309,697	99.20
India	-	-
Others	59,086	0.80
	7,368,783	100.00
Derivative financial assets		
Korea	736,644	38.56
United States	273,807	14.33
Others	899,766	47.11
	1,910,217	100.00
Available-for-sale financial assets		
Korea	16,363,300	99.68
Others	52,600	0.32
	16,415,900	100.00
Held-to-maturity financial assets		
Korea	10,124,136	100.00
	10,124,136	100.00
	₩ 35,819,036	

The counterparties to the financial assets under due from financial institutions and financial instruments indexed to the price of gold within financial assets held for trading and derivatives are in the banking and insurance industries which have high credit ratings.

4.3 Liquidity risk

4.3.1 Overview of liquidity risk

Liquidity risk is the risk of insolvency or loss due to a disparity between the inflow and outflow of funds, unexpected outflow of funds, and obtaining funds at a high price or disposing of securities at an unfavorable price due to lack of available funds. The Group manages its liquidity risk through analysis of the contractual maturity of interest-bearing assets and liabilities, assets and liabilities related to the other in and outflows, and off-balance items related to the inflow and outflows of currency derivative instruments and others.

4.3.2. Liquidity risk management and indicator

The liquidity risk is managed by ALM (‘Asset Liability Management’) and related guidelines which are applied to the risk management policies and procedures that addresses all the possible risks that arise from the overall business of the Group.

The Group has to establish the liquidity risk management strategy including the objectives of liquidity risk management, management policies and internal control system, and obtain approval from Risk Management Committee. Risk Management Committee operates the Risk Management Council for the purpose of efficient risk management, monitors establishment and enforcement of policies based on risk management strategy.

For the purpose of liquidity management, the liquidity gap ratio, liquidity ratio, maturity gap ratio and the results of the stress testing related to liquidity risk on transactions affecting the inflow and outflows of funds and transactions of off-balance items are measured, managed and reported to the Risk Management Council and Risk Management Committee on a regular basis.

4.3.3. Analysis of remaining contractual maturity of financial assets and liabilities

Cash flows disclosed below are undiscounted contractual principal and interest to be received (paid) and, thus, differ from the amount in the interim consolidated financial statements which are based on the present value of expected cash flows. The amount of interest to be received or paid on floating rate assets and liabilities is measured on the assumption that the current interest rate would be the same through maturity.

The remaining contractual maturity of financial assets and liabilities as of March 31, 2015 and December 31, 2014, is as follows:

(In millions of Korean won)	**March 31, 2015**						
	On demand	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial assets							
Cash and due from financial institutions[1]	₩ 6,219,156	₩ 279,562	₩ 195,187	₩ 323,544	₩ -	₩ -	₩ 7,017,449
Financial assets held for trading[2]	7,592,841	-	-	-	-	-	7,592,841
Derivatives held for trading[2]	1,871,444	-	-	-	-	-	1,871,444
Derivatives held for hedging[3]	-	6,799	8,659	27,441	52,438	133,808	229,145
Loans	-	23,157,289	24,419,593	67,651,748	56,512,786	86,135,247	257,876,663
Available-for-sale financial assets[4]	2,505,455	542,713	1,679,628	3,941,893	10,526,191	775,700	19,971,580
Held-to-maturity financial assets	-	248,812	751,428	3,279,156	5,941,713	325,288	10,546,397
Other financial assets	-	5,987,276	-	1,220,111	-	-	7,207,387
	₩ 18,188,896	₩ 30,222,451	₩ 27,054,495	₩ 76,443,893	₩ 73,033,128	₩ 87,370,043	₩312,312,906
Financial liabilities							
Financial liabilities held for trading	₩ 56,659	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 56,659
Derivatives held for trading[2]	1,879,229	-	-	-	-	-	1,879,229
Derivatives held for hedging[3]	-	-	537	(1,009)	(1,403)	(14,558)	(16,433)
Deposits [5]	87,257,661	13,315,856	25,298,405	79,120,562	10,360,324	2,587,198	217,940,006
Debts	496	5,676,742	1,950,834	3,812,241	3,644,960	530,794	15,616,067
Debentures	94,170	542,392	686,752	3,327,314	7,719,349	3,884,116	16,254,093
Other financial liabilities	-	9,414,921	895	64,241	12,019	86,885	9,578,961
	₩ 89,288,215	₩ 28,949,911	₩ 27,937,423	₩ 86,323,349	₩ 21,735,249	₩ 7,074,435	₩261,308,582
Off- balance items							
Commitments[6]	₩ 58,758,030	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 58,758,030
Financial guarantee contracts[7]	4,459,240	-	-	-	-	-	4,459,240
	₩ 63,217,270	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 63,217,270

(In millions of Korean won)	December 31, 2014						
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets							
Cash and due from financial institutions[1]	₩ 6,199,811	₩ 115,410	₩ 397,630	₩ 398,069	₩ -	₩ -	₩ 7,110,920
Financial assets held for trading[2]	7,520,471	-	-	-	-	-	7,520,471
Derivatives held for trading[2]	1,800,664	-	-	-	-	-	1,800,664
Derivatives held for hedging[3]	-	7,742	(1,147)	20,804	77,968	118,803	224,170
Loans	-	15,031,604	20,823,904	73,586,107	55,823,249	87,750,770	253,015,634
Available-for-sale financial assets[4]	2,647,102	435,221	1,537,962	4,386,464	10,272,973	767,319	20,047,041
Held-to-maturity financial assets	-	272,086	630,918	3,354,275	6,281,737	462,437	11,001,453
Other financial assets	-	4,791,711	-	1,293,372	-	-	6,085,083
	₩ 18,168,048	₩ 20,653,774	₩ 23,389,267	₩ 83,039,091	₩ 72,455,927	₩ 89,099,329	₩306,805,436
Financial liabilities							
Financial liabilities held for trading	₩ 51,650	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 51,650
Derivatives held for trading[2]	1,755,674	-	-	-	-	-	1,755,674
Derivatives held for hedging[3]	-	-	652	146	6,304	(15,581)	(8,479)
Deposits [5]	83,199,560	13,960,805	25,460,933	80,474,828	9,602,204	3,266,903	215,965,233
Debts	813	3,958,587	1,814,096	4,840,755	3,646,259	281,796	14,542,306
Debentures	159,620	278,543	1,037,466	3,419,151	7,922,417	3,907,637	16,724,834
Other financial liabilities	-	6,200,724	895	67,886	12,182	86,576	6,368,263
	₩ 85,167,317	₩ 24,398,659	₩ 28,314,042	₩ 88,802,766	₩ 21,189,366	₩ 7,527,331	₩255,399,481
Off- balance items							
Commitments[6]	₩ 59,458,332	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 59,458,332
Financial guarantee contracts[7]	4,438,399	-	-	-	-	-	4,438,399
	₩ 63,896,731	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 63,896,731

[1] The amounts of ₩ 6,192,208 million and ₩ 6,879,144 million, which are restricted amount due from the financial institutions as of March 31, 2015 and December 31, 2014, respectively, are excluded.

[2] Financial instruments held for trading, and derivatives held for trading are not managed by contractual maturity because they are held for trading or redemption before maturity. Therefore, the carrying amounts are classified as the 'On demand' category.

[3] Cash flows of derivative instruments held for fair value hedging are shown at net amounts of cash inflows and outflows by remaining contractual maturity.

[4] Equity investments in financial assets classified as available-for-sale are generally included in the 'On demand' category as most are available for sale at anytime. However, in the case of equity investments which are restricted for sale, these are classified in the maturity section to which the end of the restriction period applies.

[5] Deposits that are contractually repayable on demand or on short notice are classified under the 'On demand' category.

[6] Unused lines of credit within commitments are included under the 'On demand' category as payments can be required upon request.

[7] Financial guarantee contracts are included under the 'On demand' category as payments can be required upon request.

4.4 Market risk

4.4.1 Concept

Market risk is the risk of possible losses which arise from changes in market factors, such as interest rate, stock price, foreign exchange rate and other market factors, and incurred in securities, derivatives and others. The most significant risks associated with trading positions are interest rate risks and currency risks, and other risks include stock price risks. In addition, the Group is exposed to interest rate risks and currency risks associated with non-trading positions. The Group classifies exposures to market risk into either trading or non-trading positions for managerial purpose.

4.4.2 Risk management

The Group sets economic capital limits for market risk and interest rate risk and monitors the risks to manage the risk of trading and non-trading positions. The Group maintains risk management systems and procedures, such as trading policies and procedures, market risk management guidelines for trading positions and ALM risk management guidelines for non-trading positions in order to manage market risk efficiently. The procedures mentioned are implemented with approval from the Risk Management Committee and Risk Management Council.

The Group establishes market risk management policy, sets position limits, loss limits and VaR limits of each business group and approves newly developed products through its Risk Management Council. The Market Risk Management Subcommittee, which is chaired by the Chief Risk Officer (CRO), is practically the decision maker and sets position limits, loss limits, VaR limits, sensitivity limits and scenario loss limits for each division, at the level of each individual business department.

The ALCO determines the operational standards of interest and commission, the details of establishment and prosecution of the Asset Liability Management (ALM) policies and enacts and amends relevant guidelines. The Risk Management Committee and Risk Management Council monitor the establishment and enforcement of ALM risk management policies and enact and amend ALM risk management guidelines. The interest rate risk limit is set based on the future assets/liabilities position and interest rate volatility estimation reflects the annual work plan. The Financial Planning Department and Risk Management Department measure and monitor the interest risk status and limits on a regular basis. The status and limits of interest rate risks, such as interest rate gap, duration gap and interest rate VaR, are reported to the ALCO and Risk Management Council on a monthly basis and to the Risk Management Committee on a quarterly basis. To ensure adequacy of interest rate and liquidity risk management, the Risk Management Department assigns the limits, monitors and reviews the risk management procedures and tasks conducted by the Financial Planning Department. Also, the Risk Management Department independently reports related information to management.

4.4.3 Trading Position

Definition of a trading position

Trading positions subject to market risk management are interest rate, stock price positions for short-term profit-taking and others. Also, they include all foreign exchange rate positions. The basic requirements of trading positions are defined under the Trading Policy and Guideline, are as follows:

- The trading position is not restricted for purchase and sale, is measured daily at fair value, and its significant inherent risks are able to be hedged in the market.
- The criteria for classification as a trading position are clearly defined in the Trading Policy and guideline, and separately managed by the trading department.
- The trading position is operated in accordance with the documented trading strategy and managed through position limits.
- The operating department or professional dealers have an authority to enforce a deal on the trading position within predetermined limits without pre-approval.
- The trading position is reported periodically to management for the purpose of the Group's risk management.

Observation method on market risk arising from trading positions

The Group calculates VaR to measure the market risk by using market risk management systems on the entire trading portfolio. Generally, the Group manages market risk on the trading portfolio. In addition, the Group controls and manages the risk of derivative trading based on the regulations and guidelines formulated by the Financial Supervisory Service.

Value at Risk (VaR)

i. Value at Risk (VaR)

The Group uses the value-at-risk methodology to measure the market risk of trading positions.

The Group now uses the ten-day VaR, which estimates the maximum amount of loss that could occur in ten days under an historical simulation model which is considered to be a full valuation method. The distributions of portfolio's value changes are estimated based on the data over the previous 250 business days, and ten-day VaR is calculated by subtracting net present market value from the value measured at a 99% confident level of portfolio's value distribution results.

VaR is a commonly used market risk measurement technique. However, the method has some shortcomings. VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movements are, however, not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses may vary depending on the assumptions made at the time of the calculation. In addition, the time periods used for the model, generally one or ten days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not

sufficient, or too long, the VaR results may understate or overstate the potential loss.

The Group uses an internal model (VaR) to measure general risk, and a standard method to measure each individual risk. The market risk of certain overseas branches and certain new product is measured using a standard method. Therefore, the market risk VaR may not reflect the market risk of each individual risk and some specific positions.

ii. Back Testing

Back testing is conducted on a daily basis to validate the adequacy of the market risk model. In back testing, the Group compares both the actual and hypothetical profit and loss with the VaR calculations.

iii. Stress Testing

Stress testing is carried out to analyze the impact of abnormal market situations on the trading and available-for-sale portfolio. It reflects changes in interest rates, stock prices, foreign exchange rates, implied volatilities of options and other risk factors that have significant influence on the value of the portfolio. The Group uses historical scenarios and hypothetical scenarios for the analysis of abnormal market situations. Stress testing is performed at least once every quarter.

VaR at a 99%, excluding Stressed Value at Risks, confidence level of interest rate, stock price and foreign exchange rate risk for trading positions with a ten-day holding period as of March 31, 2015 and December 31, 2014, are as follows:

	March 31, 2015			
(In millions of Korean won)	**Average**	**Minimum**	**Maximum**	**Ending**
Interest rate risk	₩ 10,930	₩ 10,022	₩ 11,776	₩ 11,346
Stock price risk	1,622	866	3,880	1,384
Foreign exchange rate risk	11,025	10,215	12,013	10,512
Deduction of diversification effect				(9,665)
Total VaR	₩ 12,860	₩ 11,730	₩ 14,458	₩ 13,577

	December 31, 2014			
(In millions of Korean won)	**Average**	**Minimum**	**Maximum**	**Ending**
Interest rate risk	₩ 12,938	₩ 7,657	₩ 19,801	₩ 10,148
Stock price risk	1,627	714	3,858	851
Foreign exchange rate risk	12,049	5,070	14,705	10,814
Deduction of diversification effect				(8,809)
Total VaR	₩ 15,383	₩ 10,089	₩ 23,560	₩ 13,004

Meanwhile, the required equity capital using the standard method related to the positions which are not measured by VaR as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015	December 31, 2014
Interest rate risk	₩ 537	₩ 792
Stock price risk	923	1,101
Foreign exchange rate risk	9,402	9,387
	₩ 10,862	₩ 11,280

Details of risk factors

i. Interest rate risk

Trading position interest rate risk usually arises from debt securities denominated in Korean won. The Group's trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. The Group manages interest rate risk on major trading positions using market value-based tools such as VaR and sensitivity analysis (Price Value of a Basis Point: PVBP).

ii. Stock price risk

Stock price risk only arises from trading securities denominated in Korean won as the Group does not have any trading exposure to shares denominated in foreign currencies. The trading securities portfolio in Korean won are composed of exchange-traded stocks and derivative instruments linked to stock with strict limits on diversification.

iii. Foreign exchange rate risk

Foreign exchange rate risk arises from holding assets and liabilities denominated in foreign currency and foreign currency derivatives. Net foreign currency exposure mostly occurs from the foreign assets and liabilities which are denominated in US dollars and Kazakhstan Tenge, and the remainder in Japanese Yen or Euro. The Group sets both loss limits and net foreign currency exposure limits and manages comprehensive net foreign exchange exposures which consider both trading and non-trading portfolios.

4.4.4 Non-trading position

i .Definition of non-trading position

Managed interest rate risk in non-trading position includes on- or off-balances of assets, liabilities and derivatives that are sensitive to interest rate, except trading position for market risk. The interest rate sensitive assets and liabilities are interest-bearing assets and liabilities that create interest income and expenses.

ii .Observation method on market risk arising from non-trading position

Interest rate risk occurs due to mismatches on maturities and interest rate reset periods between

interest-bearing assets and liabilities. The Group manages the risk through measuring and managing interest rate VaR and EaR that are maximum expected decreases in net asset value (NPV) and net interest income (NII) for one year, respectively, arising from unfavorable changes in market interest rate.

iii. Interest Rate VaR

Interest rate VaR is the maximum possible loss due to interest rate risk under a normal distribution at a 99.94% confidence level. The measurement results of risk as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	**March 31, 2015**	**December 31, 2014**
Interest Rate VaR	₩ 84,555	₩ 112,500

4.4.5 Financial assets and liabilities in foreign currencies

Financial assets and liabilities in foreign currencies as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	**March 31, 2015**						
	USD	**JPY**	**EUR**	**GBP**	**CNY**	**Others**	**Total**
Financial assets							
Cash and due from financial institutions	₩ 1,500,305	₩ 127,567	₩ 126,457	₩ 7,961	₩ 68,497	₩130,939	₩ 1,961,726
Financial assets held for trading	46,707	-	-	-	-	-	46,707
Derivatives held for trading	62,527	-	632	-	-	-	63,159
Derivatives held for hedging	4,214	-	-	-	-	-	4,214
Loans	10,264,723	799,996	409,607	32,571	3,508	110,444	11,620,849
Available-for-sale financial assets	915,802	-	-	-	-	871	916,673
Other financial assets	1,824,776	152,195	111,179	3,109	586,042	222,340	2,899,641
	₩14,619,054	₩1,079,758	₩ 647,875	₩ 43,641	₩ 658,047	₩464,594	₩17,512,969
Financial liabilities							
Derivatives held for trading	₩ 107,167	₩ -	₩ 852	₩ -	₩ -	₩ -	₩ 108,019
Deposits	4,267,431	412,826	235,296	25,630	38,021	309,510	5,288,714
Debts	6,245,280	209,792	266,690	4,685	3,722	158,916	6,889,085
Debentures	2,813,377	27,608	23,935	-	-	62,949	2,927,869
Other financial liabilities	1,785,971	60,512	175,584	17,427	586,171	108,122	2,733,787
	₩15,219,226	₩ 710,738	₩ 702,357	₩ 47,742	627,914	₩ 639,497	₩17,947,474
Off- balance items	₩17,378,048	₩ 3,512	₩ 5,984	₩ 4,500	13,674	₩ 71,892	₩17,477,610

(In millions of Korean won)

	December 31, 2014						
	USD	JPY	EUR	GBP	CNY	Others	Total
Financial assets							
Cash and due from financial institutions	₩ 1,517,144	₩ 145,574	₩ 104,880	₩ 10,827	₩ 47,653	₩115,641	₩ 1,941,719
Financial assets held for trading	43,753	-	15,333	-	-	-	59,086
Derivatives held for trading	55,879	-	694	-	-	-	56,573
Derivatives held for hedging	5,032	-	-	-	-	-	5,032
Loans	10,753,455	900,972	402,656	6,613	3,492	115,633	12,182,821
Available-for-sale financial assets	797,416	-	-	-	-	870	798,286
Other financial assets	1,189,303	61,140	75,970	1,710	46,434	8,908	1,383,465
	₩14,361,982	₩1,107,686	₩ 599,533	₩ 19,150	₩ 97,579	₩241,052	₩16,426,982
Financial liabilities							
Derivatives held for trading	₩ 85,042	₩ -	₩ 920	₩ -	₩ -	₩ -	85,962
Derivatives held for hedging	226	-	-	-	-	-	226
Deposits	4,612,649	386,851	188,386	19,887	21,297	273,317	5,502,387
Debts	6,388,482	258,483	303,866	880	3,577	168,908	7,124,196
Debentures	2,766,605	73,606	26,731	-	-	22,672	2,889,614
Other financial liabilities	1,194,856	76,150	78,093	7,157	46,710	13,029	1,415,995
	₩15,047,860	₩ 795,090	₩ 597,996	₩ 27,924	₩ 71,584	₩477,926	₩17,018,380
Off- balance items	₩17,252,450	₩ 3,511	₩ 6,549	₩ 4,704	₩ 11,628	₩ 72,747	₩17,351,589

4.5 Operational Risk

4.5.1 Concept

The Group defines operational risk as risk of loss resulting from inadequate or failed internal processes, people, systems and external events. The operational risk includes financial and non-financial risks.

4.5.2 Risk management

The purpose of operational risk management is not only to comply with supervisory and regulatory requirements but also to promote a risk management culture, strengthen internal controls, innovate processes and provide timely feedback to management and employees. In addition, the Group established Business Continuity Plans (BCP) to ensure critical business functions can be maintained, or restored, in the event of material disruptions arising from internal or external events. It has constructed replacement facilities as well as has carried out exercise drills for head office and IT departments to test its BCPs.

4.6 Capital Adequacy

The Group complies with the capital adequacy standard established by the Financial Services Commission. The capital adequacy standard is based on Basel III published by Basel Committee on Banking Supervision in Bank for International Settlements in June 2011, and was implemented in Korea in December 2013. The Group is required to maintain a minimum Common Equity Tier 1 ratio of at least 4.5% (December 31, 2014: 4.0%), a minimum Tier 1 ratio of 6.0% (December 31, 2014: 5.5%) and a minimum Total Regulatory Capital of 8.0%

(December 31, 2014: 8.0%) as of March 31, 2015.

The Group's equity capital is classified into three categories in accordance with Detailed Supervisory Regulations on Banking Business:

- Common Equity Tier 1 Capital: Common equity Tier 1 Capital represents the issued capital that takes the first and proportionately greatest share of any losses and represents the most subordinated claim in liquidation of the Group, and not repaid outside of liquidation. It includes common shares issued, capital surplus, retained earnings, non-controlling interests of consolidated subsidiaries, accumulated other comprehensive income, other capital surplus and others.

- Additional Tier 1 Capital: Additional Tier 1 Capital includes (i) perpetual instruments issued by the Group that meet the criteria for inclusion in Additional Tier 1 capital, and (ii) stock surplus resulting from the issue of instruments included in Additional Tier 1 capital and others.

- Tier 2 Capital: Tier 2 Capital represents the capital that takes the proportionate share of losses in the liquidation of the Group. Tier 2 Capital includes a fund raised by issuing subordinated debentures maturing in not less than 5 years that meet the criteria for inclusion in Tier 2 capital, and the allowance for loan losses which are accumulated for assets classified as normal or precautionary as a result of classification of asset soundness in accordance with Detailed Supervisory Regulations on Banking Business and others.

Risk-weighted asset means the assets weighted according to the inherent risks in the total assets and the possible losses resulting from the errors of internal process and external events which the Group should cover. The Group calculates risk-weighted asset by each risk (credit risk, market risk, and operational risk) based on Detailed Supervisory Regulations on Banking Business and uses it for its capital ratio calculation.

In addition to the capital ratio, the Group assesses its adequacy of capital by using the internal assessment and management policy of the capital adequacy. The assessment of the capital adequacy is conducted by comparing available capital (actual amount of available capital) and economic capital (amount of capital enough to cover all significant risks under target credit rate set by the Group). The Group monitors the soundness of finance and provides risk adjusted basis for performance review using the assessment of the capital adequacy. The economic capital is calculated by adding the stress testing results and other required items to the total economic capitals which are calculated for each risk.

The Risk Management Council of the Group determines the Group's risk appetite and allocates economic capital by risk type and business group. Each business group efficiently operates its capital within range of granted economic capital. The Risk Management Department of the Group monitors a management of the limit on economic capital and reports the results to management and the Risk Management Council. The Group maintains the adequacy of capital through proactive review and approval of the Risk Management Committee when the economic capital is expected to exceed the limits due to new business or business expansion. The Group and its subsidiaries complied with external capital adequacy requirements as of March 31, 2015 and December 31, 2014.

The details of the Group's capital adequacy calculation in line with Basel Ⅲ requirements as of March 31, 2015 and December 31, 2014, is as follows:

(In millions of Korean won)	March 31, 2015	December 31, 2014
Equity capital	₩ 23,497,922	₩ 23,421,797
Tier I Capital	20,161,549	19,620,849
Common Equity Tier 1 Capital	20,161,549	19,620,849
Tier II Capital	3,336,373	3,800,948
Risk-weighted assets:	143,529,168	146,689,770
Credit risk[1]	128,925,783	132,453,117
Market risk[2]	3,389,760	3,445,138
Operational risk[3]	11,213,625	10,791,515
Equity Capital (%):	16.37	15.97
Tier I Capital (%)	14.05	13.38
Common Equity Tier 1 Capital (%)	14.05	13.38

[1] Credit risk-weighted assets are measured using the Internal Rating-Based Approach and Standardized Approach.
[2] Market risk-weighted assets are measured using the Internal Model-Based Approach and Standardized Approach.
[3] Operational risk-weighted assets are measured using the Advanced Measurement Approach.

5. Segment Information

5.1 Overall Segment Information and Business Segments

The Group is organized into Corporate Banking, Retail Banking and Other Activities. These business divisions are based on the nature of the products and services provided, the type or class of customer, and the Group’s management organization.

- Corporate banking : The activities within this segment include providing credit, deposit products and other related financial services to large, small-and medium-sized enterprises and SOHOs.
- Retail banking : The activities within this segment include providing credit, deposit products and other related financial services to individuals and households.
- Other activities : The activities within this segment include trading activities in securities and derivatives, funding and other supporting activities.

Financial information by business segment for the three-month period ended March 31, 2015, is as follows:

(In millions of Korean won)	March 31, 2015				
	Corporate Banking	Retail Banking	Others	Intra-group Adjustment	Total
Operating revenues from external customers	₩ 421,628	₩ 538,138	₩ 413,741	₩ -	₩ 1,373,507
Segment operating revenues(expenses)	3,200	-	(3,083)	(117)	-
	424,828	538,138	410,658	(117)	1,373,507
Net interest income	576,864	551,872	48,820	83	1,177,639
Interest income	916,648	1,043,384	271,776	(2,875)	2,228,933
Interest expense	(339,784)	(491,512)	(222,956)	2,958	(1,051,294)
Net fee and commission income	59,622	154,139	76,633	(3,945)	286,449
Fee and commission income	69,443	173,981	96,585	(4,044)	335,965
Fee and commission expense	(9,821)	(19,842)	(19,952)	99	(49,516)
Net gains(losses) on financial assets/ liabilities at fair value through profit or loss	(13)	-	111,090	-	111,077
Net other operating income(expenses)	(211,645)	(167,873)	174,115	3,745	(201,658)
General and administrative expenses	(182,905)	(482,541)	(236,016)	-	(901,462)
Operating profit before provision for credit losses	241,923	55,597	174,642	(117)	472,045
Provision for credit losses	(120,044)	(18,190)	13,261	177	(124,796)
Operating profit	121,879	37,407	187,903	60	347,249
Share of profit of associates	-	-	17,902	-	17,902
Net other non-operating income	172	-	194,808	(5,530)	189,450
Segment profit before income tax expense	122,051	37,407	400,613	(5,470)	554,601
Income tax expense	(29,906)	(9,052)	(32,137)	(7,314)	(78,409)
Profit for the period	92,145	28,355	368,476	(12,784)	476,192
Profit attributable to shareholders of the parent entity	92,145	28,355	368,476	(12,784)	476,192
Profit attributable to non-controlling interests	-	-	-	-	-
Total assets[1]	97,278,775	110,802,759	79,037,083	(4,988,815)	282,129,802
Total liabilities[1]	83,683,104	125,832,277	52,082,680	(1,751,155)	259,846,906

[1] Amounts before intra-group transaction adjustment.

Financial information by business segment for the three-month period ended March 31, 2014, is as follows:

(In millions of Korean won)	March 31, 2014				
	Corporate Banking	Retail Banking	Others	Intra-group Adjustment	Total
Operating revenues from external customers	₩ 452,986	₩ 557,173	₩ 375,432	₩ -	₩ 1,385,591
Segment operating revenues(expenses)	2,236	(26,712)	9,554	14,922	-
	455,222	530,461	384,986	14,922	1,385,591
Net interest income	604,799	470,104	107,095	27,119	1,209,117
Interest income	1,011,370	1,116,153	340,538	(3,362)	2,464,699
Interest expense	(406,571)	(646,049)	(233,443)	30,481	(1,255,582)
Net fee and commission income	58,355	121,966	75,736	(2,907)	253,150
Fee and commission income	67,531	137,087	96,204	(3,773)	297,049

Fee and commission expense	(9,176)	(15,121)	(20,468)	866	(43,899)
Net gains(losses) on financial assets/ liabilities at fair value through profit or loss	151	(466)	41,429	194	41,308
Net other operating income(expenses)	(208,083)	(61,143)	160,726	(9,484)	(117,984)
General and administrative expenses	(160,471)	(375,804)	(304,646)	-	(840,921)
Operating profit before provision for credit losses	294,751	154,657	80,340	14,922	544,670
Provision for credit losses	(181,663)	(39,413)	743	(1,981)	(222,314)
Operating profit	113,088	115,244	81,083	12,941	322,356
Share of profit of associates	-	-	13,652	-	13,652
Net other non-operating income	204	-	45,481	(41,795)	3,890
Segment profit before income tax expense	113,292	115,244	140,216	(28,854)	339,898
Income tax expense	(26,639)	(34,538)	(23,692)	(11,088)	(95,957)
Profit for the period	86,653	80,706	116,524	(39,942)	243,941
Profit attributable to shareholders of the parent entity	86,653	80,706	116,524	(39,942)	243,941
Profit attributable to non-controlling interests	-	-	-	-	-
Total assets[1]	94,313,469	111,074,156	74,917,627	(4,851,588)	275,453,664
Total liabilities[1]	83,780,834	123,792,699	47,552,921	(1,613,263)	253,513,191

[1] Amounts are as of December 31, 2014, before intra-group transaction adjustment.

5.2 Services and Geographical Segments

5.2.1 Services information

Operating revenues from external customers by services for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	**March 31, 2015**		**March 31, 2014**	
Corporate banking service	₩	421,628	₩	452,986
Retail banking service		538,138		557,173
Other service		413,741		375,432
	₩	1,373,507	₩	1,385,591

5.2.2 Geographical information

Operating revenues from external customers for the three-month periods ended March 31, 2015 and 2014, and major non-current assets as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015		March 31, 2014	December 31, 2014
	Revenues from external customers	Major non-current assets	Revenues from external customers	Major non-current assets
Domestic	₩ 1,352,582	₩ 3,457,501	₩ 1,357,391	₩ 3,492,836
United States	2,879	251	2,880	256
New Zealand	1,475	161	1,832	193
China	9,365	6,793	13,260	7,518
Japan	3,078	1,597	5,605	1,391
Vietnam	724	280	765	287
Cambodia	1,152	505	1,585	564
United Kingdom	2,252	101	2,273	108
Intra-group adjustment	-	1,202	-	1,202
	₩ 1,373,507	₩ 3,468,391	₩ 1,385,591	₩ 3,504,355

6. Financial Assets and Financial Liabilities

6.1 Classification and Fair Value

Carrying amount and fair values of financial assets and liabilities as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015		December 31, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and due from financial institutions	₩ 13,196,414	₩ 13,196,350	₩ 13,973,510	₩ 13,973,773
Financial assets held for trading	7,592,841	7,592,841	7,520,471	7,520,471
Debt securities	7,444,797	7,444,797	7,368,783	7,368,783
Equity securities	91,368	91,368	100,343	100,343
Others	56,676	56,676	51,345	51,345
Derivatives held for trading	1,871,444	1,871,444	1,800,664	1,800,664
Derivatives held for hedging	115,980	115,980	109,553	109,553
Loans	218,178,715	218,669,308	211,525,560	211,830,395
Available-for-sale financial assets	19,195,119	19,195,119	19,134,391	19,134,391
Debt securities	16,492,459	16,492,459	16,415,900	16,415,900
Equity securities	2,702,160	2,702,160	2,717,991	2,717,991
Others	500	500	500	500
Held-to-maturity financial assets	9,774,171	10,174,530	10,124,136	10,486,946

Other financial assets	7,608,373	7,608,373	6,529,032	6,529,032
	₩ 277,533,057	₩ 278,423,945	₩ 270,717,317	₩ 271,385,225
Financial liabilities				
Financial liabilities held for trading	₩ 56,659	₩ 56,659	₩ 51,650	₩ 51,650
Derivatives held for trading	1,879,229	1,879,229	1,755,674	1,755,674
Derivatives held for hedging	1,174	1,174	3,425	3,425
Deposits	213,750,975	214,335,973	211,611,432	212,004,857
Debts	15,360,871	15,425,422	14,297,460	14,344,110
Debentures	14,889,355	15,447,536	15,250,464	15,693,318
Other financial liabilities	12,515,251	12,515,324	9,344,847	9,344,892
	₩ 258,453,514	₩ 259,661,317	₩ 252,314,952	₩ 253,197,926

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. For each class of financial assets and financial liabilities, the Group discloses the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount at the end of each reporting period. The best evidence of fair value of financial instruments is a quoted price in an active market.

Methods of determining fair value for financial instruments are as follows:

Cash and due from financial institutions — The carrying amounts of cash and demand due from financial institutions and payment due from financial institutions are reasonable approximation of fair values. These financial instruments do not have a fixed maturity and are receivable on demand. Fair value of ordinary due from financial institutions is measured using DCF model (Discounted Cash Flow Model).

Investment securities — The fair value of financial instruments that are quoted in active markets is determined using the quoted prices. Fair value is determined through the use of independent third-party pricing services where quoted prices are not available. Pricing services use one or more of the following valuation techniques including DCF Model, FCFE(Free Cash Flow to Equity Model), Comparable Company Analysis, Dividend Discount Model, Risk Adjusted Discount Rate Method, and Net Asset Value Method.

Loans — DCF Model is used to determine the fair value of loans. Fair value is determined by discounting the expected cash flows, which are contractual cash flows adjusted by the expected prepayment rate, at appropriate discount rate.

Derivatives — For exchange traded derivatives, quoted price in an active market is used to determine fair value and for OTC derivatives, fair value is determined using valuation techniques. The Group uses internally developed valuation models that are widely used by market participants to determine fair values of plain vanilla OTC derivatives including options, interest rate swaps, and currency swaps, based on observable market parameters. However, some complex financial instruments are valued using appropriate models developed from generally accepted market valuation models including the Finite Difference Method and the Monte Carlo Simulation or independent third-party valuation service.

Deposits	Carrying amount of demand deposits is regarded as representative of fair value because they do not have a fixed maturity and are payable on demand. Fair value of time deposits is determined using a DCF model. Fair value is determined by discounting the expected cash flows, which are contractual cash flows adjusted by the expected prepayment rate, at an appropriate discount rate.
Debts	Carrying amount of overdraft in foreign currency is regarded as representative of fair value because they do not have a fixed maturity and are payable on demand. Fair value of other debts is determined using a DCF model discounting contractual future cash flows at an appropriate discount rate.
Debentures	Fair value is determined by using the valuations of independent third-party pricing services, which are calculated using market inputs.
Other financial assets and other financial liabilities	The carrying amounts are reasonable approximation of fair values. These financial instruments are temporary accounts used for other various transactions and their maturities are relatively short or not defined. However, fair value of finance lease liabilities is measured using a DCF model.

Fair value hierarchy

The Group believes that valuation methods used for measuring the fair values of financial instruments are reasonable and that the fair values recognized in the statements of financial position are appropriate. However, the fair values of the financial instruments recognized in the statements of financial position may be different if other valuation methods or assumptions are used. Additionally, as there is a variety of valuation techniques and assumptions used in measuring fair value, it may be difficult to reasonably compare the fair value with that of other financial institutions.

The Group classifies and discloses the fair value of the financial instruments into the following three-level hierarchy:

Level 1: The fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: The fair values are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: The fair values are based on unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

Fair value hierarchy of financial assets and liabilities measured at fair value in the statements of financial position

The fair value hierarchy of financial assets and liabilities measured at fair value in the statements of financial position as of March 31, 2015 and December 31, 2014, follows:

(In millions of Korean won)	March 31, 2015			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Debt securities	₩ 3,033,614	₩ 4,411,183	₩ -	₩ 7,444,797
Equity securities	52,222	39,146	-	91,368
Others	56,676	-	-	56,676
	3,142,512	4,450,329	-	7,592,841
Derivatives held for trading	-	1,864,933	6,511	1,871,444
Derivatives held for hedging	-	113,142	2,838	115,980
Available-for-sale financial assets				
Debt securities	5,590,851	10,901,608	-	16,492,459
Equity securities[1]	1,143,651	636	1,557,873	2,702,160
Others	-	500	-	500
	6,734,502	10,902,744	1,557,873	19,195,119
	₩ 9,877,014	₩17,331,148	₩ 1,567,222	₩ 28,775,384
Financial liabilities				
Financial liabilities held for trading	56,659	-	-	56,659
Derivatives held for trading	-	1,872,609	6,620	1,879,229
Derivatives held for hedging	-	621	553	1,174
	₩ 56,659	₩ 1,873,230	₩ 7,173	₩ 1,937,062

(In millions of Korean won)	December 31, 2014			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Debt securities	₩ 3,190,784	₩ 4,177,999	₩ -	₩ 7,368,783
Equity securities	68,963	31,380	-	100,343
Others	51,345	-	-	51,345
	3,311,092	4,209,379	-	7,520,471
Derivatives held for trading	-	1,768,638	32,026	1,800,664
Derivatives held for hedging	-	109,293	260	109,553
Available-for-sale financial assets				
Debt securities	6,707,878	9,708,022	-	16,415,900
Equity securities[1]	1,145,988	633	1,571,370	2,717,991
Others	-	500	-	500
	7,853,866	9,709,155	1,571,370	19,134,391
	₩ 11,164,958	₩15,796,465	₩ 1,603,656	₩ 28,565,079
Financial liabilities				
Financial liabilities held for trading	51,650	-	-	51,650
Derivatives held for trading	-	1,747,645	8,029	1,755,674
Derivatives held for hedging	-	1,144	2,281	3,425
	₩ 51,650	₩ 1,748,789	₩ 10,310	₩ 1,810,749

[1] The amounts of equity securities carried at cost in “Level 3” which do not have a quoted market price in an active market and cannot be measured reliably at fair value are ₩ 27,523 million and ₩ 27,526 million as of March 31, 2015 and December 31, 2014, respectively. These equity securities are carried at cost because it is practically difficult to quantify the intrinsic values of the equity securities issued by unlisted public and non-profit entities. In addition, due to significant fluctuations in estimated cash flows arising from entities being in its initial stages, which further results in varying and unpredictable probabilities, unlisted equity securities issued by project financing cannot be reliably and reasonably assessed. Therefore, these equity securities are carried at cost.

Valuation techniques and the inputs used in the fair value measurement of financial assets and liabilities classified as Level 2

Valuation techniques and inputs of financial assets and liabilities measured at fair value in the statement of financial position and classified as Level 2 as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	Fair value		Valuation techniques	Inputs
	March 31, 2015	December 31, 2014		
Financial assets				
Financial assets held for trading				
Debt securities	₩ 4,411,183	₩ 4,177,999	DCF model	Discount rate
Equity securities	39,146	31,380	DCF model	Discount rate
	4,450,329	4,209,379		
Derivatives held for trading	1,864,933	1,768,638	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate, stock price and others
Derivatives held for hedging	113,142	109,293	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate and others
Available-for-sale financial assets				
Debt securities	10,901,608	9,708,022	DCF model	Discount rate
Equity securities	636	633	DCF model	Discount rate
Others	500	500	DCF model	Discount rate
	10,902,744	9,709,155		
	₩17,331,148	₩15,796,465		
Financial liabilities				
Derivatives held for trading	₩ 1,872,609	₩ 1,747,645	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate, stock price and others
Derivatives held for hedging	621	1,144	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate and others
	₩ 1,873,230	₩ 1,748,789		

Fair value hierarchy of financial assets and liabilities whose fair value is disclosed

The fair value hierarchy of financial assets and liabilities whose fair value is disclosed as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and due from financial institutions[1]	₩ 2,766,159	₩ 9,512,268	₩ 917,923	₩ 13,196,350
Loans	-	-	218,669,308	218,669,308
Held-to-maturity financial assets	2,622,472	7,552,058	-	10,174,530
Other financial assets[2]	-	-	7,608,373	7,608,373
	₩ 5,388,631	₩ 17,064,326	₩227,195,604	₩ 249,648,561
Financial liabilities				
Deposits[1]	₩ -	₩ 86,787,949	₩127,548,024	₩ 214,335,973
Debts[1]	-	19,424	15,405,998	15,425,422
Debentures	-	15,447,536	-	15,447,536
Other financial liabilities[3]	-	-	12,515,324	12,515,324
	₩ -	₩102,254,909	₩155,469,346	₩ 257,724,255

(In millions of Korean won)	December 31, 2014			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and due from financial institutions[1]	₩ 2,544,205	₩ 10,198,808	₩ 1,230,760	₩ 13,973,773
Loans	-	-	211,830,395	211,830,395
Held-to-maturity financial assets	2,616,385	7,870,561	-	10,486,946
Other financial assets[2]	-	-	6,529,032	6,529,032
	₩ 5,160,590	₩ 18,069,369	₩219,590,187	₩ 242,820,146
Financial liabilities				
Deposits[1]	₩ -	₩ 82,783,564	₩129,221,293	₩ 212,004,857
Debts[1]	-	48,984	14,295,126	14,344,110
Debentures	-	15,693,318	-	15,693,318
Other financial liabilities[3]	-	-	9,344,892	9,344,892
	₩ -	₩ 98,525,866	₩152,861,311	₩ 251,387,177

[1] The amounts included in Level 2 are the carrying amounts which are reasonable approximation of the fair values.

[2] The amounts of other financial assets included in Level 3 are the carrying amounts which are reasonable approximation of the fair values as of March 31, 2015 and December 31, 2014.

[3] The ₩ 12,502,554 million and ₩9,331,606 million of other financial liabilities included in Level 3 are the carrying amounts which are reasonable approximation of fair values as of March 31, 2015 and December 31, 2014, respectively.

Valuation techniques and inputs used in the fair value measurement

Valuation techniques and inputs of financial assets and liabilities which are disclosed by the carrying amounts because it is a reasonable approximation of fair value are not subject to be disclosed.

Valuation techniques and inputs of financial assets and liabilities whose fair values are disclosed and classified as Level 2 as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	Fair value		Valuation Techniques	Inputs
	March 31, 2015	December 31, 2014		
Financial assets				
Held-to-maturity financial assets	₩ 7,552,058	₩ 7,870,561	DCF model	Discount rate
Financial liabilities				
Debentures	₩ 15,447,536	₩ 15,693,318	DCF model	Discount rate

Valuation techniques and inputs of financial assets and liabilities whose fair values are disclosed and classified as Level 3 as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	Fair value		Valuation techniques	Inputs	Unobservable inputs
	March 31, 2015	December 31, 2014			
Financial assets					
Cash and due from financial institutions	₩ 917,923	₩ 1,230,760	DCF model	Credit spread, other spread, interest rate	Credit spread, other spread
Loans	218,669,308	211,830,395	DCF model	Credit spread, other spread, prepayment rate, interest rate	Credit spread, other spread, prepayment rate
	₩ 219,587,231	₩ 213,061,155			
Financial liabilities					
Deposits	₩ 127,548,024	₩ 129,221,293	DCF model	Other spread, prepayment rate, interest rate	Other spread, prepayment rate
Debts	15,405,998	14,295,126	DCF model	Other spread, interest rate	Other spread
Other financial liabilities	12,770	13,286	DCF model	Other spread, interest rate	Other spread
	₩ 142,966,792	₩ 143,529,705			

6.2 Level 3 of the fair value hierarchy disclosure

6.2.1 Valuation policy and process of Level 3 fair value

The Group uses external, independent and qualified independent third-party valuation service in addition to internal valuation models to determine the fair value of the Group's assets at the end of every reporting period.

Where a reclassification between the levels of the fair value hierarchy occurs for a financial asset or liability, the Group's policy is to recognize such transfers as having occurred at the beginning of the reporting period.

6.2.2 Changes in fair value (Level 3) measured using valuation technique based on unobservable in market

Changes in Level 3 of the fair value hierarchy for the three-month period ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	March 31, 2015		
	Financial investments	Net derivatives	
	Available-for-sale financial assets	Derivatives held for trading	Derivatives held for hedging
	Equity securities		
Beginning balance	₩ 1,571,370	₩ 23,997	₩ (2,021)
Total gains or losses			
- Profit or loss	(5,811)	(4,605)	4,306
- Other comprehensive-income	17,737	-	-
Purchases	41,488	-	-
Sales	(72,475)	-	-
Settlements	-	(19,501)	-
Transfers into Level 3	5,564	-	-
Ending balance	₩ 1,557,873	₩ (109)	₩ 2,285

(In millions of Korean won)

	March 31, 2014		
	Financial investments	Net derivatives	
	Available-for-sale financial assets	Derivatives held for trading	Derivatives held for hedging
	Equity securities		
Beginning balance	₩ 1,561,667	₩ (4,654)	₩ (8,390)
Total gains or losses			
- Profit or loss	(17,368)	(552)	299
- Other comprehensive-income	43,937	-	-
Purchases	13,439	-	-
Sales	(35,770)	-	-

Settlements		-		1,232		(210)
Transfers into Level 3		1,927		-		-
Transfers out of Level 3		(4,615)		-		-
Ending balance	₩	1,563,217	₩	(3,974)	₩	(8,301)

In relation to changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the period, and total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period in the statements of comprehensive income for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	**March 31, 2015**	
	Net income from financial investments at fair value through profit or loss	**Other operating income**
Total gains or losses included in profit or loss for the period	₩ (4,605)	₩ (1,505)
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period	(1,695)	(6,074)

(In millions of Korean won)	**March 31, 2014**	
	Net income from financial investments at fair value through profit or loss	**Other operating income**
Total gains or losses included in profit or loss for the period	₩ (552)	₩ (17,069)
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period	134	(19,495)

6.2.3 Sensitivity analysis of changes in unobservable inputs

Information about fair value measurements using unobservable inputs as of March 31, 2015, is as follows:

(In millions of Korean won)

	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobserva-ble inputs (%)	Relationship of unobservable inputs to fair value
Financial assets						
Derivatives held for trading						
Stock and index	₩ 6,167	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rates, volatility of the underlying asset, correlation of the underlying assets(rates of return on stocks), dividend yield	Volatility of the underlying asset	26.38 ~ 43.01	Higher the volatility, higher the fair value fluctuation
				Rates of return on stocks	-3.22 ~ 67.63	Higher the correlation, higher the fair value fluctuation
Currency and interest	344	DCF model	Interest rate, exchange rate, loss given default	Loss given default	6.36 ~ 100.00	Higher the loss rate, decrease the fair value
Derivatives held for hedging						
Interest	2,838	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rates volatility of the underlying asset	Volatility of the underlying asset	5.05	Higher the volatility, higher the fair value fluctuation
Available-for-sale						
Equity securities	1,557,873	DCF Model, Comparable Company Analysis, Risk Adjusted Discount Rate Method	Growth rate, discount rate, volatilities of real estate price, liquidation value , recovery rate of receivables' acquisition cost	Growth rate	0.00 ~ 3.00	Higher the growth rate, higher the fair value
				Discount rate	2.29 ~ 21.55	Lower the discount rate, higher the fair value
				Volatilities of real estate price	1.89	Higher real estate price, higher the fair value
				Liquidation value	0.00	Higher the liquidation value, higher the fair value
				Recovery rate of receivables' acquisition cost	155.83	Higher the recovery rate of receivables' acquisition cost, higher the fair value
	₩ 1,567,222					
Financial liabilities						
Derivatives held for trading						
Stock and index	₩ 6,620	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset, correlation of the underlying assets(rates of return on stocks), dividend yield	Volatility of the underlying asset	26.38 ~ 35.89	Higher the volatility, higher the fair value fluctuation
				Rates of return on stocks	2.37 ~ 67.63	Higher the correlation, higher the fair value fluctuation
Derivatives held for hedging						
Interest	553	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rates, volatility of the underlying asset	Volatility of the underlying asset	2.53	Higher the volatility, higher the fair value fluctuation
	₩ 7,713					

Information about fair value measurements using unobservable inputs as of December 31, 2014, is as follows:

	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobserva-ble inputs (%)	Relationship of unobservable inputs to fair value
Financial assets						
Derivatives held for trading						
Stock and index	₩ 29,031	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rates, volatility of the underlying asset, correlation of the underlying assets(rates of return on stocks), dividend yield	Volatility of the underlying asset	24.20 ~ 45.82	Higher the volatility, higher the fair value fluctuation
				Rates of return on stocks	-3.27 ~ 52.23	Higher the correlation, higher the fair value fluctuation
Currency and interest	2,995	DCF model	Interest rate, exchange rate, loss given default	Loss given default	6.78 ~ 90.56	Higher the loss rate, decrease the fair value
Derivatives held for hedging						
Interest	260	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, Interest rates, volatility of the underlying asset	Volatility of the underlying asset	3.91	Higher the volatility, higher the fair value fluctuation
Available-for-sale						
Equity securities	1,571,370	DCF Model, Comparable Company Analysis, Risk Adjusted Discount Rate Method	Growth rate, discount rate, volatilities of real estate price, liquidation value , discount rate of cash flows from rent , recovery rate of receivables' acquisition cost	Growth rate	0.00 ~ 3.00	Higher the growth rate, higher the fair value
				Discount rate	2.29 ~ 21.55	Lower the discount rate, higher the fair value
				Volatilities of real estate price	1.10	Higher real estate price, higher the fair value
				Liquidation value	0.00	Higher the liquidation value, higher the fair value
				Discount rate of cash flows from rent	6.89	Lower the discount rate of cash flows from rent, higher the fair value
				Recovery rate of receivables' acquisition cost	155.83	Higher the recovery rate of receivables' acquisition cost, higher the fair value
	₩ 1,603,656					
Financial liabilities						
Derivatives held for trading						
Stock and index	₩ 8,029	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset, correlation of the underlying assets(rates of return on stocks), dividend yield	Volatility of the underlying asset	25.13 ~ 41.79	Higher the volatility, higher the fair value fluctuation
				Rates of return on stocks	-3.83 ~ 68.20	Higher the correlation, higher the fair value fluctuation
Derivatives held for hedging						
Interest	2,281	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rates volatility of the underlying asset	Volatility of the underlying asset	2.35 ~ 3.91	Higher the volatility, higher the fair value fluctuation
	₩ 10,310					

Sensitivity analysis of changes in unobservable inputs

Sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the amounts represent the most favorable or unfavorable. Amongst Level 3 financial instruments subject to sensitivity analysis are interest rate-related derivatives, currency-related derivatives and equity-related derivatives whose fair value changes are recognized in profit or loss as well as equity securities and private equity funds whose fair value changes are recognized in profit or loss or other comprehensive income and loss.

Sensitivity analyses by type of instrument as a result of varying input parameters are as follows:

(In millions of Korean won)	March 31, 2015			
	Recognition in profit or loss			
	Favorable changes		Unfavorable changes	
Financial assets				
Derivatives held for trading[1]	₩	304	₩	(304)
Derivatives held for hedging[1]		88		(75)
Available-for-sale financial assets[2]		-		-
	₩	392	₩	(379)
Financial liabilities				
Derivatives held for trading[1]	₩	358	₩	(390)
Derivatives held for hedging[1]		8		(7)
	₩	366	₩	(397)

(In millions of Korean won)	March 31, 2015			
	Other comprehensive income or loss			
	Favorable changes		Unfavorable changes	
Financial assets				
Derivatives held for trading[1]	₩	-	₩	-
Derivatives held for hedging[1]		-		-
Available-for-sale financial assets[2]		227,754		(104,762)
	₩	227,754	₩	(104,762)
Financial liabilities				
Derivatives held for trading[1]	₩	-	₩	-
Derivatives held for hedging[1]		-		-
	₩	-	₩	-

(In millions of Korean won)	December 31, 2014			
	Recognition in profit or loss			
	Favorable changes		Unfavorable changes	
Financial assets				
Derivatives held for trading[1]	₩	310	₩	(307)
Derivatives held for hedging[1]		17		(15)
Available-for-sale financial assets[2]		-		-
	₩	327	₩	(322)
Financial liabilities				
Derivatives held for trading[1]	₩	535	₩	(535)
Derivatives held for hedging[1]		86		(76)
	₩	621	₩	(611)

(In millions of Korean won)	December 31, 2014			
	Other comprehensive income or loss			
	Favorable changes		Unfavorable changes	
Financial assets				
Derivatives held for trading[1]	₩	-	₩	-
Derivatives held for hedging[1]		-		-
Available-for-sale financial assets[2]		360,970		(136,378)
	₩	360,970	₩	(136,378)
Financial liabilities				
Derivatives held for trading[1]	₩	-	₩	-
Derivatives held for hedging[1]		-		-
	₩	-	₩	-

[1] For stock and index-related derivatives, the changes in fair value are calculated by shifting principal unobservable input parameters such as the correlation of rates of return on stocks and the volatility of the underlying asset by ± 10%. For foreign currency derivatives, the changes in fair value are calculated by shifting the unobservable input parameters, such as the loss given default ratio by ± 1%. For interest rate-related derivatives, the changes in fair value are calculated by shifting the unobservable input parameters such as the correlation of the interest rates or the volatility of the underlying asset by ± 10%.

[2] For equity securities, the changes in fair value are calculated by shifting principal unobservable input parameters such as correlation between growth rate (0~0.5%) and discount rate, or liquidation value (-1~1%) and discount rate, or recovery rate of receivables' acquisition cost (-1~1%). Sensitivity of fair values to unobservable parameters of private equity fund is practically impossible, but in the case of equity fund composed of real estates, the changes in fair value are calculated by shifting correlation between discount rate (-1~1%) and volatilities of real estate price (-1~1%).

6.2.4 Day one gain or loss

If the Group uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of financial instruments, there could be a difference between the transaction price and the amount determined using that valuation technique. In

these circumstances, the fair value of financial instruments is recognized as the transaction price and the difference is deferred and not recognized in profit or loss, and is amortized by using the straight-line method over the life of the financial instrument. If the fair value of the financial instruments is subsequently determined using observable market inputs, the remaining deferred amount is recognized in profit or loss.

The aggregate difference yet to be recognized in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference are as follows:

(In millions of Korean won)	March 31, 2015	March 31, 2014
Balance at the beginning of the period (A)	₩ 187	₩ 1,330
New transactions (B)	-	-
Amounts recognized in profit or loss during the period (C= a+b)	(120)	(362)
a. Amortization	(81)	(180)
b. Settlement	(39)	(182)
Balance at the end of the period (A+B+C)	₩ 67	₩ 968

6.3 Carrying amounts of financial instruments by category

Financial assets and liabilities are measured at fair value or amortized cost. The carrying amounts of financial assets and liabilities by category as of March 31, 2015 are as follows:

(In millions of Korean won)

	Financial assets at fair value through profit or loss		Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Derivatives held for hedging	Total
	Held for trading						
Financial assets							
Cash and due from financial institutions	₩	-	₩ 13,196,414	₩ -	₩ -	₩ -	₩ 13,196,414
Financial assets at fair value through profit or loss		7,592,841	-	-	-	-	7,592,841
Derivatives		1,871,444	-	-	-	115,980	1,987,424
Loans		-	218,178,715	-	-	-	218,178,715
Financial investments		-	-	19,195,119	9,774,171	-	28,969,290
Other financial assets		-	7,608,373	-	-	-	7,608,373
	₩	9,464,285	₩ 238,983,502	₩19,195,119	₩ 9,774,171	₩ 115,980	₩277,533,057

(In millions of Korean won)

	Financial liabilities at fair value through profit or loss	Financial liability at amortized cost	Derivatives held for hedging	Total
	Held for trading			
Financial liabilities				
Financial liabilities at fair value through profit or loss	₩ 56,659	₩ -	₩ -	₩ 56,659
Derivatives	1,879,229	-	1,174	1,880,403
Deposits	-	213,750,975	-	213,750,975
Debts	-	15,360,871	-	15,360,871
Debentures	-	14,889,355	-	14,889,355
Other financial liabilities	-	12,515,251	-	12,515,251
	₩ 1,935,888	₩ 256,516,452	₩ 1,174	₩ 258,453,514

The carrying amounts of financial assets and liabilities by category as of December 31, 2014, are as follows:

(In millions of Korean won)

	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Derivatives held for hedging	Total
	Held for trading					
Financial assets						
Cash and due from financial institutions	₩ -	₩ 13,973,510	₩ -	₩ -	₩ -	₩ 13,973,510
Financial assets at fair value through profit or loss	7,520,471	-	-	-	-	7,520,471
Derivatives	1,800,664	-	-	-	109,553	1,910,217
Loans	-	211,525,560	-	-	-	211,525,560
Financial investments	-	-	19,134,391	10,124,136	-	29,258,527
Other financial assets	-	6,529,032	-	-	-	6,529,032
	₩ 9,321,135	₩ 232,028,102	₩19,134,391	₩10,124,136	₩ 109,553	₩270,717,317

(In millions of Korean won)

	Financial liabilities at fair value through profit or loss	Financial liability at amortized cost	Derivatives held for hedging	Total
	Held for trading			
Financial liabilities				
Financial liabilities at fair value through profit or loss	₩ 51,650	₩ -	₩ -	₩ 51,650
Derivatives	1,755,674	-	3,425	1,759,099
Deposits	-	211,611,432	-	211,611,432
Debts	-	14,297,460	-	14,297,460
Debentures	-	15,250,464	-	15,250,464
Other financial liabilities	-	9,344,847	-	9,344,847
	₩ 1,807,324	₩ 250,504,203	₩ 3,425	₩ 252,314,952

6.4 Transfer of financial assets

6.4.1 Transferred financial assets that are derecognized in their entirety

The Group transferred loans and other financial assets that are derecognized in their entirety to SPEs, while the maximum exposure to loss(carrying amount) from its continuing involvement in the derecognized financial assets as of March 31, 2015 and December 31, 2014, are as follows :

(In millions of Korean won)

		March 31, 2015[1]		
	Type of continuing involvement	Classification of financial instruments	Carrying amount of continuing involvement in statement of financial position	Fair value of continuing involvement in statement of financial position
KR ABS Ltd.	Subordinated debt	Available-for-sale financial assets	₩ 2,444	₩ 2,444
KR 2nd Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	15,069	15,069
EAK ABS Ltd.	Subordinated debt	Available-for-sale financial assets	7,419	7,419
AP 1st Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	12,652	12,652
Discovery 1st Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	21,163	21,163
EAK 2nd Securitization Specialty Co., Ltd.	Senior debt	Loans and receivables	6,901	6,998
	Subordinated debt	Available-for-sale financial assets	38,242	38,242

FK 1411 ABS Ltd.	Senior debt	Loans and receivables	39,555	39,807
	Subordinated debt	Available-for-sale financial assets	48,458	48,458
			₩ 191,903	₩ 192,252

[1] There is no additional collection under the post-settlement agreement included in the transferring agreement with the National Happiness Fund.

(In millions of Korean won)

			December 31, 2014[3]	
	Type of continuing involvement	**Classification of financial instruments**	**Carrying amount of continuing involvement in statement of financial position**	**Fair value of continuing involvement in statement of financial position**
KR ABS Ltd.	Subordinated debt	Available-for-sale financial assets	₩ 4,921	₩ 4,921
KR 2nd Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	22,219	22,219
EAK ABS Ltd.	Subordinated debt	Available-for-sale financial assets	11,211	11,211
AP 1st Securitization Specialty Co., Ltd.	Senior debt	Loans and receivables	9,762	9,842
	Subordinated debt	Available-for-sale financial assets	17,346	17,346
Discovery 1st Securitization Specialty Co., Ltd.	Senior debt	Loans and receivables	1,175	1,194
	Subordinated debt	Available-for-sale financial assets	22,591	22,591
EAK 2nd Securitization Specialty Co., Ltd. [1]	Senior debt	Loans and receivables	19,806	20,026
	Subordinated debt	Available-for-sale financial assets	38,207	38,207
FK 1411 ABS Ltd. [2]	Senior debt	Loans and receivables	44,966	44,917
	Subordinated debt	Available-for-sale financial assets	47,600	47,600
			₩ 239,804	₩ 240,074

[1] Recognized net gain from transferring loans to the SPEs amounts to ₩ 6,924 million.

[2] Recognized net loss from transferring loans to the SPEs amounts to ₩ 27,365 million.

[3] In addition to the above, the recovered portion in excess of the consideration paid attributable to adjustments based on the agreement with the National Happiness Fund for non-performing loans amounts to ₩ 3,145 million.

6.4.2 Securities under repurchase agreements and loaned securities

The Group continues to recognize the financial assets related to repurchase agreements and securities lending transactions on the statements of financial position since those transactions are not qualified for derecognition even though the Group transfers the financial assets. A financial asset is sold under a reverse repurchase agreement to repurchase the same asset at a fixed price, or loaned under a securities lending agreement to be returned as the same asset. Thus, the Group retains substantially all the risks and rewards of ownership of the financial asset. The amounts of transferred assets and related liabilities as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	**March 31, 2015**	
	Carrying amount of transferred asset	**Carrying amount of related liabilities**
Securities under repurchase agreements	₩ 207,929	₩ 189,446
Loaned securities	10,213	-
Government and public bonds	10,213	-
	₩ 218,142	₩ 189,446

(In millions of Korean won)	**December 31, 2014**	
	Carrying amount of transferred asset	**Carrying amount of related liabilities**
Securities under repurchase agreements	₩ 164,382	₩ 148,869
Loaned securities	59,120	-
Government and public bonds	59,120	-
	₩ 223,502	₩ 148,869

6.5 Offsetting financial assets and financial liabilities

The Group enters into International Derivatives Swaps and Dealers Association ("ISDA") master netting agreements and other arrangements with the Group's derivative and spot exchange counterparties. Similar netting agreements are also entered into with the Group's reverse repurchase, securities and others. Pursuant to these agreements, in the event of default by one party, contracts are to be terminated and receivables and payables are to be offset. Further, as the law allows for the right to offset, domestic uncollected receivables balances and domestic accrued liabilities balances are shown in its net settlement balance in the statement of financial position.

The details of financial assets subject to offsetting, enforceable master netting arrangements or similar agreements as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

	March 31, 2015					
		Gross amounts of recognized financial liabilities offset 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		
	Gross amounts of recognized financial assets			Financial instruments	Cash collateral received	Net amount
Derivatives held for trading	₩ 1,871,444	₩ -	₩ 1,871,444	₩ (1,559,238)	₩ (21,978)	₩ 290,228
Derivatives held for hedging	115,980	-	115,980	(13,617)	-	102,363
Receivable spot exchange	4,601,455	-	4,601,455	(4,598,629)	-	2,826
Reverse repurchase, securities borrowing and similar agreements	8,502,800	-	8,502,800	(8,502,800)	-	-
Other financial instruments	15,568,050	(14,622,495)	945,555	-	-	945,555
	₩ 30,659,729	₩ (14,622,495)	₩ 16,037,234	₩(14,674,284)	₩ (21,978)	₩ 1,340,972

(In millions of Korean won)

	December 31, 2014					
		Gross amounts of recognized financial liabilities offset 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		
	Gross amounts of recognized financial assets			Financial instruments	Cash collateral received	Net amount
Derivatives held for trading	₩ 1,798,280	₩ -	₩ 1,798,280	₩ (1,472,239)	₩ (1,635)	₩ 324,406
Derivatives held for hedging	109,553	-	109,553	(15,688)	-	93,865
Receivable spot exchange	2,343,308	-	2,343,308	(2,342,116)	-	1,192
Reverse repurchase, securities borrowing and similar agreements	3,529,900	-	3,529,900	(3,529,900)	-	-
Other financial instruments	18,249,521	(16,161,647)	2,087,874	-	-	2,087,874
	₩ 26,030,562	₩ (16,161,647)	₩ 9,868,915	₩ (7,359,943)	₩ (1,635)	₩ 2,507,337

The details of financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

	March 31, 2015					
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives held for trading	₩ 1,878,634	₩ -	₩ 1,878,634	₩ (1,453,698)	₩ -	₩ 424,936
Derivatives held for hedging	1,174	-	1,174	(1,132)	-	42
Payable spot exchange	4,601,555	-	4,601,555	(4,598,629)	-	2,926
Repurchase, securities lending and similar agreements[1]	189,446	-	189,446	(189,446)	-	-
Other financial instruments	14,780,170	(14,622,495)	157,675	(157,675)	-	-
	₩ 21,450,979	₩ (14,622,495)	₩ 6,828,484	₩ (6,400,580)	₩ -	₩ 427,904

(In millions of Korean won)

	December 31, 2014					
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives held for trading	₩ 1,755,221	₩ -	₩ 1,755,221	₩ (1,316,268)	₩ -	₩ 438,953
Derivatives held for hedging	3,425	-	3,425	(3,013)	-	412
Payable spot exchange	2,343,234	-	2,343,234	(2,342,116)	-	1,118
Repurchase, securities lending and similar agreements[1]	148,870	-	148,870	(148,870)	-	-
Other financial instruments	16,284,444	(16,161,647)	122,797	(122,797)	-	-
	₩ 20,535,194	₩ (16,161,647)	₩ 4,373,547	₩ (3,933,064)	₩ -	₩ 440,483

[1] Includes repurchase agreements sold to customers.

7. Due from financial institutions

The details of due from financial institutions as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

		Financial Institutions	Interest rate(%)	March 31, 2015	December 31, 2014
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	0.00~1.78	₩ 5,742,782	₩ 6,283,230
	Due from banking institutions	Hana Bank and others	0.00~2.60	83,557	585,028
	Due from others	KB Investment & Securities Co., Ltd. and others	1.00	3,020,316	3,013,288
				8,846,655	9,881,546
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	-	744,459	898,437
	Time deposits in foreign currencies	Agricultural Bank of China and others	0.00~5.60	802,041	613,153
	Due from others	Bank of Japan and others	-	37,100	36,169
				1,583,600	1,547,759
				₩ 10,430,255	₩ 11,429,305

Restricted due from financial institutions as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

		Financial Institutions	March 31, 2015	December 31, 2014	Reason for restriction
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	₩ 5,742,782	₩ 6,283,230	Bank of Korea Act
	Due from banking institutions	Hana Bank and others	74,200	279,200	Agreement for allocation of deposit
	Due from others	KB Investment & Securities Co., Ltd. and others	1,608	1,668	Derivatives margin account and others
			5,818,590	6,564,098	
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	352,844	293,067	Bank of Korea Act and others
	Time deposits in foreign currencies	Agricultural Bank of China and others	16,575	16,488	New York State Banking Law
	Due from others	Samsung Futures Inc. and others	3,782	4,022	Derivatives margin account and others
			373,201	313,577	
			₩ 6,191,791	₩ 6,877,675	

8. Assets pledged as collateral

The details of assets pledged as collateral as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

		March 31, 2015		
Assets pledged	**Pledgee**	**Carrying amount**		**Reason for the pledge**
Financial assets held for trading	Korea Securities Depository and others	₩	139,902	Repurchase agreements
	Samsung Futures Inc. and others		11,823	Derivatives transitions
	Others		13,230	Settlement of Korea Exchange
			164,955	
Available-for-sale financial assets	Samsung Futures Inc. and others		3,326	Derivatives transitions
Held-to-maturity financial assets	Korea Securities Depository and others		1,459,717	Repurchase agreements
	Bank of Korea		1,094,078	Borrowings from Bank of Korea
	Bank of Korea		1,002,660	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others		328,294	Derivatives transitions
	Others		134,337	Others
			4,019,086	
		₩	4,187,367	

(In millions of Korean won)

		December 31, 2014		
Assets pledged	**Pledgee**	**Carrying amount**		**Reason for the pledge**
Financial assets held for trading	Korea Securities Depository and others	₩	82,990	Repurchase agreements
	Samsung Futures Inc. and others		9,861	Derivatives transitions
	Others		17,864	Settlement of Korea Exchange and others
			110,715	
Available-for-sale financial assets	Samsung Futures Inc. and others		3,308	Derivatives transitions
Held-to-maturity financial assets	Korea Securities Depository and others		1,460,932	Repurchase agreements
	Bank of Korea		993,853	Borrowings from Bank of Korea
	Bank of Korea		1,440,821	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others		339,107	Derivatives transitions
	Others		254,980	Others
			4,489,693	
		₩	4,603,716	

The fair value of collateral available to sell or repledge, and collateral sold or repledged, regardless of debtor's default as of March 31, 2015 and December 31, 2014, is as follows:

(In millions of Korean won)	March 31, 2015	
	Fair value of collateral	**Fair value of collateral sold or repledged**
Securities	₩ 8,781,361	₩ -

(In millions of Korean won)	December 31, 2014	
	Fair value of collateral	**Fair value of collateral sold or repledged**
Securities	₩ 3,598,732	₩ -

9. Derivative financial instruments and hedge accounting

The Group's derivative operations focus on addressing the needs of the Group's corporate clients to hedge their risk exposure and to hedge the Group's risk exposure that results from such client contracts. The Group also engages in derivative trading activities to hedge the interest rate and foreign currency risk exposures that arise from the Group's own assets and liabilities. In addition, the Group engages in proprietary trading of derivatives within the Group's regulated open position limits.

The Group provides and trades a range of derivatives products, including:

- Interest rate swaps, relating to interest rate risks in Korean won.
- Cross-currency swaps, forwards and options relating to foreign exchange rate risks.
- Stock price index options linked with the KOSPI index.

In particular, the Group uses cross currency swaps, interest rate swaps and others to hedge the risk of changes in fair values due to changes in interest rates and foreign exchange rates of subordinated debts in Korean won, structured debts and financial debentures in foreign currencies.

The details of derivative financial instruments for trading as of March 31, 2015 and December 31, 2014, are as follows:

	March 31, 2015		
(In millions of Korean won)	**Notional amount**	**Assets**	**Liabilities**
Interest rate			
Futures[1]	₩ 633,355	₩ -	₩ -
Swaps	92,899,498	1,091,748	1,110,429
Options	7,988,000	94,892	162,680
	101,520,853	1,186,640	1,273,109
Currency			
Forwards	24,312,469	300,250	202,446
Futures[1]	431,665	-	-

Swaps	19,740,727	373,976	392,503
Options	537,690	3,671	3,952
	45,022,551	677,897	598,901
Stock and index			
Futures[1]	17,774	-	-
Swaps	12,827	6,167	606
Options	93,646	737	6,613
	124,247	6,904	7,219
Others	4,838	3	-
	₩ 146,672,489	₩ 1,871,444	₩ 1,879,229

	December 31, 2014		
(In millions of Korean won)	**Notional amount**	**Assets**	**Liabilities**
Interest rate			
Futures[1]	₩ 290,290	₩ -	₩ -
Swaps	101,441,724	923,094	956,130
Options	8,398,000	86,277	128,185
	110,130,014	1,009,371	1,084,315
Currency			
Forwards	21,256,930	340,246	214,759
Futures[1]	554,794	-	-
Swaps	18,430,843	415,842	441,696
Options	616,977	6,057	6,078
	40,859,544	762,145	662,533
Stock and index			
Futures[1]	76,298	-	-
Swaps	45,135	26,648	1,166
Options	114,617	2,500	7,660
	236,050	29,148	8,826
Others	-	-	-
	₩ 151,225,608	₩ 1,800,664	₩ 1,755,674

[1] A gain or loss from daily mark-to-market futures is reflected in the margin accounts.

Fair value hedge

The details of derivatives designated as fair value hedging instruments as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015		
	Notional amount	**Assets**	**Liabilities**
Interest rate			
Swaps	₩ 2,149,488	₩ 113,142	₩ 621
Other	140,000	2,838	553
	₩ 2,289,488	₩ 115,980	₩ 1,174

(In millions of Korean won)	December 31, 2014		
	Notional amount	Assets	Liabilities
Interest rate			
Swaps	₩ 2,179,779	₩ 109,293	₩ 1,144
Other	140,000	260	2,281
	₩ 2,319,779	₩ 109,553	₩ 3,425

Gains and losses from fair value hedging instruments and hedged items attributable to the hedged risk for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	March 31, 2015	March 31, 2014
Gains on hedging instruments	₩ 6,779	₩ 10,598
Losses on the hedged item attributable to the hedged risk	(7,057)	(4,366)
	₩ (278)	₩ 6,232

10. Loans

Loans as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015	December 31, 2014
Loans	₩ 219,586,304	₩ 212,907,660
Deferred loan origination fees and costs	548,205	545,497
Allowances	(1,955,794)	(1,927,597)
Carrying amount	₩ 218,178,715	₩ 211,525,560

Loans to banks as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015	December 31, 2014
Loans	₩ 6,455,346	₩ 6,208,391
Allowances	-	-
Carrying amount	₩ 6,455,346	₩ 6,208,391

Loans to customers other than banks as of March 31, 2015 and December 31, 2014, consist of:

(In millions of Korean won)	March 31, 2015		
	Retail	Corporate	Total
Loans in Korean won	₩ 111,890,221	₩ 86,796,563	₩ 198,686,784
Loans in foreign currencies	43,486	2,610,876	2,654,362
Domestic import usance bills	-	3,595,652	3,595,652
Off-shore funding loans	-	612,076	612,076
Call loans	-	276,689	276,689
Bills bought in Korean won	-	5,859	5,859
Bills bought in foreign currencies	-	2,035,368	2,035,368
Guarantee payments under payment guarantee	-	22,326	22,326
Reverse repurchase agreements	-	4,996,800	4,996,800
Privately placed bonds	-	793,247	793,247
	111,933,707	101,745,456	213,679,163
Proportion (%)	52.38	47.62	100.00
Allowances	(460,578)	(1,495,216)	(1,955,794)
	₩ 111,473,129	₩ 100,250,240	₩ 211,723,369

(In millions of Korean won)	December 31, 2014		
	Retail	Corporate	Total
Loans in Korean won	₩ 112,193,456	₩ 84,006,216	₩ 196,199,672
Loans in foreign currencies	50,047	2,574,041	2,624,088
Domestic import usance bills	-	3,693,951	3,693,951
Off-shore funding loans	-	664,794	664,794
Call loans	-	290,243	290,243
Bills bought in Korean won	-	6,678	6,678
Bills bought in foreign currencies	-	1,958,251	1,958,251
Guarantee payments under payment guarantee	-	12,975	12,975
Reverse repurchase agreements	-	1,079,900	1,079,900
Privately placed bonds	-	714,214	714,214
	112,243,503	95,001,263	207,244,766
Proportion (%)	54.16	45.84	100.00
Allowances	(476,974)	(1,450,623)	(1,927,597)
	₩ 111,766,529	₩ 93,550,640	₩ 205,317,169

The changes in deferred loan origination fees and costs for the three-month periods ended March 31, 2015 and 2014, are as follows:

	March 31, 2015				
(In millions of Korean won)	**Beginning**	**Increase**	**Decrease**	**Other**	**Ending**
Deferred loan origination costs					
Loans in Korean won	₩ 572,108	₩ 97,142	₩ 96,810	₩ -	₩ 572,440
Other origination costs	598	117	157	-	558
	572,706	97,259	96,967	-	572,998
Deferred loan origination fees					
Loans in Korean won	21,993	50	1,411	-	20,632
Other origination fees	5,216	287	1,343	1	4,161
	27,209	337	2,754	1	24,793
	₩ 545,497	₩ 96,922	₩ 94,213	₩ (1)	₩ 548,205

	March 31, 2014				
(In millions of Korean won)	**Beginning**	**Increase**	**Decrease**	**Other**	**Ending**
Deferred loan origination costs					
Loans in Korean won	₩ 495,619	₩ 56,327	₩ 63,644	₩ -	₩ 488,302
Other origination costs	378	143	214	-	307
	495,997	56,470	63,858	-	488,609
Deferred loan origination fees					
Loans in Korean won	25,064	130	2,370	-	22,824
Other origination fees	7,671	520	684	8	7,515
	32,735	650	3,054	8	30,339
	₩ 463,262	₩ 55,820	₩ 60,804	₩ (8)	₩ 458,270

11. Allowances for Loan Losses

The changes in the allowances for loan losses for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	March 31, 2015		
	Retail	**Corporate**	**Total**
Beginning	₩ 476,974	₩ 1,450,623	₩ 1,927,597
Written-off	(74,253)	(132,894)	(207,147)
Recoveries from written-off loans	41,565	46,263	87,828
Sale	(301)	2,007	1,706
Other changes	(553)	(3,155)	(3,708)
Provision[1]	17,146	132,372	149,518
Ending	₩ 460,578	₩ 1,495,216	₩ 1,955,794

(In millions of Korean won)

	March 31, 2014		
	Retail	**Corporate**	**Total**
Beginning	₩ 572,286	₩ 1,817,973	₩ 2,390,259
Written-off	(57,252)	(109,805)	(167,057)
Recoveries from written-off loans	31,085	91,329	122,414
Sale	(320)	(219)	(539)
Other changes	(1,603)	(71,702)	(73,305)
Provision[1]	38,717	192,336	231,053
Ending	₩ 582,913	₩ 1,919,912	₩ 2,502,825

[1] Provision for credit losses in statements of comprehensive income also include provision(reversal) for unused commitments and guarantees (Note 22), provision(reversal) for financial guarantee contracts (Note 22), and provision for other financial assets (Note 17).

12. Financial assets at fair value through profit or loss and Financial Investments

The details of financial assets at fair value through profit or loss and financial investments as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)		March 31, 2015		December 31, 2014
Financial assets held for trading				
Debt securities				
Government and public bonds	₩	1,918,430	₩	2,035,150
Financial bonds		3,791,357		3,581,035
Corporate bonds		1,212,170		1,204,083
Asset-backed securities		226,617		282,011
Others		296,223		266,504
Equity securities				
Stocks		49,265		60,122
Beneficiary certificates		42,103		40,221
Others		56,676		51,345
Total financial assets at fair value through profit or loss	₩	7,592,841	₩	7,520,471
Available-for-sale financial assets				
Debt securities				
Government and public bonds	₩	3,191,975	₩	4,214,383
Financial bonds		7,803,610		6,259,941
Corporate bonds		4,197,929		4,743,295
Asset-backed securities		1,298,945		1,198,281
Equity securities				
Stocks		1,799,214		1,788,178
Equity investments		42,538		45,578
Beneficiary certificates		860,408		884,235
Others		500		500
		19,195,119		19,134,391
Held-to-maturity financial assets				
Debts securities				
Government and public bonds		2,678,466		2,724,716
Financial bonds		1,208,736		1,047,049
Corporate bonds		5,402,383		5,880,095
Asset-backed securities		484,586		472,276
		9,774,171		10,124,136
Total financial investments	₩	28,969,290	₩	29,258,527

The impairment losses and the reversal of impairment losses in financial investment for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	March 31, 2015		
	Impairment	Reversal	Net
Available-for-sale financial assets	₩ (66,994)	₩ -	₩ (66,994)
	₩ (66,994)	₩ -	₩ (66,994)

(In millions of Korean won)

	March 31, 2014		
	Impairment	Reversal	Net
Available-for-sale financial assets	₩ (24,472)	₩ -	₩ (24,472)
	₩ (24,472)	₩ -	₩ (24,472)

13. Investments in associates

Investments in associates as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

	March 31, 2015					
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
Balhae Infrastructure Fund[1]	12.61	₩ 123,257	₩ 124,452	₩ 124,452	Investment finance	Korea
Korea Credit Bureau Co., Ltd.[1]	9.00	4,500	4,050	4,050	Credit information	Korea
UAMCO., Ltd.[1]	17.50	85,050	120,110	125,711	Other finance	Korea
JSC Bank CenterCredit						
Ordinary share[2]	29.56				Banking	Kazakhstan
Preference share[2]	93.15	954,104	47,042	37,832		
KB12-1 Venture Investment Partnership[3]	80.00	28,800	29,120	29,120	Investment finance	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	30.00	18,981	15,640	16,675	Investment finance	Korea
United PF 1st Recovery Private Equity Fund[1]	17.72	191,617	200,692	195,511	Other finance	Korea
CH Engineering Co., Ltd.	41.73	-	(170)	-	Architectural design and related service	Korea
Shinla Construction Co., Ltd.	20.17	-	(507)	-	Specialty construction	Korea
KB GwS Private Securities Investment Trust	20.93	89,124	100,926	99,671	Investment finance	Korea
Incheon Bridge Co., Ltd.[1]	14.99	24,677	(2,317)	-	Operation of highways and related facilities	Korea
KoFC POSCO HANHWA KB shared growth Private Equity Fund	20.00	21,000	19,413	21,000	Investment finance	Korea
Future Planning KB Start-up Creation Fund[3]	50.00	4,000	3,753	3,953	Investment finance	Korea
Terra Corporation	24.06	-	14	-	Manufacture of	Korea

					fabricated and processed metal products	
KB Star office Private real estate Investment Trust No.1	21.05	20,000	20,806	20,806	Investment finance	Korea
		₩1,565,110	₩ 683,024	₩ 678,781		

(In millions of Korean won)

	December 31, 2014					
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
Balhae Infrastructure Fund[1]	12.61	₩ 122,623	₩ 125,119	₩ 125,119	Investment finance	Korea
Korea Credit Bureau Co., Ltd.[1]	9.00	4,500	4,222	4,222	Credit information	Korea
UAMCO., Ltd.[1]	17.50	85,050	114,240	121,182	Other finance	Korea
JSC Bank CenterCredit						
Ordinary share[2]	29.56				Banking	Kazakhstan
Preference share[2]	93.15	954,104	36,763	29,279		
KB12-1 Venture Investment Partnership[3]	80.00	28,800	29,119	29,119	Investment finance	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	30.00	18,981	15,705	16,675	Investment finance	Korea
United PF 1st Recovery Private Equity Fund[1]	17.72	191,617	203,270	198,089	Other finance	Korea
CH Engineering Co., Ltd.	41.73	-	178	20	Architectural design and related service	Korea
Shinla Construction Co., Ltd.	20.17	-	(502)	-	Specialty construction	Korea
KB GwS Private Securities Investment Trust	20.93	89,124	99,818	98,562	Investment finance	Korea
Incheon Bridge Co., Ltd.[1]	14.99	24,677	(1,716)	-	Operation of highways and related facilities	Korea
KoFC POSCO HANHWA KB shared growth Private Equity Fund	20.00	21,000	18,563	20,663	Investment finance	Korea
Future Planning KB Start-up Creation Fund[3]	50.00	4,000	3,825	4,000	Investment finance	Korea
Terra Corporation	24.06	-	(99)	-	Manufacture of fabricated and processed metal products	Korea
KB Star office Private real estate Investment Trust No.1	21.05	20,000	20,402	20,402	Investment finance	Korea
		₩1,564,476	₩ 668,907	₩ 667,332		

[1] As of March 31, 2015 and December 31, 2014, the Group is represented in the governing bodies of its associates. Therefore, the Group has significant influence over the decision-making process relating to their financial and business policies.

[2] The fair value of ordinary shares of JSC Bank CenterCredit, reflecting the quoted market price as of March 31, 2015 and December 31, 2014, amounts to ₩ 45,020 million and ₩ 42,945 million, respectively. The Group determined that ordinary shares and convertible preference shares issued by JSC Bank CenterCredit are the same in economic substance except for the voting rights, and therefore, the equity method of accounting is applied on the basis of single ownership ratio of 41.93%, calculated based on ordinary and convertible preference shares held by the Group against the total outstanding ordinary and convertible preference shares

issued by JSC Bank CenterCredit.

[3] As of March 31, 2015 and December 31, 2014, the Group is a partner in a limited partnership and does not have the right to control over these entities.

Summarized financial information on the main associates, the carrying amount of the Group's interest in the main associates and dividends received from the main associates are as follows:

(In millions of Korean won)

	March 31, 2015[1]						
	Total assets	Total liabilities	Paid-in capital	Equity	Share of net asset amount	Unrealized gains and losses and others	Carrying amount
Balhae Infrastructure Fund	₩ 989,408	₩ 2,091	₩1,004,453	₩987,317	₩ 124,452	₩ -	₩ 124,452
Korea Credit Bureau Co., Ltd.	52,047	7,047	10,000	45,000	4,050	-	4,050
UAMCO., Ltd.	4,039,838	3,332,328	2,430	707,510	120,110	5,601	125,711
JSC Bank CenterCredit	6,165,314	6,021,846	546,794	143,468	47,042	(9,210)	37,832
KB12-1 Venture Investment Partnership	36,976	576	36,000	36,400	29,120	-	29,120
KoFC KBIC Frontier Champ 2010-5(PEF)	52,275	143	63,270	52,132	15,640	1,035	16,675
United PF 1st Recovery Private Equity Fund	1,171,991	39,375	1,081,400	1,132,616	200,692	(5,181)	195,511
CH Engineering Co., Ltd. [2]	194	601	158	(407)	(170)	170	-
KB GwS Private Securities Investment Trust	483,205	1,001	425,814	482,204	100,926	(1,255)	99,671
Incheon Bridge Co., Ltd.	704,680	720,136	164,621	(15,456)	(2,317)	2,317	-
KoFC POSCO HANHWA KB shared growth Private Equity Fund	98,055	989	105,000	97,066	19,413	1,587	21,000
Future Planning KB Start-up Creation Fund	7,507	-	8,000	7,507	3,753	200	3,953
KB Star office Private real estate Investment Trust No.1	220,506	121,678	95,000	98,828	20,806	-	20,806

(In millions of Korean won)

	March 31, 2015[1]				
	Operating revenues	Profit (Loss)	Other comprehensive income(loss)	Comprehensive income(loss)	Dividends
Balhae Infrastructure Fund	₩ 11,572	₩ 9,479	₩ -	₩ 9,479	₩ 2,495
Korea Credit Bureau Co., Ltd.	7,568	(2,781)	-	(2,781)	-
UAMCO., Ltd.	157,574	38,613	-	38,613	-
JSC Bank CenterCredit	69,743	22,004	(289)	21,715	-
KB12-1 Venture Investment Partnership	303	(11)	12	1	-
KoFC KBIC Frontier Champ 2010-5(PEF)	459	287	(505)	(218)	-
United PF 1st Recovery Private Equity Fund	26,172	(14,550)	-	(14,550)	-
CH Engineering Co., Ltd.[2]	57	(98)	-	(98)	-
KB GwS Private Securities Investment Trust	20,053	19,796	-	19,796	3,035
Incheon Bridge Co., Ltd.	17,357	(3,724)	-	(3,724)	-
KoFC POSCO HANHWA KB shared growth Private Equity Fund	2,284	1,666	2,587	4,253	-
Future Planning KB Start-up Creation Fund	59	(144)	-	(144)	-
KB Star office Private real estate Investment Trust No.1	4,081	1,920	-	1,920	-

[1] The amounts included in the financial statements of the associates are adjusted to reflect adjustments made by the entity, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

[2] As the financial statements as of the end of March are not available, the Group applied the equity method by using the financial statements as of the end of February 2015 and adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the interim consolidated financial statements.

(In millions of Korean won)

	December 31, 2014[1]						
	Total assets	Total liabilities	Paid-in capital	Equity	Share of net asset amount	Unrealized gains and losses and others	Carrying amount
Balhae Infrastructure Fund	₩ 994,768	₩ 2,158	₩ 999,430	₩ 992,610	₩ 125,119	₩ -	₩ 125,119
Korea Credit Bureau Co., Ltd.	54,717	7,806	10,000	46,911	4,222	-	4,222
UAMCO., Ltd.	4,357,490	3,688,589	2,430	668,901	114,240	6,942	121,182
JSC Bank CenterCredit	6,278,391	6,156,255	546,794	122,136	36,763	(7,484)	29,279
KB12-1 Venture Investment Partnership	36,978	580	36,000	36,398	29,119	-	29,119
KoFC KBIC Frontier Champ 2010-5(PEF)	52,499	148	63,270	52,351	15,705	970	16,675
United PF 1st Recovery Private Equity Fund	1,187,406	40,240	1,081,400	1,147,166	203,270	(5,181)	198,089
CH Engineering Co., Ltd.[2]	1,086	659	158	427	178	(158)	20
KB GwS Private Securities Investment Trust	477,646	738	425,814	476,908	99,818	(1,256)	98,562
Incheon Bridge Co., Ltd.	727,659	739,105	164,621	(11,446)	(1,716)	1,716	-
KoFC POSCO HANHWA KB shared growth Private Equity Fund	94,731	1,917	105,000	92,814	18,563	2,100	20,663
Future Planning KB Start-up Creation Fund	8,040	390	8,000	7,650	3,825	175	4,000
KB Star office Private real estate Investment Trust No.1	218,250	121,341	95,000	96,909	20,402	-	20,402

[1] The amounts included in the financial statements of the associates are adjusted to reflect adjustments made by the entity, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

[2] As the financial statements as of the end of December are not available, the Group applied the equity method by using the financial statements as of the end of November 2014 and adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the interim consolidated financial statements.

(In millions of Korean won)

	March 31, 2014[1]				
	Operating revenues	Profit (Loss)	Other comprehensive income(loss)	Comprehensive income(loss)	Dividends
Balhae Infrastructure Fund	₩ 14,412	₩ 12,313	₩ -	₩ 12,313	₩ 3,151
Korea Credit Bureau Co., Ltd.	6,608	(2,918)	-	(2,918)	-
UAMCO., Ltd.	160,006	22,785	-	22,785	35,041
JSC Bank CenterCredit	93,026	(5,939)	(18,247)	(24,186)	-
KB06-1 Venture Investment Partnership	145	144	(57)	87	-
KB08-1 Venture Investment Partnership	899	858	400	1,258	-
KB12-1 Venture Investment Partnership	694	411	612	1,023	-
KoFC KBIC Frontier Champ 2010-5(PEF)	9,867	9,636	4,250	13,886	-
United PF 1st Recovery	27,120	20,877	-	20,877	-

Private Equity Fund					
CH Engineering Co., Ltd. [2]	212	44	-	44	-
KB GwS Private Securities Investment Trust	18,856	18,609	-	18,609	3,558
Incheon Bridge Co., Ltd.	15,550	(6,628)	-	(6,628)	-
KoFC POSCO HANHWA KB shared growth Private Equity Fund	804	(599)	-	(599)	-
Future Planning KB Start-up Creation Fund	31	(30)	-	(30)	45
KB Star office Private real estate Investment Trust No.1	4,342	2,235	-	2,235	-

[1] The amounts included in the financial statements of the associates are adjusted to reflect adjustments made by the entity, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

[2] As the financial statements as of the end of March 2014 are not available, the Group applied the equity method by using the financial statements as of the end of February 2014 and adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the interim consolidated financial statements.

The changes in investments in associates for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	March 31, 2015						
	Beginning	Acquisition and others	Disposal and others	Dividends	Gains (losses)	Other comprehen-sive income (loss)	Ending
Balhae Infrastructure Fund	₩ 125,119	₩ 633	₩ -	₩ (2,495)	₩ 1,195	₩ -	₩ 124,452
Korea Credit Bureau Co., Ltd.	4,222	-	-	-	(172)	-	4,050
UAMCO., Ltd.	121,182	-	-	-	4,529	-	125,711
JSC Bank CenterCredit	29,279	-	-	-	10,264	(1,711)	37,832
KB12-1 Venture Investment Partnership	29,119	-	-	-	(9)	10	29,120
KoFC KBIC Frontier Champ 2010-5(PEF)	16,675	-	-	-	-	-	16,675
United PF 1st Recovery Private Equity Fund	198,089	-	-	-	(2,578)	-	195,511
KB GwS Private Securities Investment Trust	98,562	-	-	(3,035)	4,144	-	99,671
KoFC POSCO HANHWA KB shared growth Private Equity Fund	20,663	-	-	-	192	145	21,000
Future Planning KB Start-up Creation Fund	4,000	-	-	-	(47)	-	3,953
CH Engineering Co., Ltd.	20	-	-	-	(20)	-	-
KB Star office Private real estate Investment Trust No.1	20,402	-	-	-	404	-	20,806
	₩ 667,332	₩ 633	₩ -	₩ (5,530)	₩ 17,902	₩ (1,556)	₩ 678,781

(In millions of Korean won)

	March 31, 2014						
	Beginning	Acquisition and others	Disposal and others	Dividends	Gains (losses)	Other comprehen-sive income (loss)	Ending
Balhae Infrastructure Fund	₩ 124,968	₩ -	₩ -	₩ (3,151)	₩ 1,552	₩ -	₩ 123,369
Korea Credit Bureau Co., Ltd.	4,185	-	-	-	(236)	-	3,949
UAMCO., Ltd.	150,826	-	-	(35,041)	2,175	-	117,960
JSC Bank CenterCredit	68,110	-	-	-	(1,758)	(33,177)	33,175
KB06-1 Venture Investment Partnership	861	-	-	-	72	(29)	904
KB08-1 Venture Investment Partnership	9,345	-	(3,800)	-	572	267	6,384
KB12-1 Venture Investment Partnership	23,200	5,600	-	-	208	227	29,235
KoFC KBIC Frontier Champ 2010-5(PEF)	28,548	-	(5,976)	-	2,805	710	26,087
United PF 1st Recovery Private Equity Fund	197,941	-	-	-	3,842	-	201,783
Kores Co., Ltd.	1,505	-	(1,505)	-	-	-	-
KB GwS Private Securities Investment Trust	97,788	-	-	(3,558)	3,684	-	97,914
KoFC POSCO HANHWA KB shared growth Private Equity Fund	10,329	5,300	-	-	504	(48)	16,085
Future Planning KB Start-up Creation Fund	4,030	-	-	(45)	15	-	4,000
Terra Corporation	4	-	-	-	(4)	-	-
KB Star office Private real estate Investment Trust No.1	20,347	-	-	-	470	-	20,817
	₩ 741,987	₩ 10,900	₩ (11,281)	₩ (41,795)	₩ 13,901	₩ (32,050)	₩ 681,662

Accumulated unrecognized share of losses in investments in associates due to discontinuation of applying the equity method for the three-month periods ended March 31, 2015 and 2014, are as follows:

	March 31, 2015		March 31, 2014	
	Unrecognized loss (gain)	Accumulated unrecognized loss	Unrecognized loss (gain)	Accumulated unrecognized loss
Incheon Bridge Co., Ltd.	₩ 601	₩ 2,317	₩ 1,053	₩ 1,482
CH Engineering Co., Ltd.	328	328	(18)	76
Shinla Construction Co., Ltd.	4	139	8	108
Terra Corporation	(113)	2	1	1

14. Property and Equipment, and Investment Property

The details of property and equipment as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩ 1,877,691	₩ -	₩ -	₩ 1,877,691
Buildings	1,153,518	(352,181)	(2,117)	799,220
Leasehold improvements	579,040	(534,778)	-	44,262
Equipment and vehicles	1,433,564	(1,316,029)	-	117,535
Construction in-progress	882	-	-	882
Financial lease assets	21,245	(2,836)	-	18,409
	₩ 5,065,940	₩ (2,205,824)	₩ (2,117)	₩ 2,857,999

(In millions of Korean won)	December 31, 2014			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩ 1,884,029	₩ -	₩ -	₩ 1,884,029
Buildings	1,153,465	(345,704)	(2,117)	805,644
Leasehold improvements	576,099	(528,629)	-	47,470
Equipment and vehicles	1,492,601	(1,362,673)	-	129,928
Construction in-progress	606	-	-	606
Financial lease assets	21,245	(728)	-	20,517
	₩ 5,128,045	₩ (2,237,734)	₩ (2,117)	₩ 2,888,194

The changes in property and equipment for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	March 31, 2015						
	Beginning	Acquisition	Transfers[1]	Disposal	Depreciation	Others	Ending
Land	₩ 1,884,029	₩ 9	₩ (6,325)	₩ (22)	₩ -	₩ -	₩ 1,877,691
Buildings	805,644	145	264	(38)	(6,795)	-	799,220
Leasehold improvements	47,470	-	2,729	(23)	(6,620)	706	44,262
Equipment and vehicles	129,928	5,107	-	(124)	(17,396)	20	117,535
Construction in-progress	606	4,909	(4,633)	-	-	-	882
Financial lease assets	20,517	-	-	-	(2,108)	-	18,409
	₩ 2,888,194	₩ 10,170	₩ (7,965)	₩ (207)	₩ (32,919)	₩ 726	₩ 2,857,999

(In millions of Korean won)

	March 31, 2014						
	Beginning	Acquisition	Transfers[1]	Disposal	Depreciation	Others	Ending
Land	₩ 1,914,966	₩ -	₩ (27,070)	₩ -	₩ -	₩ 10	₩ 1,887,906
Buildings	820,405	-	(17,698)	-	(6,663)	32	796,076
Leasehold improvements	49,970	-	1,959	(30)	(6,845)	570	45,624
Equipment and vehicles	109,184	6,748	-	(61)	(15,127)	528	101,272
Construction in-progress	-	3,562	(3,513)	-	-	-	49
Financial lease assets	8,900	7,907	-	-	(2,219)	-	14,588
	₩ 2,903,425	₩ 18,217	₩ (46,322)	₩ (91)	₩ (30,854)	₩ 1,140	₩ 2,845,515

[1] Including transfers from investment property and assets held for sale.

The changes in accumulated impairment losses of property and equipment for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)

March 31, 2015				
Beginning	Impairment	Reversal	Others	Ending
₩ (2,117)	₩ -	₩ -	₩ -	₩ (2,117)

(In millions of Korean won)

March 31, 2014				
Beginning	Impairment	Reversal	Others	Ending
₩ (2,117)	₩ -	₩ -	₩ -	₩ (2,117)

The details of investment property as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015		
	Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩ 257,501	₩ -	₩ 257,501
Buildings	168,248	(12,970)	155,278
	₩ 425,749	₩ (12,970)	₩ 412,779

(In millions of Korean won)	December 31, 2014		
	Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩ 253,533	₩ -	₩ 253,533
Buildings	167,931	(12,198)	155,733
	₩ 421,464	₩ (12,198)	₩ 409,266

As of March 31, 2015 and December 31, 2014, fair values of the investment properties amount to ₩ 419,577 million and ₩ 409,647 million, respectively. The investment properties were measured by qualified independent appraisers with experience in valuing similar properties in the same area. In addition, per the fair value hierarchy on Note 6.1, the fair value hierarchy of all investment properties has been categorized and classified as Level 3.

Rental income from the above investment properties for the three-month periods ended March 31, 2015 and 2014, amounts to ₩ 5,354 million and ₩ 1,788 million, respectively.

The changes in investment property for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	March 31, 2015				
	Beginning	**Acquisitions**	**Transfers**	**Depreciation**	**Ending**
Land	₩ 253,533	₩ -	₩ 3,968	₩ -	₩ 257,501
Buildings	155,733	-	451	(906)	155,278
	₩ 409,266	₩ -	₩ 4,419	₩ (906)	₩ 412,779

(In millions of Korean won)

	March 31, 2014				
	Beginning	**Acquisitions**	**Transfers**	**Depreciation**	**Ending**
Land	₩ 122,190	₩ -	₩ -	₩ -	₩ 122,190
Buildings	78,815	-	139	(546)	78,408
	₩ 201,005	₩ -	₩ 139	₩ (546)	₩ 200,598

15. Intangible Assets

The details of intangible assets as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

	March 31, 2015			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment losses**	**Carrying amount**
Goodwill	₩ 66,490	₩ -	₩ -	₩ 66,490
Other intangible assets	743,473	(609,202)	(3,148)	131,123
	₩ 809,963	₩ (609,202)	₩ (3,148)	₩ 197,613

(In millions of Korean won)

	December 31, 2014			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment losses**	**Carrying amount**
Goodwill	₩ 66,490	₩ -	₩ -	₩ 66,490
Other intangible assets	714,034	(568,100)	(5,529)	140,405
	₩ 780,524	₩ (568,100)	₩ (5,529)	₩ 206,895

The details of goodwill as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015		December 31, 2014	
	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount
Housing & Commercial Bank	₩ 65,288	₩ 65,288	₩ 65,288	₩ 65,288
KB Cambodia Bank	1,202	1,202	1,202	1,202
	₩ 66,490	₩ 66,490	₩ 66,490	₩ 66,490

There is no change in goodwill for the three-month periods ended March 31, 2015 and 2014.

The details of allocating goodwill to cash-generating units and related information for impairment testing as of December 31, 2014, are as follows:

(In millions of Korean won)

	Housing & Commercial Bank		KB Cambodia Bank	Total
	Retail Banking	Corporate Banking		
Carrying amounts	₩ 49,315	₩ 15,973	₩ 1,202	₩ 66,490
Recoverable amount exceeded carrying amount	1,090,789	1,058,505	735	2,150,029
Discount rate (%)	17.1	17.5	33.4	
Permanent growth rate (%)	2.0	2.0	2.0	

Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the combination for impairment testing, and cash-generating units consist of an operating segment or units which are not larger than an operating segment. The Group recognized the amount of ₩ 65,288 million related to goodwill acquired in the merger of Housing & Commercial Bank. Of this amount, the amounts of ₩ 49,315 million and ₩ 15,973 million were allocated to the Retail Banking and Corporate Banking, respectively. Cash-generating units to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit.

The recoverable amount of a cash-generating unit is measured at the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. If it is difficult to measure the amount obtainable from the sale of the cash-generating unit, the Group measures the fair value less costs to sell by reflecting the characteristics of the measured cash-generating unit. If it is not possible to obtain the reliable information to measure the fair value less costs to sell, the Group uses the asset's value in use as its recoverable amount. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The projections of the future cash flows are based on the most recent financial budget approved by management and generally cover a period of five years. The future cash flows after projection period are estimated on the assumption that the future cash flows will increase by 2.0% for Retail Banking, Corporate Banking and KB Cambodia Bank every

year. The key assumptions used for the estimation of the future cash flows are the market size and the Group's market share. The discount rate is a pre-tax rate that reflects assumptions regarding risk-free interest rate, market risk premium and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

The details of intangible assets, excluding goodwill, as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

	March 31, 2015			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Industrial property rights	₩ 1,307	₩ (1,037)	₩ -	₩ 270
Software	589,823	(543,594)	-	46,229
Other intangible assets	128,369	(63,161)	(3,148)	62,060
Finance leases assets	23,974	(1,410)	-	22,564
	₩ 743,473	₩ (609,202)	₩ (3,148)	₩ 131,123

(In millions of Korean won)

	December 31, 2014			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Industrial property rights	₩ 1,295	₩ (1,006)	₩ -	₩ 289
Software	560,121	(505,998)	-	54,123
Other intangible assets	128,644	(60,743)	(5,529)	62,372
Finance leases assets	23,974	(353)	-	23,621
	₩ 714,034	₩ (568,100)	₩ (5,529)	₩ 140,405

The changes in intangible assets, excluding goodwill, for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	March 31, 2015					
	Beginning	Acquisition	Disposal	Amortization	Others	Ending
Industrial property rights	₩ 289	₩ 9	₩ -	₩ (29)	₩ 1	₩ 270
Software	54,123	574	-	(8,470)	2	46,229
Other intangible assets	62,372	3,336	(1,355)	(2,270)	(23)	62,060
Finance leases assets	23,621	-	-	(1,057)	-	22,564
	₩ 140,405	₩ 3,919	₩ (1,355)	₩ (11,826)	₩ (20)	₩ 131,123

(In millions of Korean won)

	March 31, 2014					
	Beginning	Acquisition	Disposal	Amortization	Others	Ending
Industrial property rights	₩ 364	₩ 18	₩ -	₩ (30)	₩ 3	₩ 355
Software	78,518	233	-	(15,875)	2	62,878
Other intangible assets	71,156	605	(77)	(1,569)	(400)	69,715
Finance leases assets	8,056	4,236	-	(1,252)	-	11,040
	₩ 158,094	₩ 5,092	₩ (77)	₩ (18,726)	₩ (395)	₩ 143,988

The changes in accumulated impairment losses on intangible assets for the three-month periods ended March 31, 2015 and 2014, are as follows:

	March 31, 2015				
(In millions of Korean won)	**Beginning**	**Impairment**	**Reversal**	**Others**	**Ending**
Accumulated impairment losses on other intangible assets	₩ (5,529)	₩ -	₩ -	₩ 2,381	₩ (3,148)

	March 31, 2014				
(In millions of Korean won)	**Beginning**	**Impairment**	**Reversal**	**Others**	**Ending**
Accumulated impairment losses on other intangible assets	₩ (5,492)	₩ -	₩ -	₩ (287)	₩ (5,779)

The changes in emissions rights for the three-month period ended March 31, 2015, are as follows:

(In units, in millions of Korean won)

	Applicable under 2015		Applicable under 2016		Applicable under 2017		Total	
	Quantity	**Carrying amount**	**Quantity**	**Carrying amount**	**Quantity**	**Carrying amount**	**Quantity**	**Carrying amount**
Beginning	-	₩ -	-	₩ -	-	₩ -	-	₩ -
Free of charges	116,799	-	112,137	-	109,140	-	338,076	-
Ending	116,799	₩ -	112,137	₩ -	109,140	₩ -	338,076	₩ -

16. Deferred income tax assets and liabilities

The details of deferred income tax assets and liabilities as of March 31, 2015 and December 31, 2014, are as follows:

	March 31, 2015		
(In millions of Korean won)	**Assets**	**Liabilities**	**Net amount**
Other provisions	₩ 63,635	₩ -	₩ 63,635
Impairment losses on property and equipment	4,934	-	4,934
Interest on equity index-linked deposits	104	-	104
Share-based payments	6,668	-	6,668
Provisions for guarantees	47,151	-	47,151
Gains on valuation of derivatives	-	(39,731)	(39,731)
Present value discount	-	(43)	(43)
Losses on fair value hedged	14,475	-	14,475
Accrued interest	-	(37,285)	(37,285)
Deferred loan origination fees and costs	-	(111,291)	(111,291)
Gains on revaluation	-	(272,696)	(272,696)
Investments in subsidiaries and associates	4,372	(76,896)	(72,524)
Others	548,933	(258,541)	290,392

	690,272	(796,483)	(106,211)
Offsetting of deferred income tax assets and liabilities	(684,791)	684,791	-
Total	₩ 5,481	₩ (111,692)	₩ (106,211)

	December 31, 2014		
(In millions of Korean won)	**Assets**	**Liabilities**	**Net amount**
Other provisions	₩ 65,033	₩ -	₩ 65,033
Impairment losses on property and equipment	5,412	-	5,412
Interest on equity index-linked deposits	183	-	183
Share-based payments	7,806	-	7,806
Provisions for guarantees	50,115	-	50,115
Gains on valuation of derivatives	-	(51,167)	(51,167)
Present value discount	-	(34)	(34)
Losses on fair value hedged	12,834	-	12,834
Accrued interest	-	(48,019)	(48,019)
Deferred loan origination fees and costs	-	(110,160)	(110,160)
Gains on revaluation	-	(272,696)	(272,696)
Investments in subsidiaries and associates	6,336	(71,565)	(65,229)
Others	562,200	(261,322)	300,878
	709,919	(814,963)	(105,044)
Offsetting of deferred income tax assets and liabilities	(704,605)	704,605	-
Total	₩ 5,314	₩ (110,358)	₩ (105,044)

Unrecognized deferred income tax liabilities

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩ 41,836 million associated with investments in subsidiaries and associates as of March 31, 2015, due to the following reasons:

- The Group is able to control the timing of the reversal of the temporary difference.
- It is probable that the temporary difference will not be reversed in the foreseeable future.

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩ 65,288 million arising from the initial recognition of goodwill from the merger of Housing and Commercial Bank as of March 31, 2015.

Unrecognized deferred income tax assets

No deferred income tax assets have been recognized for the deductible temporary difference of ₩ 569,817 million associated with investments in subsidiaries and associates as of March 31, 2015, because it is not probable that the temporary differences will be reversed in the foreseeable future.

No deferred income tax assets have been recognized for deductible temporary differences of ₩ 113 million, ₩ 80,204 million and ₩ 19,080 million associated other provisions, loss on SPE repurchase and others, respectively, as of March 31, 2015, due to the uncertainty that these will be realized in the future.

The changes in cumulative temporary differences for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	**March 31, 2015**			
	Beginning	**Decrease**	**Increase**	**Ending**
Deductible temporary differences				
Losses from fair value hedge	₩ 53,033	₩ 53,033	₩ 59,812	₩ 59,812
Other provisions	268,931	268,931	263,067	263,067
Impairment losses on property and equipment	22,363	22,363	20,387	20,387
Interest on equity index-linked deposits	758	509	183	432
Share-based payments	32,256	32,256	27,553	27,553
Provisions for guarantees	207,087	207,087	194,839	194,839
Loss on SPE repurchase	80,204	-	-	80,204
Investment in subsidiaries and associates	579,173	337	9,050	587,886
Others	2,341,471	1,079,500	1,025,692	2,287,663
	3,585,276	₩1,664,016	₩1,600,583	3,521,843
Unrecognized deferred income tax assets				
Other provisions	199			113
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	560,861			569,817
Others	18,185			19,080
	₩ 2,925,827			₩ 2,852,629
Tax rate (%)	24.20			24.20
Total deferred income tax assets from deductible temporary differences	₩ 709,919			₩ 690,272

(In millions of Korean won)

	March 31, 2015			
	Beginning	**Decrease**	**Increase**	**Ending**
Taxable temporary differences				
Accrued interest	₩ (198,424)	₩ (150,343)	₩ (105,989)	₩ (154,070)
Deferred loan origination fees and costs	(455,207)	(455,207)	(459,879)	(459,879)
Gains on valuation of derivatives	(211,434)	(211,434)	(164,179)	(164,179)
Present value discount	(140)	(140)	(176)	(176)
Goodwill from merger	(65,288)	-	-	(65,288)
Gains on revaluation	(1,126,842)	-	-	(1,126,842)
Investment in subsidiaries and associates	(327,356)	(3,898)	(36,131)	(359,589)
Others	(1,079,846)	(160,849)	(149,356)	(1,068,353)
	(3,464,537)	₩ (981,871)	₩ (915,710)	(3,398,376)
Unrecognized deferred income tax liabilities				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(39,024)			(41,836)
	₩ (3,360,225)			₩ (3,291,252)
Tax rate (%)	24.20			24.20
Total deferred income tax liabilities from deductible temporary differences	₩ (814,962)			₩ (796,483)

(In millions of Korean won)

	March 31, 2014			
	Beginning	**Decrease**	**Increase**	**Ending**
Deductible temporary differences				
Losses from fair value hedge	₩ 68,884	₩ 68,884	₩ 49,687	₩ 49,687
Other provisions	323,781	323,781	277,461	277,461
Impairment losses on property and equipment	11,873	11,873	19,146	19,146
Interest on equity index-linked deposits	1,407	1,407	-	-
Share-based payments	34,053	34,053	28,108	28,108
Provisions for guarantees	208,517	208,517	213,394	213,394
Present value discount	804	804	-	-
Loss on SPE repurchase	80,204	-	-	80,204
Investment in subsidiaries and associates	882,728	499	71,321	953,550
Others	1,737,460	1,134,363	938,400	1,541,497
	3,349,711	₩1,784,181	₩1,597,517	3,163,047
Unrecognized deferred income tax assets				
Other provisions	250			199
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	595,196			639,834
Others	13,376			15,290
	₩ 2,660,685			₩ 2,427,520
Tax rate (%)	24.20			24.20
Total deferred income tax assets from deductible temporary differences	₩ 644,023			₩ 587,857

(In millions of Korean won)

	March 31, 2014			
	Beginning	**Decrease**	**Increase**	**Ending**
Taxable temporary differences				
Accrued interest	₩ (249,286)	₩ (183,125)	₩ (117,920)	₩ (184,081)
Deferred loan origination fees and costs	(388,266)	(388,266)	(383,952)	(383,952)
Gains on valuation of derivatives	(54,531)	(54,531)	(44,047)	(44,047)
Goodwill from merger	(65,288)	-	-	(65,288)
Gains on revaluation	(1,131,429)	(3,380)	-	(1,128,049)
Investment in subsidiaries and associates	(365,424)	(35,111)	(34,665)	(364,978)
Others	(1,087,088)	(515,757)	(483,465)	(1,054,796)
	(3,341,312)	₩ (1,180,170)	₩ (1,064,049)	(3,225,191)
Unrecognized deferred income tax liabilities				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(118,749)			(61,394)
	₩ (3,157,275)			₩ (3,098,509)
Tax rate (%)	24.20			24.20
Total deferred income tax liabilities from deductible temporary differences	₩ (763,944)			₩ (747,994)

17. Other Assets

The details of other assets as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015	December 31, 2014
Other financial assets		
Other receivables	₩ 4,994,712	₩ 2,663,441
Accrued income	709,441	754,702
Guarantee deposits	1,218,647	1,291,907
Domestic exchange settlement debits	945,550	2,086,792
Others	30,176	20,924
Allowances for loan losses	(289,684)	(288,245)
Present value discount	(469)	(489)
	7,608,373	6,529,032
Other non-financial assets		
Other receivables	33,173	1,187
Prepaid expenses	192,019	182,936
Guarantee deposits	3,607	3,607
Others	51,109	34,925
Allowances on other assets	(23,136)	(23,174)
	256,772	199,481
	₩ 7,865,145	₩ 6,728,513

The changes in allowances for loan losses on other assets for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	March 31, 2015		
	Other financial assets	Other non-financial assets	Total
Beginning	₩ 288,245	₩ 23,174	₩ 311,419
Provision(reversal)	1,885	(32)	1,853
Written-off	(838)	(6)	(844)
Others	392	-	392
Ending	₩ 289,684	₩ 23,136	₩ 312,820

(In millions of Korean won)	March 31, 2014		
	Other financial assets	Other non-financial assets	Total
Beginning	₩ 527,114	₩ 16,146	₩ 543,260
Provision(reversal)	3,192	(658)	2,534
Written-off	(249)	(27)	(276)
Others	547	5,398	5,945
Ending	₩ 530,604	₩ 20,859	₩ 551,463

18. Assets held for sale

The details of assets held for sale as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

	March 31, 2015			
	Acquisition cost[1]	Accumulated impairment losses	Carrying amount	Fair value less costs to sell
Land	₩ 45,163	₩ (9,299)	₩ 35,864	₩ 38,006
Buildings	22,435	(8,971)	13,464	15,020
	₩ 67,598	₩ (18,270)	₩ 49,328	₩ 53,026

(In millions of Korean won)

	December 31, 2014			
	Acquisition cost[1]	Accumulated impairment losses	Carrying amount	Fair value less costs to sell
Land	₩ 47,418	₩ (9,442)	₩ 37,976	₩ 40,530
Buildings	26,862	(10,804)	16,058	17,429
	₩ 74,280	₩ (20,246)	₩ 54,034	₩ 57,959

[1] Acquisition cost of buildings held for sale is net of accumulated depreciation.

The changes in accumulated impairment losses of assets held for sale for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)

March 31, 2015				
Beginning	Provision	Reversal	Others	Ending
₩ (20,246)	₩ (30)	₩ -	₩ 2,006	₩ (18,270)

(In millions of Korean won)

March 31, 2014				
Beginning	Provision	Reversal	Others	Ending
₩ (10,087)	₩ (9,858)	₩ -	₩ 2,585	₩ (17,360)

As of March 31, 2015, assets held for sale consist of 15 real estates of closed offices, which the management of the Group was committed to sell, but not yet sold as of March 31, 2015. As of the report date, one out of the above assets held for sale is under a sale negotiation and the remaining 14 assets are also being actively marketed.

19. Deposits

The details of deposits as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015	December 31, 2014
Demand deposits		
Demand deposits in Korean won	₩ 80,014,814	₩ 75,889,591
Demand deposits in foreign currencies	2,831,898	3,017,438
	82,846,712	78,907,029
Time deposits		
Time deposits in Korean won	126,268,350	128,637,365
Fair value adjustments on fair value hedged time deposits in Korean won	90	(958)
	126,268,440	128,636,407
Time deposits in foreign currencies	2,456,816	2,484,949
	128,725,256	131,121,356
Certificates of deposits	2,179,007	1,583,047
Total deposits	₩ 213,750,975	₩ 211,611,432

20. Debts

The details of debts as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015	December 31, 2014
Borrowings	₩ 11,139,769	₩ 11,271,860
Bonds sold under repurchase agreements and others	237,433	203,944
Call money	3,983,669	2,821,656
	₩ 15,360,871	₩ 14,297,460

The details of borrowings as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)		Lender	Annual interest rate (%)	March 31, 2015	December 31, 2014
Borrowings in Korean won	Borrowings from the Bank of Korea	Bank of Korea	0.50~1.00	₩ 1,119,300	₩ 1,002,796
	Borrowings from the government	KEMCO and others	0.00~5.00	657,559	611,378
	Borrowings from banking institutions	Industrial Bank of Korea	1.59	636	874
	Borrowings from non-banking financial institutions	Korea Development Bank	0.34~2.70	197,020	187,452
	Other borrowings	Korea Gas Safety Corporation and others	0.00~7.50	3,283,488	3,399,780
				5,258,003	5,202,280

Borrowings in foreign currencies	Due to banks	HSBC Bank PLC and others	-	7,092	3,313
	Borrowings from banking institutions	Sumitomo Mitsui Banking Corp. and others	0.20~1.70	3,371,984	3,522,159
	Borrowings from other financial institutions	Korea Development Bank	0.62~1.64	89,140	34,460
	Other borrowings	JP Morgan Chase Bank N.A. and others	-	2,413,550	2,509,648
				5,881,766	6,069,580
				₩11,139,769	₩11,271,860

The details of bonds sold under repurchase agreements and others as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

	Lenders	Annual interest rate (%)	March 31, 2015	December 31, 2014
Bonds sold under repurchase agreements	Individuals, groups, corporations	2.05~3.70	₩ 189,446	₩ 148,869
Bills sold	Individuals, corporations	1.00~2.35	47,987	55,075
			₩ 237,433	₩ 203,944

The details of call money as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

	Lenders	Annual interest rate (%)	March 31, 2015	December 31, 2014
Call money in Korean won	Woori Bank and others	1.58~1.73	₩ 3,031,600	₩ 1,822,000
Call money in foreign currencies	Central Bank of Uzbekistan and others	0.15~0.68	952,069	999,656
			₩ 3,983,669	₩ 2,821,656

21. Debentures

The details of debentures as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	Annual interest rate (%)	March 31, 2015	December 31, 2014
Debentures in Korean won			
Structured debentures	0.21~8.62	₩ 1,229,238	₩ 1,239,238
Subordinated fixed rate debentures in Korean won	3.08~7.51	4,500,931	4,566,124
Fixed rate debentures in Korean won	1.75~4.09	6,050,533	6,390,553
Floating rate debentures in Korean won	2.15	150,000	150,000
		11,930,702	12,345,915
Fair value adjustments on fair value hedged debentures in Korean won		57,194	53,915
Discount on debentures in Korean won		(26,410)	(38,980)
		11,961,486	12,360,850
Debentures in foreign currencies			
Floating rate debentures	0.37~1.50	1,377,543	1,318,415
Fixed rate debentures	0.65~3.63	1,554,699	1,578,980
		2,932,242	2,897,395
Fair value adjustments on fair value hedged debentures in foreign currencies		2,529	75
Discount on debentures in foreign currencies		(6,902)	(7,856)
		2,927,869	2,889,614
		₩ 14,889,355	₩ 15,250,464

The changes in debentures based on face value for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	March 31, 2015				
	Beginning	**Issues**	**Repayments**	**Others**	**Ending**
Debentures in Korean won					
Structured debentures	₩ 1,239,238	₩ 120,000	₩ (130,000)	₩ -	₩ 1,229,238
Subordinated fixed rate debentures in Korean won	4,566,124	-	(65,193)	-	4,500,931
Fixed rate debentures in Korean won	6,390,553	780,000	(1,120,020)	-	6,050,533
Floating rate debentures in Korean won	150,000	-	-	-	150,000
	12,345,915	900,000	(1,315,213)	-	11,930,702
Debentures in foreign currencies					
Floating rate debentures	1,318,415	56,695	-	2,433	1,377,543
Fixed rate debentures	1,578,980	40,591	(72,927)	8,055	1,554,699
	2,897,395	97,286	(72,927)	10,488	2,932,242
	₩15,243,310	₩ 997,286	₩ (1,388,140)	₩ 10,488	₩14,862,944

(In millions of Korean won)

	March 31, 2014				
	Beginning	**Issues**	**Repayments**	**Others**	**Ending**
Debentures in Korean won					
Structured debentures	₩ 1,499,238	₩ -	₩ (160,000)	₩ -	₩ 1,339,238
Subordinated fixed rate debentures in Korean won	8,648,474	-	(822,123)	-	7,826,351
Fixed rate debentures in Korean won	2,941,142	900,000	(760,100)	-	3,081,042
Floating rate debentures in Korean won	102,858	400	(102,858)	-	400
	13,191,712	900,400	(1,845,081)	-	12,247,031
Debentures in foreign currencies					
Floating rate debentures	826,770	645,264	(18,539)	7,469	1,460,964
Fixed rate debentures	2,335,059	25,728	(176,798)	21,394	2,205,383
	3,161,829	670,992	(195,337)	28,863	3,666,347
	₩16,353,541	₩1,571,392	₩ (2,040,418)	₩ 28,863	₩15,913,378

22. Provisions

The details of provisions as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015	December 31, 2014
Provisions for unused loan commitments	₩ 111,819	₩ 125,345
Provisions for acceptances and guarantees	195,436	207,927
Provisions for asset retirement obligation	69,442	68,999
Other	88,415	81,104
	₩ 465,112	₩ 483,375

The changes in provisions for unused loan commitments, acceptances and guarantees for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	March 31, 2015		
	Provisions for unused loan commitments	Provisions for acceptances and guarantees	Total
Beginning	₩ 125,345	₩ 207,927	₩ 333,272
Effects of changes in foreign exchange rate	91	556	647
Reversal	(13,617)	(13,047)	(26,664)
Ending	₩ 111,819	₩ 195,436	₩ 307,255

(In millions of Korean won)	March 31, 2014		
	Provisions for unused loan commitments	Provisions for acceptances and guarantees	Total
Beginning	₩ 139,997	₩ 209,110	₩ 349,107
Effects of changes in foreign exchange rate	224	1,462	1,686
Provision(Reversal)	(14,798)	3,471	(11,327)
Ending	₩ 125,423	₩ 214,043	₩ 339,466

The changes in provisions for asset retirement obligation for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	March 31, 2015	March 31, 2014
Beginning	₩ 68,999	₩ 67,995
Provision	664	546
Used	(714)	(753)
Unwinding of discount	493	648
Ending	₩ 69,442	₩ 68,436

Provisions for asset retirement obligation are present value of estimated costs to be incurred for restoration of the leased properties. Actual expenses are expected to be incurred at the end of each lease contract. Three-year historical data of expired leases were used to estimate the average lease year. Also, the average restoration expense based on actual three-year historical data and the three-year historical average inflation rate were used to estimate the present value of estimated costs.

The changes in other provisions for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	March 31, 2015					
	Membership rewards program	Dormant accounts	Litigations	Financial guarantee liabilities	Others	Total
Beginning	₩ 76	₩ 33,996	₩ 2,622	₩ 2,718	₩ 41,692	₩ 81,104
Provision (Reversal)	29	5,181	8,546	57	(125)	13,688
Used and Others	(31)	(5,181)	(153)	-	(1,012)	(6,377)
Ending	₩ 74	₩ 33,996	₩ 11,015	₩ 2,775	₩ 40,555	₩ 88,415

(In millions of Korean won)

	March 31, 2014					
	Membership rewards program	Dormant accounts	Litigations	Financial guarantee liabilities	Others	Total
Beginning	₩ 69	₩ 16,838	₩ 3,257	₩ 2,699	₩ 99,772	₩ 122,635
Provision (Reversal)	31	2,510	125	(604)	(694)	1,368
Used and Others	(13)	(5,828)	-	-	(28,468)	(34,309)
Ending	₩ 87	₩ 13,520	₩ 3,382	₩ 2,095	₩ 70,610	₩ 89,694

There are no balances of emission liabilities as of March 31, 2015, and no changes in the liabilities for the three-month period ended March 31, 2015. As of March 31, 2015, the estimated greenhouse gas emission is 34,157 tons.

23. Net defined benefit liabilities

Defined benefit plan

The Group operates defined benefit plans which have the following characteristics:

- The Group has the obligation to pay the agreed benefits to all its current and former employees.
- Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the Group.

The net defined benefit liability recognized in the statements of financial position is calculated in accordance with actuarial valuation methods. Data such as discount rates, future salary increase rate, and mortality rate based on market data and historical data is used. Actuarial assumptions may differ from actual results, due to changes in the market, economic trends and mortality trends.

The changes in the net defined benefit liabilities for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	March 31, 2015		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
Beginning	₩ 1,150,368	₩ (1,092,875)	₩ 57,493
Current service cost	40,615	-	40,615
Interest cost(income)	8,537	(8,108)	429
Remeasurements :			
-Return on plan assets (excluding amounts included in interest income)	-	2,836	2,836
Payments from plans (benefit payments)	(35,504)	35,504	-
Payments from the Group	(1,551)	-	(1,551)
Transfer in	1,757	(1,757)	-
Exchange difference on foreign currency plans	1	-	1
Ending	₩ 1,164,223	₩ (1,064,400)	₩ 99,823

(In millions of Korean won)	March 31, 2014		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
Beginning	₩ 905,999	₩ (854,474)	₩ 51,525
Current service cost	36,529	-	36,529
Interest cost(income)	8,958	(8,447)	511
Remeasurements :			
-Return on plan assets (excluding amounts included in interest income)	-	3,322	3,322
Contributions	-	(20,000)	(20,000)
Payments from plans (benefit payments)	(5,668)	5,668	-
Payments from the Group	(1,430)	-	(1,430)
Transfer in	1,170	(1,170)	-
Transfer out	(1,309)	1,309	-
Exchange difference on foreign currency plans	14	-	14
Ending	₩ 944,263	₩ (873,792)	₩ 70,471

The details of the net defined benefit liabilities as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015	December 31, 2014
Present value of defined benefit obligation	₩ 1,164,223	₩ 1,150,368
Fair value of plan assets	(1,064,400)	(1,092,875)
Net defined benefit liabilities	₩ 99,823	₩ 57,493

The details of post-employment benefits recognized in profit or loss as employee compensation and benefits for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	March 31, 2015	March 31, 2014
Current service cost	₩ 40,615	₩ 36,529
Interest expenses of net defined benefit liabilities	429	511
Total	₩ 41,044	₩ 37,040

Remeasurements of net defined benefit liabilities recognized as other comprehensive income for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	March 31, 2015	March 31, 2014
Remeasurements:		
-Return on plan assets (excluding amounts included in interest income)	₩ 2,836	₩ 3,322
Income tax effects	(686)	(804)
Remeasurements after income tax	₩ 2,150	₩ 2,518

The details of fair value of plan assets as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015		
	Assets quoted in an active market	Assets not quoted in an active market	Total
Time deposits	₩ -	₩ 1,045,114	₩ 1,045,114
Others	-	19,286	19,286
	₩ -	₩ 1,064,400	₩ 1,064,400

(In millions of Korean won)	December 31, 2014		
	Assets quoted in an active market	Assets not quoted in an active market	Total
Time deposits	₩ -	₩ 1,073,723	₩ 1,073,723
Others	-	19,152	19,152
	₩ -	₩ 1,092,875	₩ 1,092,875

Key actuarial assumptions used as of March 31, 2015 and December 31, 2014, are as follows:

	Ratio (%)	
	March 31, 2015	December 31, 2014
Discount rate	3.00	3.00
Salary increase rate	1.83 ~ 4.55	1.83 ~ 4.55
Turnover	0.70	0.70

Mortality assumptions are based on the 7th experience-based mortality table of Korea Insurance Development Institute of 2012.

The sensitivity of the defined benefit obligation to changes in the principal assumptions as of March 31, 2015, is as follows:

		Effect on defined benefit obligation	
	Changes in principal assumption	Increase in principal assumption	Decrease in principal assumption
Discount rate	0.5% p	4.30% decrease	4.61% increase
Salary increase rate	0.5% p	4.23% increase	4.00% decrease
Turnover	0.5% p	0.44% decrease	0.46% increase

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions using the same method, the projected unit credit method, is applied when calculating the defined benefit obligations recognized within the statement of financial position.

Expected maturity analysis of undiscounted pension benefits as of March 31, 2015, is as follows:

(In millions of Korean won)	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 10 years	Over 10 years	Total
Pension benefits	₩ 37,786	₩ 78,580	₩ 292,323	₩ 800,722	₩2,863,623	₩ 4,073,034

The weighted average duration of the defined benefit obligations is 9.1 years.

24. Other liabilities

The details of other liabilities as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015	December 31, 2014
Other financial liabilities		
Other payables	₩ 4,950,459	₩ 2,570,369
Prepaid card and debit cards	2,265	1,760
Accrued expenses	2,910,426	2,963,749
Financial guarantee liabilities	12,480	12,956
Deposits for letter of guarantees and others	150,023	142,571
Domestic exchange settlement credits	120,953	118,550
Foreign exchanges settlement credits	105,443	69,440
Borrowings from other business accounts	3,024	40,383
Payables to trust accounts	2,684,158	2,548,578
Liabilities incurred from agency relationship	1,188,970	505,664
Account for agency businesses	341,907	340,061
Others	45,143	30,766
	12,515,251	9,344,847
Other non-financial liabilities		
Other payables	266,675	223,625
Unearned revenue	44,811	42,414
Accrued expenses	280,030	142,385
Withholding taxes	75,609	97,976
Others	42,585	33,028
	709,710	539,428
	₩ 13,224,961	₩ 9,884,275

25. Equity

25.1 Capital Stock

The details of outstanding shares of the Group as of March 31, 2015 and December 31, 2014, are as follows:

	Ordinary shares	
	March 31, 2015	**December 31, 2014**
Number of shares authorized	1,000,000,000	1,000,000,000
Par value per share	₩ 5,000	₩ 5,000
Number of shares	404,379,116	404,379,116
Capital stock[1]	₩ 2,021,896	₩ 2,021,896

[1] In millions of Korean won.

25.2 Capital surplus

The details of capital surplus as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	**March 31, 2015**	**December 31, 2014**
Paid-in capital in excess of par value	₩ 4,604,417	₩ 4,604,417
Gain on business combination	397,669	397,669
Revaluation increment	177,229	177,229
Other capital surplus	40,389	40,389
	₩ 5,219,704	₩ 5,219,704

The gain on business combination is a gain from a bargain purchase from the merger with Korea Long Term Credit Bank on December 31, 1998, in accordance with previous Korean GAAP.

25.3 Accumulated other comprehensive income

The details of accumulated other comprehensive income as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	**March 31, 2015**	**December 31, 2014**
Remeasurements of net defined benefit liabilities	₩ (89,838)	₩ (87,688)
Currency translation differences	(8,700)	(12,149)
Gain on valuation of available-for-sale financial assets	857,552	760,530
Losses on valuation of equity method investments	(91,476)	(89,882)
	₩ 667,538	₩ 570,811

25.4 Retained earnings

Retained earnings as of March 31, 2015 and December 31, 2014, consist of:

(In millions of Korean won)	March 31, 2015	December 31, 2014
Legal reserves	₩ 2,033,463	₩ 1,997,380
Regulatory reserve for credit losses	1,867,761	1,690,979
Voluntary reserves	9,893,452	8,946,874
Retained earnings before appropriation	579,082	1,492,829
	₩ 14,373,758	₩ 14,128,062

With respect to the allocation of net profit earned in a fiscal term, the Bank must set aside in its legal reserve an amount equal to at least 10% of its net income after tax as reported in the separate statement of comprehensive income each time it pays dividends on its net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital in accordance with Article 40 of the Banking Act. The reserves can only be transferred to capital stock or be used to reduce deficit. With respect to the Bank's branches overseas, a portion of the branch's net income is appropriated into legal reserves, in line with the financial legislation of the country where the overseas branch is located.

Regulatory Reserve for Credit Losses

Measurement and Disclosure of Regulatory Reserve for Credit Losses are required in accordance with Articles 29.1 through 29.2 of Regulation on supervision of Banking Business.

The details of the regulatory reserve for credit losses as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015	December 31, 2014
Beginning	₩ 1,867,761	₩ 1,690,979
Amounts estimated to be appropriated	42,848	176,782
Ending	₩ 1,910,609	₩ 1,867,761

The adjustments to the regulatory reserve for credit losses for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	March 31, 2015	March 31, 2014
Provision of regulatory reserve for credit losses	₩ 42,848	₩ 1,841
Adjusted profit after provision of regulatory reserve for credit losses[1]	433,344	242,100

[1] Adjusted profit after provision of regulatory reserve for credit losses is not accordance with Korean IFRS and calculated on the assumption that provision (reversal) of regulatory reserve for credit losses before income tax is adjusted to the profit.

26. Interest income and expense

The details of interest income and expense for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	**March 31, 2015**	**March 31, 2014**
Interest income		
Due from financial institutions	₩ 30,628	₩ 33,226
Loans	1,966,007	2,147,409
Financial investments		
Available-for-sale financial assets	103,453	125,478
Held-to-maturity financial assets	98,056	121,447
Others	30,789	37,139
	2,228,933	2,464,699
Interest expenses		
Deposits	883,262	970,271
Debts	44,460	64,019
Debentures	106,874	203,644
Others	16,698	17,648
	1,051,294	1,255,582
Net interest income	₩ 1,177,639	₩ 1,209,117

Interest income recognized on impaired loans is ₩ 14,636 million (2014: ₩ 25,633 million) for the three-month period ended March 31, 2015.

27. Fee and commission income and expense

The details of fee and commission income, and fee and commission expense for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	March 31, 2015	March 31, 2014
Fee and commission income		
Banking activity fees	₩ 42,338	₩ 42,048
Lending activity fees	19,632	17,441
Agent activity fees	94,367	95,408
Trust and other fiduciary fees	77,626	40,098
Guarantee fees	7,122	6,846
Credit card related fees and commissions	346	425
Foreign currency related fees	22,681	23,206
Security activity commissions	35,004	38,805
Other business account commission on consignment	6,479	6,496
Debit card related fees and commissions	178	141
Others	30,192	26,135
	335,965	297,049
Fee and commission expense		
Trading activity related fees[1]	2,179	1,980
Lending activity fees	4,231	3,790
Credit card related fees and commissions	264	330
Contributions to external institutions	5,856	4,910
Outsourcing related fees	13,451	13,280
Foreign currency related fees	2,709	2,838
Management fees of written-off loans	2,753	2,444
Others	18,073	14,327
	49,516	43,899
Net fee and commission income	₩ 286,449	₩ 253,150

[1] Fees from financial assets/liabilities at fair value through profit or loss.

28. Net gains or losses from financial assets/liabilities at fair value through profit or loss

Net gains or losses from financial assets/liabilities at fair value through profit or loss held for trading includes interest income, dividend income, gains or losses arising from changes in the fair values, sales and redemptions. The details for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	March 31, 2015	March 31, 2014
Gains from financial instruments held for trading		
Financial assets held for trading		
Debt securities	₩ 107,920	₩ 63,748
Equity securities	7,834	6,196
	115,754	69,944
Derivatives held for trading		
Interest rate	459,855	258,517
Currency	347,150	339,286
Stock or stock index	3,264	15,588
Others	306	425
	810,575	613,816
Other financial instruments	2,107	9
	928,436	683,769
Losses from financial instruments held for trading		
Financial assets held for trading		
Debt securities	6,516	7,726
Equity securities	3,251	9,560
	9,767	17,286
Derivatives held for trading		
Interest rate	486,123	268,697
Currency	313,795	344,339
Stock or stock index	5,550	11,726
Others	50	313
	805,518	625,075
Financial liabilities held for trading	-	98
Other financial instruments	2,074	2
	817,359	642,461
Net gain or loss from financial instruments held for trading	₩ 111,077	₩ 41,308

29. Other operating income and expenses

The details of other operating income and expenses for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)		**March 31, 2015**		**March 31, 2014**
Other operating income				
Revenue related to available-for-sale financial assets				
Gains on redemption of available-for-sale financial assets	₩	66	₩	-
Gains on sale of available-for-sale financial assets		24,936		11,778
		25,002		11,778
Gains on foreign exchange transactions		278,994		253,543
Dividend income		23,775		22,102
Others		19,125		41,067
		346,896		328,490
Other operating expenses				
Expense related to available-for-sale financial assets				
Losses on redemption of available-for-sale financial assets		-		7
Losses on sale of available-for-sale financial assets		66		2,170
Impairment on available-for-sale financial assets		66,994		24,472
		67,060		26,649
Losses on foreign exchange transactions		267,675		229,836
Others		213,819		189,989
		548,554		446,474
Net other operating expenses	₩	(201,658)	₩	(117,984)

30. General and administrative expenses

30.1 General and administrative expenses

The details of general and administrative expenses for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	March 31, 2015	March 31, 2014
Employee Benefits		
Salaries and short-term employee benefits - salaries	₩ 384,594	₩ 372,686
Salaries and short-term employee benefits - welfare expense	215,351	159,246
Post-employment benefits - defined benefit plans	41,044	37,040
Post-employment benefits - defined contribution plans	1,595	545
Termination benefits	1,067	38
Share-based payments	3,935	(275)
	647,586	569,280
Depreciation and amortization	45,652	50,126
Other general and administrative expenses		
Rental expense	60,434	66,263
Tax and dues	24,916	27,822
Communication	5,345	6,197
Electricity and utilities	6,247	6,168
Publication	3,679	3,647
Repairs and maintenance	2,572	2,913
Vehicle	1,573	1,951
Travel	756	751
Training	4,516	3,551
Service fees	19,316	18,519
Others	78,870	83,733
	208,224	221,515
	₩ 901,462	₩ 840,921

30.2 Share-based payments

30.2.1 Share options

The changes in the number of granted share options and the weighted average exercise price for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In Korean won, except shares)

	March 31, 2015					
	Number of granted shares			Number of exercisable share	Exercise price per share	Remaining contractual life(Years)
	Beginning	Expired	Ending			
Series 22	657,498	657,498	-	-	₩ -	-
Series 23	15,246	15,246	-	-	-	-
	672,744	672,744	-	-		
Weighted average exercise price	₩ 77,268	₩ 77,268	₩ -	₩ -		

(In Korean won, except shares)

	March 31, 2014					
	Number of granted shares			Number of exercisable share	Exercise price per share	Remaining contractual life(Years)
	Beginning	Expired	Ending			
Series 19	751,651	751,651	-	-	₩ -	-
Series 20	25,613	-	25,613	25,613	81,900	0.08
Series 21	18,987	-	18,987	18,987	76,600	0.58
Series 22	657,498	-	657,498	657,498	77,100	0.86
Series 23	15,246	-	15,246	15,246	84,500	0.98
	1,468,995	751,651	717,344	717,344		
Weighted average exercise price	₩ 77,235	₩ 77,063	₩ 77,415	₩ 77,415		

30.2.2 Share Grants

The Group changed the scheme of share-based payment from share option to share grants in November 2007. The share grant award program is an incentive plan that sets, on grant date, the maximum amount of shares that can be awarded. Actual shares granted at the end of the vesting period is determined in accordance with achievement of pre-specified targets over the vesting period.

The details of the share grants as of March 31, 2015, are as follows:

(In number of shares)

Share grants	Grant date	Number of granted shares[1]	Vesting conditions
Series 48	2013.07.23	14,470	Service period : 2 years [2,3]
Series 49	2013.07.24	36,495	Service period : 2 years [2,3]
Series 50	2013.07.24	9,214	Service period : 2 years [2,3]
Series 52	2013.08.01	10,278	Service period : 2 years [2,3]
Series 57	2014.01.01	8,853	Service period : 2 years [2,3]
Series 58	2014.01.01	78,700	Service period : 2 years [2,3]
Series 60	2015.01.01	349,984	Service period : 2 years [2,3]
Deferred grant in 2010	-	105	Satisfied
Deferred grant in 2011	-	1,711	Satisfied
Deferred grant in 2012	-	16,802	Satisfied
Deferred grant in 2013	-	75,307	Satisfied
Deferred grant in 2014	-	124,509	Satisfied
Deferred grant in 2015	-	1,877	Satisfied
		728,305	

[1] Granted shares represent the total number of shares initially granted to directors and employees at the end of reporting period.

[2] Certain portion of the granted shares is compensated over a maximum period of three years.

[3] The 40%, 30% and 30% of the number of granted shares to be compensated are determined upon the accomplishment of the targeted Performance Results, the targeted relative TSR and the targeted financial results of the Bank, respectively. However, as for certain number of shares, half of the number of granted shares to be compensated is determined based on the accomplishment of the targeted relative TSR, while the other half is determined by the targeted Performance Results.

The details of share grants linked to short-term performance as of March 31, 2015 are as follows:

	Grant date	Number of vested shares [1]	Vesting conditions
Granted shares for 2010	2010.01.01	363	Satisfied
Granted shares for 2011	2011.01.01	15,090	Satisfied
Granted shares for 2012	2012.01.01	70,857	Satisfied
Granted shares for 2013	2013.01.01	74,719	Satisfied
Granted shares for 2014	2014.01.01	124,996	Satisfied
Granted shares for 2015	2015.01.01	38,255	Proportion to service period

[1] The number of shares, which are exercisable, is determined by the results of performance. The share grants are settled over three years.

Share grants are measured at fair value using the Monte Carlo Simulation Model and assumptions used in determining the fair value as of March 31, 2015 are as follows:

(In Korean won)	Expected exercise period (Years)	Risk free rate (%)	Fair value (Market performance condition)	Fair value (Non-market performance condition)
Linked to long term performance				
Series 48	0.31~3.76	1.72	38,468	39,374~39,464
Series 49	0.31~3.76	1.72	38,503	39,374~39,464
Series 49-1	0.40~3.76	1.72	38,910	39,374~39,464
Series 50	0.31~3.76	1.72	38,503	39,374~39,464
Series 52	0.33~3.76	1.72	38,634	39,374~39,464
Series 57	0.75~3.76	1.72	38,526	39,374~39,464
Series 58	0.75~3.76	1.72	38,526	39,374~39,464
Series 60	1.76~4.76	1.72	36,741	39,374~39,464
Grant deferred in 2012	0.75	1.72	-	39,400
Grant deferred in 2013	0.20~1.76	1.72	-	39,347~40,032
Grant deferred in 2014	0.43~2.76	1.72	-	39,325~39,464
Grant deferred in 2015	0.78~2.78	1.72	-	39,315~39,461
Linked to short-term performance				
Share granted in 2012	0.75	1.72	-	39,400
Share granted in 2013	0.20~1.76	1.72	-	39,347~40,032
Share granted in 2014	0.75~2.78	1.72	-	39,315~39,464
Share granted in 2015	0.75~3.76	1.72	-	39,374~39,464

Expected volatility is based on the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the grant. And the current stock price as of March 31, 2015, was used for the underlying asset price. Additionally, the average three-year historical dividend rate was used as the expected dividend rate.

As of March 31, 2015 and December 31, 2014, the accrued expenses related to share-based payments, including share options and share grants, amounted to ₩ 27,553 million and ₩32,256 million, respectively, and the compensation costs from share options and share grants amounting to ₩ 3,935 million were incurred and ₩275 million were reversed during the three-month period ended March 31, 2015 and 2014, respectively. There is no intrinsic value of the vested share options as of March 31, 2015 and December 31, 2014.

31. Non-operating income and expenses

The details of non-operating income and expenses for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	**March 31, 2015**	**March 31, 2014**
Non-operating income		
Gains on disposal in property and equipment and assets held for sale	₩ 692	₩ 567
Rent received	6,880	3,556
Others	190,468	17,812
	198,040	21,935
Non-operating expenses		
Losses on disposal in property and equipment and assets held for sale	170	214
Donation	3,553	3,028
Restoration cost	238	226
Others	4,629	14,577
	8,590	18,045
Net non-operating income	₩ 189,450	₩ 3,890

32. Income tax expense

Income tax expense for the three-month periods ended March 31, 2015 and 2014, consists of:

(In millions of Korean won)	**March 31, 2015**	**March 31, 2014**
Tax payable		
Current tax expense	₩ 114,396	₩ 73,837
Adjustments recognized in the period for current tax of prior years	(5,984)	(4,448)
	108,412	69,389
Changes in deferred income tax assets (liabilities)	1,168	40,217
Income tax expense of overseas branches	1,372	855
Income tax recognized directly in equity		
Changes in value of available-for-sale financial assets	(30,755)	(10,375)
Changes in remeasurements of net defined benefit liabilities	686	804
Others	(38)	(333)
	(30,107)	(9,904)
Consolidated tax effect	(2,436)	(4,600)

Tax expense	₩ 78,409	₩ 95,957

An analysis of the net profit before income tax and income tax expense for the three-month periods ended March 31, 2015 and 2014, is as follows:

(In millions of Korean won)	**March 31, 2015**	**March 31, 2014**
Net profit before income tax	₩ 554,601	₩ 339,898
Tax at the applicable tax rate[1]	134,098	82,139
Non-taxable income	(44,755)	(1,487)
Non-deductible expense	2,505	2,374
Tax credit and tax exemption	(46)	(48)
Temporary difference for which no deferred tax is recognized	(2,463)	16,211
Tax adjustment for tax of prior years	(10,999)	31
Tax effect of investments in subsidiaries	356	658
Income tax expense of overseas branches	1,372	855
Tax rate difference effect of overseas subsidiaries	191	266
Consolidated tax effect	(2,436)	(4,600)
Others	586	(442)
Tax expense	₩ 78,409	₩ 95,957
Tax expense / Net profit before income tax (%)	14.14	28.23

[1] Applicable income tax rate for ₩ 200 million and below is 11%, for ₩ 200 million to ₩ 20 billion is 22%, and for over ₩ 20 billion is 24.2%.

The details of current tax liabilities (income tax payables) and current tax assets (income tax refund receivables) before offsetting, as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	**March 31, 2015**	**December 31, 2014**
Income tax refund receivables prior to offsetting[1]	₩ (43,106)	₩ (215,345)
Tax payables prior to offsetting[2]	298,305	414,239
Tax payables (receivable) after offsetting	255,199	198,894
Adjustment on consolidated tax payable and others[3]	(2,436)	(18,956)
Accounts payable[4]	(245,708)	(172,353)
Current tax payable	₩ 7,055	₩ 7,585

[1] Excludes current tax assets of ₩ 137,992 million (2014: ₩ 305,831 million) by uncertain tax position, which do not qualify for offsetting.

[2] Includes income tax payable of ₩ 7,055 million (2014: ₩ 7,585 million) under current tax liabilities as of March 31, 2015, which are not to be offset against any income tax refund receivables, such as those of overseas branches.

[3] Tax expense reduced due to the adoption of consolidated tax return was reclassified as tax benefit.

[4] The amount of income tax payable by the Bank is reclassified as accounts payable, not to the tax authority, but to KB Financial Group Inc. due to the adoption of consolidated tax return.

33. Dividends

The dividends to the shareholders of the Bank in respect of the year ended December 31, 2014, amounting to ₩ 230,496 million, were paid in March 2015.

34. Accumulated other comprehensive income

The details of accumulated other comprehensive income for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	March 31, 2015				
	Beginning	Changes except for reclassification	Reclassification to profit or loss	Tax effect	Ending
Remeasurements of net defined benefit liabilities	₩ (87,688)	₩ (2,836)	₩ -	₩ 686	₩ (89,838)
Currency translation differences	(12,149)	3,449	-	-	(8,700)
Gain(loss) on valuation of available-for-sale financial assets	760,530	152,123	(24,346)	(30,755)	857,552
Gain(loss) on valuation of equity method investments	(89,882)	(1,556)	-	(38)	(91,476)
	₩ 570,811	₩ 151,180	₩ (24,346)	₩ (30,107)	₩ 667,538

(In millions of Korean won)

	March 31, 2014				
	Beginning	Changes except for reclassification	Reclassification to profit or loss	Tax effect	Ending
Remeasurements of net defined benefit liabilities	₩ (4,085)	₩ (3,322)	₩ -	₩ 804	₩ (6,603)
Currency translation differences	(29,430)	4,961	-	-	(24,469)
Gain(loss) on valuation of available-for-sale financial assets	538,218	56,432	(14,052)	(10,375)	570,223
Gain(loss) on valuation of held-to-maturity financial assets	3	-	(1)	-	2
Gain(loss) on valuation of equity method investments	(57,087)	(32,050)	249	(333)	(89,221)
	₩ 447,619	₩ 26,021	₩ (13,804)	₩ (9,904)	₩ 449,932

35. Trust Accounts

Financial information of the trust accounts the Group manages as of March 31, 2015 and December 31, 2014, and for the three-month periods ended March 31, 2015 and 2014, is as follows:

(In millions of Korean won)	March 31, 2015		December 31, 2014	March 31, 2014
	Total assets	Operating revenues	Total assets	Operating revenues
Consolidated	₩ 3,671,223	₩ 41,452	₩ 3,614,835	₩ 34,868
Unconsolidated	30,822,138	377,798	28,062,557	237,014
	₩34,493,361	₩ 419,250	₩31,677,392	₩ 271,882

[1] Financial information of the trust accounts has been prepared in accordance with the Statement of Korea Accounting Standard 5004, *Trust Accounts*, and enforcement regulations of Financial Investment Services under the Financial Investment Services and Capital Markets Act.

Significant receivables and payables related to the Group's trust accounts as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015	December 31, 2014
Assets		
Accrued trust fees	₩ 25,623	₩ 24,054
Liabilities		
Due to trust accounts	₩ 2,684,158	₩ 2,548,578
Accrued interest on due to trust accounts	6,792	5,790
	₩ 2,690,950	₩ 2,554,368

Significant revenue and expenses related to the Group's trust for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	March 31, 2015	March 31, 2014
Revenues		
Fees and commissions from trust accounts	₩ 77,626	₩ 40,098
Commissions from early termination in trust accounts	76	13
	₩ 77,702	₩ 40,111
Expenses		
Interest expenses on due to trust accounts	₩ 13,756	₩ 13,943

36. Supplemental Cash Flow Information

Cash and cash equivalents as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015	December 31, 2014
Cash	₩ 2,128,189	₩ 2,018,753
Checks with other banks	637,970	525,452
Due from Bank of Korea	6,020,997	6,508,623
Due from other financial institutions	4,409,258	4,920,682
	13,196,414	13,973,510
Restricted due from financial institutions	(6,191,791)	(6,877,675)
Due from financial institutions with original maturities over three months	(646,465)	(763,775)
	(6,838,256)	(7,641,450)
	₩ 6,358,158	₩ 6,332,060

Cash inflows and outflows from income tax, interest and dividends for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	Activities	March 31, 2015	March 31, 2014
Income tax paid(received)	Operating	₩ (118,511)	₩ 31,857
Interest received	Operating	2,366,026	2,606,027
Interest paid	Operating	1,058,972	1,363,396
Dividends received	Operating	24,138	22,555
Dividends paid	Financing	230,496	158,517

37. Contingent liabilities and commitments

Acceptances and guarantees as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015	December 31, 2014
Confirmed acceptances and guarantees		
Confirmed acceptances and guarantees in Korean won		
Acceptances and guarantees for KB purchasing loan	₩ 497,945	₩ 428,815
Others	682,287	669,233
	1,180,232	1,098,048
Confirmed acceptances and guarantees in foreign currencies		
Acceptances of letter of credit	344,949	327,963
Letter of guarantees	71,525	61,081
Bid bond	47,746	43,362
Performance bond	984,524	1,087,394
Refund guarantees	1,516,358	1,494,023
Others	933,897	959,685
	3,898,999	3,973,508
Financial guarantees		
Acceptances and guarantee for issue of debentures	51,200	51,200
Acceptances and guarantees for mortgage	72,498	75,651
Overseas debt guarantees	392,387	392,021
International financing guarantees in foreign currencies	30,060	35,949
Others	-	600
	546,145	555,421
	5,625,376	5,626,977
Unconfirmed acceptances and guarantees		
Guarantees of letter of credit	2,517,412	2,825,919
Refund guarantees	925,458	1,060,413
	3,442,870	3,886,332
	₩ 9,068,246	₩ 9,513,309

Acceptances and guarantees by counterparty as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

	March 31, 2015			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
Corporations	₩ 4,574,079	₩ 2,643,147	₩ 7,217,226	79.59
Small companies	897,307	569,230	1,466,537	16.17
Public and others	153,990	230,493	384,483	4.24
	₩ 5,625,376	₩ 3,442,870	₩ 9,068,246	100.00

(In millions of Korean won)

	December 31, 2014			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
Corporations	₩ 4,611,841	₩ 2,936,635	₩ 7,548,476	79.35
Small companies	857,004	562,655	1,419,659	14.92
Public and others	158,132	387,042	545,174	5.73
	₩ 5,626,977	₩ 3,886,332	₩ 9,513,309	100.00

Acceptances and guarantees by industry as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

	March 31, 2015			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
Financial institutions	₩ 118,754	₩ 2,302	₩ 121,056	1.33
Manufacturing	3,120,052	2,229,654	5,349,706	58.99
Service	588,905	90,908	679,813	7.50
Wholesale and retail	980,780	735,869	1,716,649	18.93
Construction	725,759	180,027	905,786	9.99
Public	68,317	177,648	245,965	2.71
Others	22,809	26,462	49,271	0.55
	₩ 5,625,376	₩ 3,442,870	₩ 9,068,246	100.00

(In millions of Korean won)

	December 31, 2014			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
Financial institutions	₩ 125,350	₩ 3,573	₩ 128,923	1.36
Manufacturing	3,179,368	2,410,472	5,589,840	58.76
Service	583,302	114,645	697,947	7.34
Wholesale and retail	932,282	788,804	1,721,086	18.09
Construction	709,582	215,382	924,964	9.72
Public	72,964	336,484	409,448	4.30
Others	24,129	16,972	41,101	0.43
	₩ 5,626,977	₩ 3,886,332	₩ 9,513,309	100.00

Commitments as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

	March 31, 2015	December 31, 2014
Commitments		
Corporate loan commitments	₩ 41,798,951	₩ 42,975,974
Retail loan commitments	14,310,702	13,846,701
Other acceptance and guarantees in Korean won	1,000,000	1,000,000
Other purchase of security investment	1,648,377	1,635,657
	58,758,030	59,458,332
Financial Guarantees		
Credit line	3,807,895	3,809,478
Purchase of security investment	105,200	73,500
	3,913,095	3,882,978
	₩ 62,671,125	₩ 63,341,310

Other Matters (including litigation)

a) The Bank has filed 66 lawsuits (excluding minor lawsuits in relation to the collection or management of loans), as the plaintiff, involving aggregate claims of ₩ 393,255 million, and faces 181 lawsuits as the defendant (excluding minor lawsuits in relation to the collection or management of loans) involving aggregate damages of ₩ 338,370 million, which arose in the normal course of the business and are still pending as of March 31, 2015.

Meanwhile, certain customers of the Bank have filed lawsuits against the Bank in connection with fees paid for the registration of fixed collateral. The second trial is in progress as of March 31, 2015. The Court ruled in favor and partially in favor of the Bank in the first trial and ruled in favor of the Bank in the second and third trials. There is a low probability of potential losses related to the aforementioned lawsuits.

b) According to shareholders' agreement on September 25, 2009, among the Bank, the International Finance Corporation ("IFC") and the remaining shareholders, the Bank granted a put option to IFC with the right to sell shares of JSC Bank Center Credit to itself or its designee. The exercise price is determined at its fair value by mutual agreement between the Bank and IFC. If the price is not agreed by the designated date, it is determined by the value measured by the selected independent external valuation institution. The put option may be exercised by IFC at any time from February 24, 2013 to February 24, 2017.

c) The face values of the securities sold to general customers through tellers' sale amount to ₩ 23,141 million and ₩ 26,487 million as of March 31, 2015 and December 31, 2014, respectively.

d) The Bank filed a claim for rectification of education tax paid for revenues regarding the credit card business before the spin-off. The claim was ruled in favor of the Bank by the Supreme Court in December 2012, and the refunded education tax amounting to ₩ 83,100 million was recognized as revenue.

Depending on the judgments of the court or the National Tax Service, the beneficiary of refunded education tax might be changed from the Bank to KB Kookmin Card Co., Ltd., in which the possibility is considered relatively low.

e) During the year ended December 31, 2013, the Bank underwent a tax investigation for the fiscal years 2008 to 2012 by the Seoul Regional Tax Office. As a result, the Bank was fined a total of ₩ 124,357 million for income taxes (including local income taxes) and paid ₩ 123,330 million, excluding local income tax amounting to ₩ 1,027 million recognized as non-trade payable as of March 31, 2015. Meanwhile, the appeal to the tax tribunal over the ₩ 114,283 million is currently pending as of March 31, 2015.

38. Subsidiaries

The details of subsidiaries as of March 31, 2015, are as follows:

Name of subsidiaries	Ownership (%)	Location	Industry
Kookmin Bank Int'l Ltd.(London)	100.00	United Kingdom	Banking and foreign exchange transaction
Kookmin Bank Hong Kong Ltd.	100.00	Hong Kong	Banking and foreign exchange transaction
Kookmin Bank Cambodia PLC.	100.00	Cambodia	Banking and foreign exchange transaction
Kookmin Bank (China) Ltd.	100.00	China	Banking and foreign exchange transaction
Personal pension trust and 10 others [1]	-	Korea	Trust
KAMCO Value Recreation 3rd Securitization Specialty Co., Ltd. and 5 others [2]	-	Korea and others	Asset-backed securitization and others
Heungkuk Multi Private Securities H-19 and 37 others [3]	100.00	Korea	Private equity fund
KB Wise Star Private Real Estate Feeder Fund 1 [3]	86.00	Korea	Investment Trust
KB Star Retail Private Real Estate Master Fund 1 [2,4]	42.12	Korea	Investment Trust
KB Star Office Private Real Estate Master Fund 2 [2,4]	38.22	Korea	Investment Trust

[1] The Bank controls the trust because it has power that determines the management performance over the trust and is exposed to variable returns to absorb losses through the guarantees of payment of principal or, payment of principal and fixed rate of return.
[2] The Bank controls these investees because it is exposed to variable returns from its involvement with the investees and has ability to affect those returns through its power, even though it holds less than a majority of the voting rights of the investees.
[3] The Bank controls these investees because it is exposed to variable returns from its involvement with the investees and has ability to affect those returns through its power.
[4] Ownerships are based on consolidated basis.

The condensed financial information of major subsidiaries as of March 31, 2015 and December 31, 2014, and for the three-month periods ended March 31, 2015 and 2014, is as follows:

(In millions of Korean won)	March 31, 2015				
	Assets	Liabilities	Equity	Operating revenue	Profit (loss) for the period
Kookmin Bank Int'l Ltd.(London)	₩ 388,298	₩ 311,226	₩ 77,072	₩ 2,560	₩ 811
Kookmin Bank Hong Kong Ltd.	683,545	540,742	142,803	3,587	1,471
Kookmin Bank Cambodia PLC.	92,144	69,965	22,179	1,357	777
Kookmin Bank (China) Ltd.	1,361,780	948,316	413,464	10,034	(2,404)
Personal pension trust and 10 others	3,744,948	3,648,222	96,726	61,483	256

(In millions of Korean won)	December 31, 2014			March 31, 2014	
	Assets	Liabilities	Equity	Operating revenue	Profit for the period
Kookmin Bank Int'l Ltd.(London)	₩ 441,292	₩ 365,483	₩ 75,809	₩ 2,730	₩ 895
Kookmin Bank Hong Kong Ltd.	639,509	498,960	140,549	4,659	2,717
Kookmin Bank Cambodia PLC.	95,864	74,578	21,286	1,726	400
Kookmin Bank (China) Ltd.	1,259,847	846,151	413,696	11,409	2,779
Personal pension trust and 10 others	3,667,615	3,571,818	95,797	36,383	707

Nature of the risks associated with interests in consolidated structured entities

Terms of contractual arrangements that provide financial support to a consolidated structured entity

- The Bank provides the capital commitment of ₩ 258,000 million to KB Wise Star Private Real Estate Feeder Fund 1st, of which ₩ 185,717 million has not been utilized. Based on the investment agreement, the Bank is subject to increase its investment upon the request of the asset management company or the additional agreement among investors.

- The Bank provides the guarantees of payment of principal or principal and fixed rate of return, in case the operating results of the trusts are less than the guaranteed principal or principal and a fixed rate of return.

Changes in subsidiaries

KB Mortgage Loan No. 1 Limited was excluded from the consolidation due to its liquidation during the three-month period ended March 31, 2015.

39. Unconsolidated Structured Entity

As of March 31, 2015, the nature, purpose and activities of the unconsolidated structured entities and how the structured entities are financed, are as follows:

Nature	Purpose	Activities	Methods of Financing
Asset-backed securitization	Early cash generation through transfer of securitization assets Fees earned as services to SPC, such as providing lines of credit and ABCP purchase commitments	Fulfillment of Asset-backed securitization plan Purchase and collection securitization assets Issuance and repayment of ABS and ABCP	Issuance of ABS and ABCP based on securitization assets
Project Financing	Granting PF loans to SOC and real property Granting loans to ships/aircrafts SPC	Construction of SOC and real property Building ships/ Construction and purchase of aircrafts	Loan commitments through Credit Line, providing lines of credit and investment agreements
Investment funds	Investment in beneficiary certificates Investment in PEF and partnerships	Management of fund assets Payment of fund fees and allocation of fund profits	Sales of beneficiary certificate instruments Investment of managing partners and limited partners

As of March 31, 2015 and December 31, 2014, the size of the unconsolidated structured entities and the risks associated with its interests in unconsolidated structured entities are as follows:

(In millions of Korean won)

	March 31, 2015				
	Asset-backed securitization	**Project Financing**	**Investment funds**	**Others**	**Total**
Total assets of the unconsolidated structured entities	₩ 9,471,642	₩ 20,100,169	₩ 6,018,692	₩ 5,912,312	₩ 41,502,815
Carrying amount on financial statements					
Assets					
Derivative financial assets	₩ 823	₩ -	₩ -	₩ -	₩ 823
Loans	204,144	2,304,237	-	394,661	2,903,042
Financial investments	484,757	13,778	884,887	17,000	1,400,422
Investments in associates	-	-	386,737	-	386,737
	₩ 689,724	₩ 2,318,015	₩ 1,271,624	₩ 411,661	₩ 4,691,024
Liabilities					
Deposits	₩ 284,433	₩ 606,490	₩ 23,959	₩ 25,824	₩ 940,706
Other liabilities	-	2	-	-	2
	₩ 284,433	₩ 606,492	₩ 23,959	₩ 25,824	₩ 940,708
Maximum exposure to loss[1]	₩ 4,694,118	₩ 4,531,260	₩ 3,597,854	₩ 487,121	₩ 13,310,353
Methods of determining the maximum exposure to loss	Providing lines of credit and purchase commitments	Loan commitments / capital commitments / purchase commitments and Acceptances and guarantees	Capital commitments	Loan commitments	

(In millions of Korean won)

	December 31, 2014				
	Asset-backed securitization	**Project Financing**	**Investment funds**	**Others**	**Total**
Total assets of the unconsolidated structured entities	₩ 9,953,552	₩ 19,901,366	₩ 6,072,832	₩ 5,923,270	₩ 41,851,020
Carrying amount on financial statements					
Assets					
Loans	₩ 192,619	₩ 2,315,744	₩ -	₩ 252,195	₩ 2,760,558
Financial investments	564,156	13,778	912,042	17,000	1,506,976
Investments in associates	-	-	387,510	-	387,510
Other assets	2	-	-	-	2
	₩ 756,777	₩ 2,329,522	₩ 1,299,552	₩ 269,195	₩ 4,655,046
Liabilities					
Deposits	300,015	500,538	15,834	32,986	849,373
	₩ 300,015	₩ 500,538	₩ 15,834	₩ 32,986	₩ 849,373
Maximum exposure to loss[1]	₩ 4,719,103	₩ 4,581,520	₩ 3,597,876	₩ 491,313	₩ 13,389,812
Methods of determining the maximum exposure to loss	Providing lines of credit and purchase commitments	Loan commitments / capital commitments / purchase commitments and Acceptances and guarantees	Capital commitments	Loan commitments	

[1] Maximum exposure to loss includes the asset amounts, after deducting loss (provision for assets, impairment losses and others), recognized in the interim consolidated financial statements of the Group.

40. Finance and Operating Leases

40.1 Finance lease

The future minimum lease payments as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015	December 31, 2014
Net carrying amount of finance lease assets	₩ 40,973	₩ 44,138
Minimum lease payment		
Within 1 year	₩ 11,627	₩ 11,902
1-5 years	1,285	1,637
	₩ 12,912	₩ 13,539
Present value of minimum lease payment		
Within 1 year	11,431	11,632
1-5 years	1,266	1,609
	₩ 12,697	₩ 13,241

40.2 Operating lease

40.2.1 The Group as operating lessee

The future minimum lease payments arising from the non-cancellable lease contracts as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	March 31, 2015	December 31, 2014
Minimum lease payment		
Within 1 year	₩ 107,618	₩ 107,806
1-5 years	86,900	90,191
Over 5 years	35,169	34,439
	₩ 229,687	₩ 232,436
Minimum sublease payment	(599)	(703)

The lease payments reflected in profit or loss for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	March 31, 2015	March 31, 2014
Lease payment reflected in profit or loss		
Minimum lease payment	₩ 42,009	₩ 48,194
Sublease payment	(139)	(135)
	₩ 41,870	₩ 48,059

40.2.2 The Group as operating lessor

The future minimum lease receipts arising from the non-cancellable lease contracts as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)	**March 31, 2015**	**December 31, 2014**
Minimum lease receipts		
Within 1 year	₩ 9,002	₩ 9,445
1-5 years	13,863	15,636
	₩ 22,865	₩ 25,081

41. Related Party Transactions

Profit and loss arising from transactions with related parties for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)

		March 31, 2015	**March 31, 2014**
Parent			
KB Financial Group Inc.	Fee and commission income	47	60
	Other non-operating income	244	359
	Interest expense	236	506
Parent's subsidiaries			
KB Investment Co., Ltd.	Interest expense	169	118
KB Data System Co., Ltd.	Other non-operating income	11	11
	Interest expense	82	92
	General and administrative expenses	3,402	3,288
KB Real Estate Trust Co., Ltd.	Fee and commission income	1	1
	Other non-operating income	11	11
	Interest expense	448	66
	Fee and commission expense	237	126
KB Life Insurance Co., Ltd.	Fee and commission income	3,884	3,301
	Other non-operating income	15	38
	Interest expense	296	57
KB Credit Information Co., Ltd.	Fee and commission income	39	1
	Other non-operating income	89	125
	Interest expense	55	97
	Fee and commission expense	4,177	3,232
KB Asset Management Co., Ltd.	Fee and commission income	131	109
	Interest expense	361	456
	Fee and commission expense	251	214
KB Investment and Securities Co., Ltd.	Interest income	19	63
	Fee and commission income	847	764
	Other non-operating income	172	161

	Reversal of credit losses	14	2
	Interest expense	653	1,054
	Fee and commission expense	179	207
	Provision for credit losses	12	-
KB Kookmin Card Co., Ltd.	Interest income	709	813
	Fee and commission income	58,706	59,856
	Other non-operating income	301	387
	Reversal of credit losses	1	-
	Interest expense	1,818	1,692
	Fee and commission expense	48	139
	Provision for credit losses	1	-
	General and administrative expenses	37	151
KB Savings Bank Co., Ltd.	Fee and commission income	3	21
	Other non-operating income	1	-
KB Capital Co., Ltd.	Fee and commission income	60	-
	Other non-operating income	22	-
KB Mezzanine Private Securities Fund	Fee and commission income	69	195
Hanbando BTL Private Special Asset Fund	Fee and commission income	47	49
KB Hope Sharing BTL Private Special Asset Fund	Fee and commission income	1	-
Associates			
KB08-1 Venture Investment Partnership [1]	Interest expense	-	20
KB12-1 Venture Investment Partnership	Interest expense	42	22
Future Planning KB Start-up Creation Fund	Interest expense	-	19
Korea Credit Bureau Co., Ltd.	Fee and commission income	1	1
	Interest expense	20	20
UAMCO., Ltd.	Fee and commission income	4	4
	Interest expense	3	5
United PF 1st Recovery Private Equity Fund	Interest expense	19	-
Incheon Bridge Co., Ltd.	Interest income	2,423	2,793
	Interest expense	132	127
	Reversal of credit losses	2	-
Kores Co., Ltd. [1]	Interest income	-	100
	Reversal of credit losses	-	2,354
KB Star Office Private Real Estate Investment Trust No.1	Interest expense	25	25
Subsidiary of Parent's subsidiary			
KB Intellectual Property Investment Fund	Interest expense	7	-
Associates of Parent's subsidiaries			
Semiland Co., Ltd. [1]	Interest income	-	4
KB IC 3rd Private Equity Fund	Interest expense	9	10
KB No.3 Special Purpose Acquisition Company	Interest expense	3	-
KB No.4 Special Purpose Acquisition Company	Interest expense	12	-
KB No.5 Special Purpose Acquisition Company	Interest expense	8	-
KB No.6 Special Purpose	Interest expense	19	-

Acquisition Company			
KB No.7 Special Purpose Acquisition Company	Interest expense	6	-
Other			
Retirement pension	Fee and commission income	150	108
	Interest expense	234	221

[1] Not considered to be the Group's related party as of March 31, 2015.

The details of receivables and payables, and related allowances for loan losses arising from the related party transactions as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

		March 31, 2015	December 31, 2014
Parent			
KB Financial Group Inc.	Other assets	359	465
	Deposits	617,946	30,739
	Other liabilities	285,035	224,763
Parent's subsidiaries			
KB Investment Co., Ltd.	Deposits	25,240	37,219
	Other liabilities	150	198
KB Data System Co., Ltd.	Other assets	227	1,037
	Deposits	13,738	19,790
	Other liabilities	1,360	1,214
KB Real Estate Trust Co., Ltd.	Deposits	79,175	96,087
	Other liabilities	758	651
KB Life Insurance Co., Ltd.	Other assets	1,326	1,342
	Deposits	603	57
	Debts	30,000	30,000
	Other liabilities	39	41
KB Credit Information Co., Ltd.	Other assets	38	-
	Deposits	5,529	6,766
	Other liabilities	6,492	6,193
KB Asset Management Co., Ltd.	Other assets	130	127
	Deposits	62,988	69,453
	Other liabilities	496	439
KB Investment and Securities Co., Ltd.	Cash and due from financial institutions	991	945
	Gross amounts of loans and receivables	1,354	34,997
	Allowances	1	15
	Other assets	132	327
	Deposits	105,880	105,449
	Other liabilities	19,526	8,993
	Provisions	16	4
KB Kookmin Card Co., Ltd.	Gross amounts of loans and receivables	4,005	-
	Allowances	1	-
	Other assets	28,615	27,382
	Deposits	440,457	454,205

	Other liabilities	36,019	36,546
	Provisions	415	416
KB Savings Bank Co., Ltd.	Other assets	2	14
KB Capital Co., Ltd.	Other assets	7	5
	Deposits	580	534
	Other liabilities	5	-
KB Mezzanine Private Securities Fund	Other assets	69	167
Hanbando BTL Private Special Asset Fund	Other assets	47	49
KB Hope Sharing BTL Private Special Asset Fund	Other assets	1	-
Associates			
KB12-1 Venture Investment Partnership	Deposits	2,553	9,767
	Other liabilities	6	10
Korea Credit Bureau Co., Ltd.	Deposits	4,159	24,715
	Other liabilities	25	17
UAMCO., Ltd.	Deposits	1,421	1,654
	Other liabilities	1	-
United PF 1st Recovery Private Equity Fund	Deposits	10,000	-
	Other liabilities	19	-
Incheon Bridge Co., Ltd.	Gross amounts of loans and receivables	231,466	247,870
	Allowances	300	302
	Other assets	1,007	1,144
	Deposits	34,960	35,421
	Other liabilities	354	249
JSC Bank CenterCredit	Cash and due from financial institutions	312	178
Terra Corporation	Deposits	-	1
KB Star Office Private Real Estate Investment Trust No.1	Deposits	6,401	6,067
	Other liabilities	22	-
Subsidiary of Parent's subsidiary			
KB Intellectual Property Investment Fund	Deposits	5,000	-
	Other liabilities	7	-
KoFC-KB Pioneer Champ 2010-8 Investment Partnership	Deposits	1,500	-
Associates of Parent's subsidiaries			
KB IC 3rd Private Equity Fund	Deposits	1,400	1,400
	Other liabilities	33	24
KB No.3 Special Purpose Acquisition Company	Deposits	743	832
	Other liabilities	9	6
KB No.4 Special Purpose Acquisition Company	Deposits	2,388	2,500
	Other liabilities	12	1
KB No.5 Special Purpose Acquisition Company	Deposits	2,370	2,389
	Other liabilities	4	1
KB No.6 Special Purpose Acquisition Company	Deposits	4,376	4,406
	Other liabilities	22	3
KB No.7 Special Purpose Acquisition Company	Deposits	2,407	-
	Other liabilities	6	-
Key management	Gross amounts of loans and receivables	1,976	2,325
	Allowances	1	-
	Other assets	3	3
	Deposits	5,450	18,378

	Other liabilities	89	171
Others			
Retirement pension	Other assets	85	191
	Deposits	38,749	41,412
	Other liabilities	396	246

In accordance with Korean IFRS 1024, the Group includes parent, parent's subsidiaries, associates, associates of parent's subsidiaries, key management (including family members), and post-employment benefit plans of the Group and entities regarded as its related parties in the scope of its related parties. Additionally, the Group discloses balances (receivables and payables) and other amounts arising from the related party transactions in the notes to the interim consolidated financial statements. Refer to Note 13 for details on investments in associates.

Key management includes the directors of the parent company and the executive directors (vice-presidents and above) of the Bank and companies where the directors and /or their close family members have control or joint control.

Significant loan transactions with related parties for the three-month periods ended March 31, 2015 and 2014, are as follows:

(In millions of Korean won)	**March 31, 2015[1]**				
	Beginning	**Loans**	**Repayments**	**Others**	**Ending**
Parent's subsidiary					
KB Kookmin Card Co., Ltd.	₩ -	₩ 4,005	₩ -	₩ -	₩ 4,005
KB Investment and Securities Co., Ltd.	34,997	-	33,643	-	1,354
Associate					
Incheon Bridge Co., Ltd.	₩ 247,870	₩ -	₩ 16,404	₩ -	₩ 231,466

(In millions of Korean won)	**March 31, 2014[1]**				
	Beginning	**Loans**	**Repayments**	**Others**	**Ending**
Parent's subsidiary					
KB Investment and Securities Co., Ltd.	₩ 32,995	₩ -	₩ 32,995	₩ -	₩ -
Associate					
Incheon Bridge Co., Ltd.	₩ 249,362	₩ 3,060	₩ 6,040	₩ -	₩ 246,382
Associate of Parent's subsidiary					
Semiland Co., Ltd.[2]	₩ 19	₩ 233	₩ 36	₩ -	₩ 216

[1]Transactions and balances arising from operating activities between related parties, such as settlements, are excluded.
[2] Not considered to be the Group's related party as at March 31, 2015.

The settlement transactions and deposits arising from operating activities with related parties are excluded and there are no other borrowing transactions.

Unused commitments provided to related parties as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)

		March 31, 2015	December 31, 2014
KB Investment and Securities Co., Ltd.	Loan commitment in won	₩ 46,146	₩ 12,503
KB Kookmin Card Co., Ltd.	Loan commitment in won	515,995	520,000
	Other commitments in won	1,000,000	1,000,000
KB Mezzanine Private Securities Fund	Commitments on purchase of security investment	18,359	18,359
KB Mezzanine Private Security Investment Trust No.2	Commitments on purchase of security investment	70,312	70,312
Hanbando BTL Private Special Asset Fund	Commitments on purchase of security investment	15,931	15,931
KB Hope Sharing BTL Private Special Asset Fund	Commitments on purchase of security investment	48,045	48,045
Balhae Infrastructure Fund	Commitments on purchase of security investment	20,304	21,744
UAMCO., Ltd.	Commitments on purchase of security investment	89,950	89,950
KB12-1 Venture Investment Partnership	Commitments on purchase of security investment	11,200	11,200
KoFC KBIC Frontier Champ 2010-5(PEF)	Commitments on purchase of security investment	1,290	1,290
United PF 1st Recovery Private Equity Fund	Commitments on purchase of security investment	49,383	49,383
Incheon Bridge Co., Ltd.	Loan commitment in won	46,963	33,163
KoFC POSCO HANHWA KB shared growth Private Equity Fund	Commitments on purchase of security investment	19,000	19,000
Future Planning KB Start-up Creation Fund	Commitments on purchase of security investment	16,000	16,000
KB Intellectual Property Investment Fund	Commitments on purchase of security investment	800	-
KB GwS Private Equity Trust and others	Commitments on purchase of security investment	876	876
Key management	Loan commitment in won	301	372

Unused commitments received from related parties as of March 31, 2015 and December 31, 2014, are as follows:

(In millions of Korean won)		March 31, 2015	December 31, 2014
Parent's subsidiaries			
KB Investment Co., Ltd.	Loss sharing agreements	₩ 11,059	₩ 5,917
KB Real Estate Trust Co., Ltd.	Commitments on purchase of security investment	4,319	4,319
KB Life Insurance Co., Ltd.	Commitments on purchase of security investment	21,595	21,595
KB Investment and Securities Co., Ltd.	Commitments on purchase of security investment	4,319	4,319
KB Kookmin Card Co., Ltd.	Loan commitment in won	80,441	79,164

Compensation to key management for the three-month periods ended March 31, 2015 and 2014, consists of:

(In millions of Korean won)	March 31, 2015			
	Short-term employee benefits	**Post-employment benefit**	**Share-based payments**	**Total**
Registered directors (executive)	₩ 79	₩ 10	₩ 101	₩ 190
Registered directors (non-executive)	76	-	-	76
Non-registered directors	406	19	653	1,078
	₩ 561	₩ 29	₩ 754	₩ 1,344

(In millions of Korean won)	March 31, 2014			
	Short-term employee benefits	**Post-employment benefit**	**Share-based payments**	**Total**
Registered directors (executive)	₩ 460	₩ -	₩ (58)	₩ 402
Registered directors (non-executive)	111	-	-	111
Non-registered directors	1,510	-	144	1,654
	₩ 2,081	₩ -	₩ 86	₩ 2,167

Significant transactions occurring between the Group and related parties include the establishment of deposit accounts, issuance of general purpose loans, loans on business transactions and trade receivables, and overdraft credit accounts arising from net settlement agreement between the Bank and KB Kookmin Card Co., Ltd.

Collateral offered to related parties as of March 31, 2015 and December 31, 2014, is as follows:

(In millions of Korean won)

		March 31, 2015		December 31, 2014	
	Assets pledged	Carrying amount	Collateralized amount	Carrying amount	Collateralized amount
Parent's subsidiaries					
KB Investment and Securities Co., Ltd.	Securities	₩ 54,074	₩ 54,000	₩ 54,084	₩ 54,000
KB Life Insurance Co., Ltd.	Securities	16,311	15,000	16,326	15,000
	Building / Land	114,609	39,000	114,609	39,000

Collateral received from related parties as of March 31, 2015 and December 31, 2014, is as follows:

(In millions of Korean won)

		March 31, 2015	December 31, 2014
Parent's subsidiaries			
KB Investment and Securities Co., Ltd.	Time deposits	₩ 52,440	₩ 52,440
KB Kookmin Card Co., Ltd.	Time deposits	22,000	22,000
Associate			
Incheon Bridge Co., Ltd.	Fund management account for Standby loan commitment	65,000	65,000
Key management	Time deposits and others	697	257
	Real estate	2,398	3,583

As of March 31, 2015, Incheon Bridge Co., Ltd, a related party, provides fund management account, civil engineering completed risk insurance, shares and management rights as unsubordinated collateral in respect to collateralized amount for ₩ 816,400 million to a financial syndicate consisting of the Bank and four other institutions, and as subordinated collateral in respect to collateralized amount for ₩ 201,100 million to subordinated debt holders consisting of the Bank and two other institutions.

The Bank and KB Kookmin Card Co., Ltd. are contingently liable for the payables of the Bank before the spin-off date.

42. Event after the Reporting Period

On May 12, 2015, the Bank and its labor union agreed on the voluntary early retirement program, which is aimed to increase the efficiency and productivity of human resources. Meanwhile, due to the uncertainty of the volume of retirements under the voluntary early retirement program, the financial effect could not be estimated.

Independent Auditor's Report

(English Translation of a Report Originally Issued in the Korean Language)

To the Shareholders and Board of Directors of
Kookmin Bank

We have audited the accompanying consolidated financial statements of Kookmin Bank and its subsidiaries (collectively "the Group"), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013 and January 1, 2013, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2014 and 2013, and notes, comprising 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 financial statements in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS") and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2014 and 2013 and January 1, 2013, and their financial performance and cash flows for the years ended December 31, 2014 and 2013 in accordance with the Korean IFRS.

Other Matters

The consolidated financial statements of the Group as of and for the year ended December 31, 2013 and the consolidated statements of financial position as of January 1, 2013 were audited in accordance with the previous Korean Standards on Auditing.

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

/s/ Samil PricewaterhouseCoopers
Seoul, Korea
March 10, 2015

The report is effective as of March 10, 2015, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Kookmin Bank and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2014 and 2013, and January 1, 2013

(In millions of Korean won)	Notes	December 31, 2014	December 31, 2013	January 1, 2013
Assets				
Cash and due from financial institutions	4,6,7,36	₩ 13,973,510	₩ 13,730,250	₩ 10,028,910
Financial assets at fair value through profit or loss	4,6,12	7,520,471	7,069,875	6,497,757
Derivative financial assets	4,6,9	1,910,217	1,718,882	1,996,241
Loans	4,6,10,11	211,525,560	203,123,755	199,414,818
Financial investments	4,6,8,12	29,258,527	30,086,604	32,190,095
Investments in associates	13	667,332	741,987	922,956
Property and equipment	14	2,888,194	2,903,425	2,937,752
Investment property	14	409,266	201,005	92,204
Intangible assets	15	206,895	224,584	264,818
Current income tax assets	32	305,831	329,443	318,450
Deferred income tax assets	16,32	5,314	443	447
Assets held for sale	18	54,034	20,927	5,269
Other assets	4,6,17	6,728,513	5,437,205	6,695,586
Total assets		₩ 275,453,664	₩ 265,588,385	₩ 261,365,303
Liabilities				
Financial liabilities at fair value through profit or loss	4,6	₩ 51,650	₩ 40,067	₩ 41,979
Derivative financial liabilities	4,6,9	1,759,099	1,766,034	2,040,713
Deposits	4,6,19	211,611,432	200,967,688	197,232,967
Debts	4,6,20	14,297,460	13,569,923	14,631,518
Debentures	4,6,21	15,250,464	16,212,758	15,949,496
Provisions	22	483,375	539,737	537,351
Net defined benefit liabilities	23	57,493	51,525	73,061
Current income tax liabilities	32	7,585	1,333	7,131
Deferred income tax liabilities	16,32	110,358	120,364	195,350
Other liabilities	4,6,24,30	9,884,275	11,372,199	10,319,729
Total liabilities		253,513,191	244,641,628	241,029,295
Equity	25			
Capital stock		2,021,896	2,021,896	2,021,896
Capital surplus		5,219,704	5,219,704	5,219,672
Accumulated other comprehensive income	34	570,811	447,619	384,154
Retained earnings	25,33	14,128,062	13,257,538	12,708,949
(Provision of regulatory reserve for credit losses				
Dec. 31, 2014 : ₩1,690,979 million				
Dec. 31, 2013 : ₩1,590,347 million				
Jan. 1, 2013 : ₩1,529,643 million)				
(Amounts estimated to be appropriated				
Dec. 31, 2014 : ₩176,782 million				
Dec. 31, 2013 : ₩100,632 million				
Jan. 1, 2013 : ₩60,704 million)				
Equity attributable to shareholders of the parent company		21,940,473	20,946,757	20,334,671
Non-controlling interest equity		-	-	1,337
Total equity		21,940,473	20,946,757	20,336,008
Total liabilities and equity		₩ 275,453,664	₩ 265,588,385	₩ 261,365,303

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries
Consolidated Statements of Comprehensive Income
Years ended December 31, 2014 and 2013

(In millions of Korean won)	Notes	2014	2013
Interest income		₩ 9,702,627	₩ 10,595,380
Interest expense		(4,731,181)	(5,435,140)
Net interest income	26	4,971,446	5,160,240
Fee and commission income		1,271,338	1,281,650
Fee and commission expense		(193,293)	(176,906)
Net fee and commission income	27	1,078,045	1,104,744
Net gains on financial assets/liabilities at fair value through profit or loss	28	356,291	690,501
Net other operating expenses	29	(768,551)	(1,055,386)
General and administrative expenses	14,15,23,30	(3,372,858)	(3,396,788)
Operating profit before provision for credit losses		2,264,373	2,503,311
Provision for credit losses	11,17,22	(887,654)	(1,065,189)
Operating profit		1,376,719	1,438,122
Share of profit (loss) of associates	13	17,555	(202,880)
Net other non-operating expense	31	(33,999)	(23,631)
Net non-operating loss		(16,444)	(226,511)
Profit before income tax expense		1,360,275	1,211,611
Income tax expense	32	(331,234)	(380,899)
Profit for the year		₩ 1,029,041	₩ 830,712
(Adjusted profit after provision of regulatory reverse for credit losses)	25		
2014 : ₩852,259 million			
2013 : ₩730,080 million)			
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liabilities		(83,603)	41,545
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		17,281	(2,298)
Valuation gains on financial investments		222,309	33,990
Share of other comprehensive income of associates		(32,795)	(9,698)
Other comprehensive income for the year, net of tax	34	123,192	63,539
Total comprehensive income for the year		₩ 1,152,233	₩ 894,251
Profit attributable to:			
Shareholders of the parent company		1,029,041	830,628
Non-controlling interests		-	84
		₩ 1,029,041	₩ 830,712
Total comprehensive income for the year attributable to:			
Shareholders of the parent company		1,152,233	894,093
Non-controlling interests		-	158
		₩ 1,152,233	₩ 894,251

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries

Consolidated Statements of Changes in Equity

Years Ended December 31, 2014 and 2013

(In millions of Korean won)	Capital Stock	Capital Surplus	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Non-controlling interests	Total Equity
Balance at January 1, 2013	₩ 2,021,896	₩ 5,219,672	₩ 384,154	₩ 12,390,499	₩ 1,337	₩ 20,017,558
Changes in accounting policy	-	-	-	318,450	-	318,450
Restated balance	2,021,896	5,219,672	384,154	12,708,949	1,337	20,336,008
Comprehensive income for the year						
Profit for the year	-	-	-	830,628	84	830,712
Remeasurements of net defined benefit liabilities	-	-	41,545	-	-	41,545
Currency translation differences	-	-	(2,372)	-	74	(2,298)
Gains on valuation of financial investments	-	-	33,990	-	-	33,990
Losses on valuation of investments accounted for using the equity method	-	-	(9,698)	-	-	(9,698)
Total comprehensive income for the year	-	-	63,465	830,628	158	894,251
Transactions with shareholders						
Dividends	-	-	-	(282,039)	-	(282,039)
Changes in interest in subsidiaries	-	32	-	-	(1,495)	(1,463)
Total transactions with shareholders	-	32	-	(282,039)	(1,495)	(283,502)
Balance at December 31, 2013	₩ 2,021,896	₩ 5,219,704	₩ 447,619	₩ 13,257,538	₩ -	₩ 20,946,757
Balance at January 1, 2014	₩ 2,021,896	₩ 5,219,704	₩ 447,619	₩ 13,257,538	₩ -	₩ 20,946,757
Comprehensive income for the year						
Profit for the year	-	-	-	1,029,041	-	1,029,041
Remeasurements of net defined benefit liabilities	-	-	(83,603)	-	-	(83,603)
Currency translation differences	-	-	17,281	-	-	17,281
Gains on valuation of financial investments	-	-	222,309	-	-	222,309
Losses on valuation of investments accounted for using the equity method	-	-	(32,795)	-	-	(32,795)
Total comprehensive income for the year	-	-	123,192	1,029,041	-	1,152,233
Transactions with shareholders						
Dividends	-	-	-	(158,517)	-	(158,517)
Total transactions with shareholders	-	-	-	(158,517)	-	(158,517)
Balance at December 31, 2014	₩ 2,021,896	₩ 5,219,704	₩ 570,811	₩ 14,128,062	₩ -	₩ 21,940,473

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2014 and 2013

(In millions of Korean won)	Notes	2014	2013
Cash flows from operating activities			
Profit for the year		₩ 1,029,041	₩ 830,712
Adjustment for non-cash items			
Net gains on financial assets/liabilities at fair value through profit or loss		(83,607)	(111,249)
Losses on derivative financial investments for hedging purposes		28,269	49,047
Adjustment of fair value of derivative financial instruments		(2,040)	699
Provision for credit losses		887,654	1,065,189
Net losses on financial investments		126,592	35,649
Share of (profit) loss of associates		(17,555)	202,880
Depreciation and amortization expense		211,599	240,248
Other net losses on property and equipment/intangible assets		15,460	9,632
Share-based payment		7,234	14,616
Post-employment benefits		148,163	154,404
Net interest income		279,695	226,958
Losses (gains) on foreign currency translation		116,042	(23,252)
Other expense(income)		30,011	(61,113)
		1,747,517	1,803,708
Changes in operating assets and liabilities			
Financial assets at fair value through profit or loss		(426,405)	(598,944)
Derivative financial instrument		35,172	83,266
Loans		(9,452,956)	(5,275,067)
Deferred income tax assets		(4,871)	(1,657)
Current income tax assets		23,612	(10,993)
Other assets		123,395	(4,342,729)
Financial liabilities at fair value through profit or loss		11,441	(2,181)
Deposits		10,645,363	3,823,705
Deferred income tax liabilities		(67,016)	(85,320)
Other liabilities		(970,235)	(607,898)
		(82,500)	(7,017,818)
Net cash generated from (used in) operating activities		2,694,058	(4,383,398)
Cash flows from investing activities			
Disposal of financial investments		18,538,678	22,594,195
Acquisition of financial investments		(17,509,199)	(20,373,262)
Decrease in investments in associates		74,047	26,845
Acquisition of investments in associates		(16,216)	(30,810)
Disposal of property and equipment		194	911
Acquisition of property and equipment		(158,443)	(129,933)
Acquisition of investment property		(211,995)	(114,609)
Disposal of intangible assets		2,577	2,981
Acquisition of intangible assets		(18,078)	(45,974)
Others		(1,301,352)	1,492,487
Net cash provided by (used in) investing activities		(599,787)	3,422,831
Cash flows from financing activities			
Net cash flows from derivative financial instrument for hedging purposes		(201,593)	7,987
Net increase (decrease) in debts		674,205	(1,065,853)
Increase in debentures		6,575,862	3,884,548
Decrease in debentures		(7,673,573)	(3,479,606)
Payment of dividends		(158,517)	(282,039)
Changes in interest in subsidiaries		-	(1,463)
Net increase in other payables from trust accounts		124,903	414,279
Others		(948,359)	828,916
Net cash provided by (used in) financing activities		(1,607,072)	306,769
Exchange gains on cash and cash equivalents		12,221	41,428
Net increase (decrease) in cash and cash equivalents		499,420	(612,370)
Cash and cash equivalents at the beginning of the year	36	5,832,640	6,445,010
Cash and cash equivalents at the end of year	36	₩ 6,332,060	₩ 5,832,640

The accompanying notes are an integral part of these consolidated financial statements.

1. The Company

Kookmin Bank (the "Bank") was incorporated in 1963 under the Citizens National Bank Act to provide banking services to the general public and to small and medium-sized enterprises. Pursuant to the Repeal Act of the Citizens National Bank Act, effective January 5, 1995, the Bank's status changed to a financial institution which operates under the Banking Act and Commercial Act.

The Bank merged with Korea Long Term Credit Bank on December 31, 1998, and with its subsidiaries, Daegu, Busan, Jeonnam Kookmin Mutual Savings & Finance Co., Ltd., on August 22, 1999. Also, pursuant to the directive from the Financial Services Commission related to the Structural Improvement of the Financial Industry Act, the Bank acquired certain assets, including performing loans, and assumed most of the liabilities of Daedong Bank on June 29, 1998. Also, the Bank completed the merger with Housing and Commercial Bank ("H&CB") on October 31, 2001, and merged with Kookmin Credit Card Co., Ltd., a majority-owned subsidiary, on September 30, 2003. Meanwhile, the Bank spun off its credit card business segment on February 28, 2011, and KB Kookmin Card Co., Ltd. became a subsidiary of KB Financial Group Inc.

The Bank listed its shares on the Stock Market Division of the Korea Exchange ("KRX," formerly Korea Stock Exchange) in September 1994. As a result of the merger with H&CB, the shareholders of the former Kookmin Bank and H&CB received new common shares of the Bank which were relisted on the KRX on November 9, 2001. In addition, H&CB listed its American Depositary Shares ("ADS") on the New York Stock Exchange ("NYSE") on October 3, 2000, prior to the merger. Following the merger with H&CB, the Bank listed its ADS on the NYSE on November 1, 2001. The Bank became a wholly owned subsidiary of KB Financial Group Inc. through a comprehensive stock transfer on September 29, 2008. Subsequently, the Bank's shares and its ADS, each listed on the KRX and the NYSE, were delisted on October 10, 2008 and September 26, 2008, respectively. As of December 31, 2014, the Bank's paid-in capital is ₩2,021,896 million.

The Bank engages in the banking business in accordance with the Banking Act, trust business in accordance with the Financial Investment Services and Capital Markets Act, and other relevant businesses. As of December 31, 2014, the Bank operates 1,161 domestic branches and offices, and five overseas branches (excluding four subsidiaries and three offices).

2. Basis of Preparation

2.1 Application of Korean IFRS

The consolidated financial statements of the Bank and its subsidiaries (“The Group”) have been prepared in accordance with Korean IFRS. These are the standards and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.4.

The Group expects that new standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2014, and not early adopted would not have a material impact on its consolidated financial statements.

The Group newly applied the following amended and enacted standards for the annual period beginning on January 1, 2014:

Amendment to Korean IFRS 1032, *Financial Instruments: Presentation*

According to Amendment to Korean IFRS 1032, *Financial Instruments: Presentation*, provides that the right to offset must not be contingent on a future event and must be legally enforceable in all of circumstances; and if an entity can settle amounts in a manner such that outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion. The application of this amendment does not have a material impact on the consolidated financial statements.

Amendment to Korean IFRS 1036, *Impairment of Assets*

Amendment to Korean IFRS 1036, *Impairment of Assets*, removed certain disclosures of the recoverable amount of cash-generating units which had been included in this amendment by the issuance of Korean IFRS 1113. The application of this amendment does not have a material impact on the consolidated financial statements.

Amendment to Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*

Amendment to Korean IFRS 1039, *Financial Instruments: Recognition and Measurement,* allows the continuation of hedge accounting for a derivative that has been designated as a hedging instrument in a circumstance in which that derivative is novated to a central counterparty (CCP) as a consequence of laws or regulations. The application of this amendment does not have a material impact on the consolidated financial statements.

Amendment to Korean IFRS 1102, *Share-based payment*

Korean IFRS 1102, *Share-based payment*, clarifies the definition of 'vesting conditions' such as 'performance condition', 'service condition' and others. This amendment is applied to share-based payment transactions for which the grant date is on or after July 1, 2014. The application of this amendment does not have a material impact on the consolidated financial statements.

Enactment of Korean IFRS 2121, *Levies*

Korean IFRS 2121, *Levies*, is applied to a liability to pay a levy imposed by a government in accordance with the legislation. The interpretation requires that the liability to pay a levy is recognized when the activity that triggers the payment of the levy occurs, as identified by the legislation (the obligating event). The application of this interpretation does not have a material impact on the consolidated financial statements.

For the periods prior to the year ended December 31, 2014, pursuant to Korean IFRS 1037, if an uncertain tax position satisfied the criteria for provisions, the Group measured the best estimate of expenditures for the uncertain tax position. The amount in relation to the claim of refund and the appeal on the levied amount by the tax authority was then recognized as contingent assets. However, in 2014, the Group retrospectively applied the accounting policy in accordance with the Korean IFRS 1012, which allows recognition of the tax payment as income tax assets when it is probable to receive a tax refund. The restated comparative consolidated financial statements reflect adjustments resulting from the retrospective application.

The effect of these changes in accounting policy to financial position as of December 31, 2014 and 2013, and January 1, 2013, and to comprehensive income for the years ended December 31, 2014 and 2013, are as follows:

Effect on Consolidated Statements of Financial Position

(In millions of Korean won)	**December 31, 2014**	**December 31, 2013**	**January 1, 2013**
Increase in current income tax assets	₩ 305,831	₩ 329,443	₩ 318,450
Increase in retained earnings	305,831	329,443	318,450

Effect on Consolidated Statements of Comprehensive Income

(In millions of Korean won)	**2014**	**2013**
Increase (decrease) in income tax	₩ (23,612)	₩ 10,993

2.2 Measurement Basis

The consolidated financial statements have been prepared under the historical cost convention unless otherwise specified.

2.3 Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in Korean won, which is the parent company’s functional and presentation currency. Refer to Notes 3.2.1 and 3.2.2.

2.4 Significant Estimates

The preparation of consolidated financial statements requires the application of accounting policies, certain critical accounting estimates and assumptions that may have a significant impact on the assets (liabilities) and incomes (expenses). Management’s estimates of outcomes may differ from actual outcomes if management’s estimates and assumptions based on management’s best judgment at the reporting date are different from the actual environment.

Estimates and assumptions are continually evaluated and any change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only. Alternatively if the change in accounting estimate affects both the period of change and future periods, that change is recognized in the profit or loss of all those periods.

Uncertainty in estimates and assumptions with significant risk that may result in material adjustment to the consolidated financial statements are as follows:

2.4.1 Income taxes

The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain.

2.4.2 Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Refer to Note 6 for details on valuation techniques and inputs used to determine the fair value of financial instruments.

2.4.3 Provisions for credit losses (allowances for loan losses, provisions for acceptances and guarantees, and unused loan commitments)

The Group determines and recognizes allowances for losses on loans through impairment testing and recognizes provisions for guarantees, and unused loan commitments. The accuracy of provisions for credit losses is determined by the methodology and assumptions used for estimating expected cash flows of the borrower for individually assessed allowances of loans, collectively assessed allowances for groups of loans, guarantees and unused loan commitments.

2.4.4 Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions (Note 23).

2.4.5 Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations (Note 15).

3. Significant Accounting Policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

3.1 Consolidation

3.1.1 Subsidiaries

Subsidiaries are companies that are controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effects of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date when control is transferred to the Group and de-consolidated from the date when control is lost.

If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to make the subsidiary's accounting policies conform to those of the Group when the subsidiary's financial statements are used by the Group in preparing the consolidated financial statements.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests, if any. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

3.1.2 Associates

Associates are entities over which the Group has significant influence in the financial and operating policy decisions. If the Group holds 20% or more of the voting power of the investee, it is presumed that the Group has significant influence.

Under the equity method, investments in associates are initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the investee and changes in the investee's equity after the date of acquisition. The Group's share of the profit or loss of the investee is recognized in the Group's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Profit and losses resulting from 'upstream' and 'downstream' transactions between the Group and associates are eliminated to the extent at the Group's interest in associates.

If associates use accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to make the associate's accounting policies conform to those of the Group when the associate's financial statements are used by the Group in applying equity method.

After the carrying amount of the investment is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

The Group determines at each reporting date whether there is any objective evidence that the investments in the associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates and its carrying value and recognizes the amount as 'share of profit or loss of associates' in the statements of comprehensive income.

3.1.3 Structured entity

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. When the Group decides whether it has

power to the structured entities in which the Group has interests, it considers factors such as the purpose, the form, the practical ability to direct the relevant activities of a structured entity, the nature of its relationship with a structured entity and the amount of exposure to variable returns.

3.1.4 Trusts and funds

The Group provides management services for trust assets, collective investment and other funds. These trusts and funds are not consolidated in the Group's consolidated financial statements, except for trusts and funds over which the Group has control.

3.1.5 Intra-group transactions

All intra-group balances and transactions, and any unrealized gains arising on intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

3.2 Foreign Currency

3.2.1 Foreign currency transactions and balances

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period foreign currency monetary items are translated using the closing rate which is the spot exchange rate at the end of the reporting period. Non-monetary items that are measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined and non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous consolidated financial statements are recognized in profit or loss in the period in which they arise. When gains or losses on a non-monetary item are recognized in other comprehensive income, any exchange component of those gains or losses are also recognized in other comprehensive income. Conversely, when gains or losses on a non-monetary item are recognized in profit or loss, any exchange component of those gains or losses are also recognized in profit or loss.

3.2.2 Foreign operations

The financial performance and financial position of all foreign operations, whose functional currencies differ from the Group's presentation currency, are translated into the Group's presentation currency using the following procedures:

Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period. Income and expenses in the statement of

comprehensive income presented are translated at average exchange rates for the period. All resulting exchange differences are recognized in other comprehensive income.

Any goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and are translated into the presentation currency at the closing rate.

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss (as a reclassification adjustment) when the gains or losses on disposal are recognized. On the partial disposal of a subsidiary that includes a foreign operation, the Group re-attributes the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation, the Group reclassifies to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income.

3.3 Recognition and Measurement of Financial Instruments

3.3.1 Initial recognition

The Group recognizes a financial asset or a financial liability in its statement of financial position when the Group becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets (a purchase or sale of a financial asset under a contract whose terms require delivery of the financial instruments within the time frame established generally by market regulation or practice) is recognized and derecognized using trade date accounting.

The Group classifies financial assets as financial assets at fair value through profit or loss, held-to-maturity financial assets, available-for-sale financial assets, or loans and receivables, or other financial assets. The Group classifies financial liabilities as financial liabilities at fair value through profit or loss, or other financial liabilities. The classification depends on the nature and holding purpose of the financial instrument at initial recognition in the consolidated financial statements.

At initial recognition, a financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value of a financial instrument on initial recognition is normally the transaction price (that is, the fair value of the consideration given or received) in an arm’s length transaction.

3.3.2 Subsequent measurement

After initial recognition, financial instruments are measured at amortized cost or fair value based on classification at initial recognition.

Amortized cost

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition and adjusted to reflect principal repayments, cumulative amortization using the effective interest method and any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Fair value

Fair values, which the Group primarily uses for the measurement of financial instruments, are the published price quotations based on market prices or dealer price quotations of financial instruments traded in an active market where available. These are the best evidence of fair value. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity in the same industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the market for a financial instrument is not active, fair value is determined either by using a valuation technique or independent third-party valuation service. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, referencing to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

The Group uses valuation models that are commonly used by market participants and customized for the Group to determine fair values of common over-the-counter (OTC) derivatives such as options, interest rate swaps and currency swaps which are based on the inputs observable in markets. For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally recognized as standard within the industry, or a value measured by an independent external valuation institution as the fair values if all or some of the inputs to the valuation models are not market observable and therefore it is necessary to estimate fair value based on certain assumptions.

The Group’s Fair Value Evaluation Committee, which consists of the risk management department, trading department and accounting department, reviews the appropriateness of internally developed valuation models, and approves the selection and changing of the external valuation institution and other considerations related to fair value measurement. The review results on the fair valuation models are reported to the Market Risk Management subcommittee by the Fair Value Evaluation Committee on a regular basis.

If the valuation technique does not reflect all factors which market participants would consider in setting a price, the fair value is adjusted to reflect those factors. These factors include counterparty credit risk, bid-ask spread, liquidity risk and others.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the Group calibrates the valuation technique and tests it for validity using prices from observable current market transactions of the same instrument or based on other relevant observable market data.

3.3.3 Derecognition

Derecognition is the removal of a previously recognized financial asset or financial liability from the statement of financial position. The Group derecognizes a financial asset or a financial liability when, and only when:

Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or the financial assets have been transferred and substantially all the risks and rewards of ownership of the financial assets are also transferred, or all the risks and rewards of ownership of the financial assets are neither substantially transferred nor retained and the Group has not retained control. If the Group neither transfers nor disposes of substantially all the risks and rewards of ownership of the financial assets, the Group continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

If the Group transfers the contractual rights to receive the cash flows of the financial asset, but retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognize the transferred asset in its entirely and recognize a financial liability for the consideration received.

Derecognition of financial liabilities

Financial liabilities are derecognized from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

3.3.4 Offsetting

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.4 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, foreign currency, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.5 Non-derivative Financial Assets

3.5.1 Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Group as at fair value through profit or loss upon initial recognition.

A non-derivative financial asset is classified as held for trading if either:

- It is acquired for the purpose of selling in the near term, or
- It is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The Group may designate certain financial assets, other than held for trading, upon initial recognition as at fair value through profit or loss when one of the following conditions is met:

- It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.
- A group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel.
- A contract contains one or more embedded derivatives; the Group may designate the entire hybrid (combined) contract as a financial asset at fair value through profit or loss if allowed by Korean IFRS 1039, *Financial Instruments: Recognition and measurement*.

After initial recognition, a financial asset at fair value through profit or loss is measured at fair value and gains or losses arising from a change in the fair value are recognized in profit or loss. Interest income, dividend income, and gains or losses from sale and repayment from financial assets at fair value through profit or loss are recognized in the statement of comprehensive income as net gains on financial instruments at fair value through profit or loss.

3.5.2 Financial investments

Available-for-sale and held-to-maturity financial assets are presented as financial investments.

Available-for-sale financial assets

Profit or loss of financial assets classified as available for sale, except for impairment loss and foreign exchange gains and losses resulting from changes in amortized cost of debt securities, is recognized as other comprehensive income, and cumulative profit or loss is reclassified from equity to current profit or loss at the derecognition of the financial asset, and it is recognized as part of other operating profit or loss in the statement of comprehensive income.

However, interest revenue measured using the effective interest method is recognized in current profit or loss, and dividends of financial assets classified as available-for-sale are recognized

when the right to receive payment is established.

Available-for-sale financial assets denominated in foreign currencies are translated at the closing rate. For available-for-sale debt securities denominated in foreign currency, exchange differences resulting from changes in amortized cost are recognized in profit or loss as part of other operating income and expenses. For available-for-sale equity securities denominated in foreign currency, the entire change in fair value including any exchange component is recognized in other comprehensive income.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method after initial recognition and interest income is recognized using the effective interest method.

3.5.3 Loans and receivables

Non-derivative financial assets which meet the following conditions are classified as loans and receivables:

- Those with fixed or determinable payments.
- Those that are not quoted in an active market.
- Those that the Group does not intend to sell immediately or in the near term.
- Those that the Group, upon initial recognition, does not designate as available-for-sale or as at fair value through profit or loss.

After initial recognition, these are subsequently measured at amortized cost using the effective interest method.

If the financial asset is purchased under an agreement to resale the asset at a fixed price or at a price that provides a lender's return on the purchase price, the consideration paid is recognized as loans and receivables.

3.6 Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets except for financial assets at fair value through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. However, losses expected as a result of future events, no matter how likely, are not recognized.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about 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 becomes probable that the borrower will declare bankruptcy or undergo financial reorganization.
-The disappearance of an active market for that financial asset because of financial difficulties.
-Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio.

In addition to the types of events in the preceding paragraphs, objective evidence of impairment for an investment in an equity instrument classified as an available-for-sale financial asset includes a significant or prolonged decline in the fair value below its cost. The Group considers the decline in the fair value of over 30% against the original cost as a "significant decline". A decline is considered as prolonged if the period, in which the fair value of the financial asset has been below its original cost at initial recognition, is same as or more than six months.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured and recognized in profit or loss as either provisions for credit loss or other operating income and expenses.

3.6.1 Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant (individual assessment of impairment), and individually or collectively for financial assets that are not individually significant. If the Group

determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (collective assessment of impairment).

Individual assessment of impairment

Individual assessment of impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. This process normally encompasses management's best estimate, such as operating cash flow of the borrower and net realizable value of any collateral held.

Collective assessment of impairment

A methodology based on historical loss experience is used to estimate inherent incurred loss on groups of assets for collective assessment of impairment. Such methodology incorporates factors such as type of collateral, product and borrowers, credit rating, loss emergence period, recovery period and applies probability of default on a group of assets and loss given default by type of recovery method. Also, consistent assumptions are applied to form a formula-based model in estimating inherent loss and to determine factors on the basis of historical loss experience and current condition. The methodology and assumptions used for collective assessment of impairment are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment loss on loans reduces the carrying amount of the asset through use of an allowance account, and when a loan becomes uncollectable, it is written off against the related allowance account. If, in a subsequent period, the amount of the impairment loss decreases and is objectively related to the subsequent event after recognition of impairment, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

3.6.2 Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss (the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) that had been recognized in other comprehensive income is reclassified from equity to profit or loss as part of other operating income and expenses.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, a portion of the impairment loss is reversed up to but not exceeding the previously recorded impairment loss, with the amount of the reversal recognized in profit or loss as part of other operating income and expenses in the statement of comprehensive income. However, impairment losses recognized in profit or loss for an available-

for-sale equity instrument classified as available for sale are not reversed through profit or loss.

3.6.3 Held-to-maturity financial assets

If there is objective evidence that an impairment loss on held-to-maturity financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognized in profit or loss as part of other operating income and expenses. The impairment loss on held-to-maturity financial assets is directly deducted from the carrying amount.

In the case of a financial asset classified as held to maturity, if, in a subsequent period, the amount of the impairment loss decreases and it is objectively related to an event occurring after the impairment is recognized, a portion of the previously recognized impairment loss is reversed up to but not exceeding the extent of amortized cost at the date of recovery. The amount of reversal is recognized in profit or loss as part of other operating income and expenses in the statement of comprehensive income.

3.7 Derivative Financial Instruments

The Group enters into numerous derivative financial instrument contracts such as currency forwards, interest rate swaps, currency swaps and others for trading purposes or to manage its exposures to fluctuations in interest rates and currency exchange, amongst others. These derivative financial instruments are presented as derivative financial instruments within the consolidated financial statements irrespective of transaction purpose and subsequent measurement requirement.

The Group designates certain derivatives as hedging instruments to hedge the risk of changes in fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge).

At the inception of the hedge, there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk.

3.7.1 Derivative financial instruments held for trading

All derivative financial instruments, except for derivatives that are designated and qualify for hedge accounting, are measured at fair value. Gains or losses arising from a change in fair value are recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss.

3.7.2 Fair value hedges

If derivatives qualify for a fair value hedge, the change in fair value of the hedging instrument and the change in fair value of the hedged item attributable to the hedged risk are recognized in profit or loss as part of other operating income and expenses. Fair value hedge accounting is discontinued prospectively if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Once fair value hedge accounting is discontinued, the adjustment to the carrying amount of a hedged item is fully amortized to profit or loss by the maturity of the financial instrument using the effective interest method.

3.7.3 Embedded derivatives

An embedded derivative is separated from the host contract and accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss. Gains or losses arising from a change in the fair value of an embedded derivative separated from the host contract are recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss.

3.7.4 Day one gain and loss

If the Group uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of the financial instrument, there may be a difference between the transaction price and the amount determined using that valuation technique. In these circumstances, the difference is deferred and not recognized in profit or loss, and is amortized by using the straight-line method over the life of the financial instrument. If the fair value of the financial instrument is subsequently determined using observable market inputs, the remaining deferred amount is recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss or other operating income and expenses.

3.8 Property and Equipment

3.8.1 Recognition and measurement

All property and equipment that qualify for recognition as an asset are measured at cost and subsequently carried at cost less any accumulated depreciation and any accumulated impairment losses.

The cost of property and equipment includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent expenditures are capitalized only when they prolong the useful life or enhance values of the assets but the costs of the day-to-day servicing of the assets such as repair and

maintenance costs are recognized in profit or loss as incurred.

3.8.2 Depreciation

Land is not depreciated whereas other property and equipment are depreciated using the method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group. The depreciable amount of an asset is determined after deducting its residual value. As for leased assets, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

The depreciation methods and estimated useful lives of the assets are as follows:

Property and equipment	Depreciation method	Estimated useful lives
Buildings and structures	Straight-line	40 years
Leasehold improvements	Declining-balance	4 years
Equipment and vehicles	Declining-balance	4 ~ 5.7 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least at each financial year end and, if expectations differ from previous estimates or if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the changes are accounted for as a change in an accounting estimate.

3.9 Investment Properties

3.9.1 Recognition and Measurement

Properties held to earn rentals or for capital appreciation or both are classified as investment properties. Investment properties are measured initially at their cost and subsequently the cost model is used.

3.9.2 Depreciation

Land is not depreciated, whereas other investment properties are depreciated using the method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group. The depreciable amount of an asset is determined after deducting its residual value.

The depreciation method and estimated useful lives of the assets are as follows:

Property and equipment	Depreciation method	Estimated useful lives
Buildings	Straight-line	40 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least at each financial year end and, if expectations differ from previous estimates or if there has been a significant change in the expected pattern of consumption of the future economic

benefits embodied in the asset, the changes are accounted for as a change in an accounting estimate.

3.10 Intangible Assets

Intangible assets are measured initially at cost and subsequently carried at their cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets, except for goodwill and membership rights, are amortized using the straight-line method with no residual value over their estimated useful economic life since the asset is available for use.

Intangible assets	Amortization method	Estimated useful lives
Industrial property rights	Straight-line	5~10 years
Software	Straight-line	4 years
Others	Straight-line	4~30 years

The amortization year and the amortization method for intangible assets with a finite useful life are reviewed at least at each financial year end. Where an intangible asset is not being amortized, because its useful life is considered to be indefinite, the Group carries out a review in each accounting period to confirm whether or not events and circumstances still support the assumption of an indefinite useful life. If they do not, the change from the indefinite to finite useful life is accounted for as a change in an accounting estimate.

3.10.1 Goodwill

Recognition and measurement

Goodwill acquired from business combinations before January 1, 2010, is stated at its carrying amount which was recognized under the Group’s previous accounting policy, prior to the transition to Korean IFRS.

Goodwill acquired from business combinations after January 1, 2010, is initially measured as the excess of the aggregate of the consideration transferred, fair value of non-controlling interest and the acquisition-date fair value of the acquirer’s previously held equity interest in the acquiree over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the business acquired, the difference is recognized in profit or loss.

For each business combination, the Group decides whether the non-controlling interest in the acquiree is initially measured at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets at the acquisition date.

Acquisition-related costs incurred to effect a business combination are charged to expenses in the periods in which the costs are incurred and the services are received, except for the costs to issue debt or equity securities.

Additional acquisitions of non-controlling interest

Additional acquisitions of non-controlling interests are accounted for as equity transactions. Therefore, no additional goodwill is recognized.

Subsequent measurement

Goodwill is not amortized and is stated at cost less accumulated impairment losses. However, goodwill that forms part of the carrying amount of an investment in associates is not separately recognized and an impairment loss recognized is not allocated to any asset, including goodwill, which forms part of the carrying amount of the investment in the associates.

3.10.2 Subsequent expenditure

Subsequent expenditure is capitalized only when it enhances values of the assets. Internally generated intangible assets, such as goodwill and trade name, are not recognized as assets but expensed as incurred.

3.11 Leases

3.11.1 Finance lease
A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. At the commencement of the lease term, the Group recognizes finance leases as assets and liabilities in its statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs of the lessee are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Group adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is fully depreciated over the shorter of the lease term and its useful life.

3.11.2 Operating lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Leases in the financial statements of lessees

Lease payments under an operating lease (net of any incentives received from the lessor) are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the asset's benefit.

Leases in the financial statements of lessors

Lease income from operating leases are recognized in income on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred by the lessors in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

3.12 Impairment of Non-Financial Assets

The Group assesses at the end of each reporting period whether there is any indication that a non-financial asset, except for (i) deferred income tax assets, (ii) assets arising from employee benefits and (iii) non-current assets (or group of assets to be sold) classified as held for sale, may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. However, irrespective of whether there is any indication of impairment, the Group tests (i) goodwill acquired in a business combination, (ii) intangible assets with an indefinite useful life and (iii) intangible assets not yet available for use for impairment annually by comparing their carrying amount with their recoverable amount.

The recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit that are discounted by a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss and recognized immediately in profit or loss. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

An impairment loss recognized for goodwill is not reversed in a subsequent period. The Group assesses at the end of each reporting period whether there is any indication that an impairment

loss recognized in prior periods for an asset, other than goodwill, may no longer exist or may have decreased, and an impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

3.13 Non-Current Assets Held for Sale

A non-current asset or disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. A non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell which is measured in accordance with the applicable Korean IFRS, immediately before the initial classification of the asset (or disposal group) as held for sale.

A non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale is not depreciated (or amortized).

Impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. Gains are recognized for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized.

3.14 Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. After initial recognition, financial liabilities at fair value through profit or loss are measured at fair value and gains or losses arising from changes in the fair value, and gains or losses from sale and repayment of financial liabilities at fair value through profit or loss are recognized as net gains on financial instruments at fair value through profit or loss in the statement of comprehensive income.

3.15 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of provisions, and where the effect of the time value of money is material, the amount of provisions are the present value of the expenditures expected to be required to settle the obligation.

Provisions on confirmed and unconfirmed acceptances and guarantees, unfunded commitments of credit cards and unused credit lines of consumer and corporate loans are recognized using a

valuation model that applies the credit conversion factor, probability of default, and loss given default.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provisions are reversed.

If the Group has a contract that is onerous, the present obligation under the contract is recognized and measured as provisions. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the minimum net cost to exit from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

3.16 Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer (the Group) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognized at fair value. After initial recognition, financial guarantee contracts are measured at the higher of:

– The amount determined in accordance with Korean IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets, and*
– The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with Korean IFRS 1018, *Revenue.*

3.17 Equity Instrument issued by the Group

An equity instrument is any contract or agreement that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted, net of tax, from the equity.

3.18 Revenue Recognition

3.18.1 Interest income and expense

Interest income and expense are recognized 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 (or groups of financial assets or financial liabilities) 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 receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the

effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Group uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Interest on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.18.2 Fee and commission income

The Group recognizes financial service fees in accordance with the accounting standard of the financial instrument related to the fees earned.

Fees that are an integral part of the effective interest of a financial instrument

Such fees are generally treated as adjustments of effective interest. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction and origination fees received on issuing financial liabilities measured at amortized cost. However, fees relating to the creation or acquisition of a financial instrument at fair value through profit or loss are recognized as revenue immediately.

Fees earned as services are provided

Such fees are recognized as revenue as the services are provided. The fees include fees charged for servicing a financial instrument and charged for managing investments.

Fees that are earned on the execution of a significant act

Such fees are recognized as revenue when the significant act has been completed.

Commission on the allotment of shares to a client is recognized as revenue when the shares have been allotted and placement fees for arranging a loan between a borrower and an investor is recognized as revenue when the loan has been arranged.

A syndication fee received by the Group that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants) is compensation for the service of syndication. Such a fee is recognized as revenue when the syndication has been completed.

3.18.3 Dividend income

Dividend income is recognized in profit or loss when the right to receive payment is established. Dividend income from financial assets at fair value through profit or loss and financial investment

is recognized in profit or loss as part of net gains on financial assets at fair value through profit or loss and other operating income and expenses, respectively.

3.19 Employee Compensation and Benefits

3.19.1 Post-employment benefits:

Defined benefit plans

All post-employment benefits, other than defined contribution plans, are classified as defined benefit plans. The amount recognized as a net defined benefit liability is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period.

The present value of the defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit method. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. Actuarial gains and losses including experience adjustments and the effects of changes in actuarial assumptions are recognized in other comprehensive income(loss).

When the total of the present value of the defined benefit obligation minus the fair value of plan assets results in an asset, it is recognized to the extent of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Past service cost is the change in the present value of the defined benefit obligation, which arises when the Group introduces a defined benefit plan or changes the benefits of an existing defined benefit plan. Such past service cost is immediately recognized as an expense for the year.

Defined contribution plans

The contributions are recognized as employee benefit expense when they are due.

3.19.2 Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service. The undiscounted amount of short-term employee benefits expected to be paid in exchange for that service is recognized as a liability (accrued expense), after deducting any amount already paid.

The expected cost of profit-sharing and bonus payments are recognized as liabilities when the Group has a present legal or constructive obligation to make such payments as a result of past events rendered by employees and a reliable estimate of the obligation can be made.

3.19.3 Share-based payment

The Group operates share-based payment arrangements granting awards to directors and employees of the Group. The Group has a choice of whether to settle the awards in cash or by issuing equity instruments of the parent company at the date of settlement.

For a share-based payment transaction in which the terms of the arrangement provide the Group with the choice of whether to settle in cash or by issuing equity instruments, the Group determines that it has a present obligation to settle in cash because the Group has a past practice and a stated policy of settling in cash. Therefore, the Group accounts for the transaction in accordance with the requirements of cash-settled share-based payment transactions.

The Group measures the services acquired and the liability incurred at fair value. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

3.19.4 Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. An entity shall recognize a liability and expense for termination benefits at the earlier of the following dates: when the entity can no longer withdraw the offer of those benefits and when the entity recognizes costs for a restructuring that is within the scope of Korean IFRS 1037 and involves the payment of termination benefits. Termination benefits are measured by considering the number of employees expected to accept the offer in the case of a voluntary early retirement. Termination benefits over 12 months after the reporting period are discounted to present value.

3.20 Income Tax Expenses

Income tax expense (tax income) comprises current tax expense (current tax income) and deferred income tax expense (deferred income tax income). Current and deferred income tax are recognized as income or expense and included in profit or loss for the year, except to the extent that the tax arises from (a) a transaction or an event which is recognized, in the same or a different period outside profit or loss, either in other comprehensive income or directly in equity and (b) a business combination.

3.20.1 Current income tax

Current income tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. A difference between the taxable profit and accounting profit may arise when income or expense is included in accounting profit in one period, but is included in taxable profit in a different period. Differences may also arise if there is revenue that is exempt from taxation, or expense that is not deductible in determining taxable profit (tax loss). Current income tax liabilities (assets) for the current and prior periods are measured at the amount

expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The Group offsets current income tax assets and current income tax liabilities if, and only if, the Group (a) has a legally enforceable right to set off the recognized amounts and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.20.2 Deferred income tax

Deferred income tax is recognized, using the asset-liability method, on temporary differences arising between the tax based amount of assets and liabilities and their carrying amount in the consolidated financial statements. Deferred income tax liabilities are recognized for all taxable temporary differences and deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, and associates, except for deferred income tax liabilities for which the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period. The Group reduces the carrying amount of a deferred income tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred income tax liabilities and deferred income tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Group offsets deferred income tax assets and deferred income tax liabilities when the Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity; or different taxable entities which intend either to settle current income tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered.

3.20.3 Uncertain tax positions

Uncertain tax positions arise from tax treatments applied by the Group which may be challenged by the tax authorities due to the complexity of the transaction or different interpretation of the tax laws, a claim for rectification brought by the Group, or an appeal for a refund claimed from the tax authorities related to additional assessments. The Group recognizes its uncertain tax positions in the consolidated financial statements based on the guidance in Korean IFRS 1012. The income tax asset is recognized if a tax refund is probable for taxes paid and levied by the tax authority. However, interest and penalties related to income tax are recognized in accordance with Korean IFRS 1037.

3.21 Transactions with the Trust Accounts

Under the Financial Investment Services and Capital Markets Act, the Group recognizes trust accounts ("the trust accounts") as separate. The borrowings from trust accounts represent transfer of funds in trust accounts into banking accounts. Such borrowings from trust accounts are recorded as receivables from the banking accounts in the trust accounts and as borrowings from trust accounts in the banking accounts. The Group's banking accounts earn trust fees from the trust accounts for its management of trust assets and operations. The reserves for future profits and losses are set up in the trust accounts for profits and losses related to those trust funds with a guarantee of the principal or of the principal and a certain minimum rate of return in accordance with the relevant laws and regulations applicable to trust operations. The reserves are used to provide for the losses on such trust funds and, if the losses incurred are in excess of the reserves for future losses, the excess losses are compensation paid as a loss on trust management in other operating expenses and the trust accounts recognize the corresponding compensation as compensation from banking accounts.

3.22 Operating Segments

Operating segments are components of the Group where separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Segment information includes items which are directly attributable and reasonably allocated to the segment.

4. Financial Risk Management

4.1 Summary

4.1.1 Overview of Financial Risk Management Policy

The financial risks that the Group is exposed to are credit risk, market risk, liquidity risk, operational risk and others.

The note regarding financial risk management provides information about the risks that the Group is exposed to, including the objectives, policies and processes for managing the risks, the methods used to measure the risks, and capital adequacy. Additional quantitative information is disclosed throughout the consolidated financial statements.

The Group's risk management system focuses on increasing transparency, developing the risk management environment, preventing transmission of risk to other related subsidiaries, and the preemptive response to risk due to rapid changes in the financial environment to support the Group's long-term strategy and business decisions efficiently. Credit risk, market risk, liquidity risk, and operational risk have been recognized as the Group's key risks. These risks are measured in Economic Capital or Value at Risk (VaR) and are managed using a statistical method.

4.1.2 Risk Management Organization

Risk Management Committee

The Risk Management Committee establishes risk management strategies in accordance with the directives of the Board of Directors and determines the Group's target risk appetite, approves significant risk matters and reviews the level of risks that the Group is exposed to and the appropriateness of the Group's risk management operations as an ultimate decision-making authority.

Risk Management Council

The Risk Management Council is a consultative group which reviews and makes decisions on matters delegated by the Risk Management Committee and discusses the detailed issues relating to the Group's risk management.

Risk Management Group

The Risk Management Group is responsible for managing specific policies, procedures and work processes relating to the Group's risk management.

4.2 Credit Risk

4.2.1 Overview of Credit Risk

Credit risk is the risk of possible losses in an asset portfolio in the event of a counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. For risk management reporting purposes, the individual borrower's default risk, country risk, specific risks and other credit risk exposure components are considered as a whole.

4.2.2 Credit Risk Management

The Group measures expected losses and economic capital on assets that are subject to credit risk management whether on- or off-balance items and uses expected losses and economic capital as a management indicator. The Group manages credit risk by allocating credit risk economic capital limits.

In addition, the Group controls the credit concentration risk exposure by applying and managing total exposure limits to prevent an excessive risk concentration to each industry and borrower.

The Group has organized a credit risk management team that focuses on credit risk management in accordance with the Group's credit risk management policy. The Group's loan analysis department which is independent from the sales department is responsible for loan policy, loan limit, loan review, credit evaluation, restructuring and subsequent events. Kookmin Bank's risk management group is also responsible for planning risk management policy, applying limits of credit lines, measuring the credit risk economic capital, adjusting credit limits, reviewing credit and verifying credit evaluation models.

4.2.3 Maximum exposure to credit risk

The Group's maximum exposures of financial instruments, excluding equity securities, to credit risk without consideration of collateral values as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	**2014**	**2013**
Financial assets		
Due from financial institutions	₩ 11,429,305	₩ 11,032,528
Financial assets at fair value through profit or loss		
Financial assets held for trading[1]	7,420,128	6,912,897
Derivatives	1,910,217	1,718,882
Loans[2]	211,525,560	203,123,755
Financial investments		
Available-for-sale financial assets	16,415,900	16,431,786
Held-to-maturity financial assets	10,124,136	11,011,518
Other financial assets[2]	6,529,032	5,162,649
	265,354,278	255,394,015
Off-balance items		
Acceptances and guarantees contracts	9,045,824	9,804,675
Financial guarantee contracts	4,438,399	3,097,372
Commitments	59,612,220	59,359,752
	73,096,443	72,261,799
	₩ 338,450,721	₩ 327,655,814

[1]The amounts of ₩ 51,345 million and ₩ 40,252 million as of December 31, 2014 and 2013,

respectively, related to financial instruments indexed to the price of gold are included.
[2] Loans and other financial assets are presented net of allowance for doubtful accounts.

4.2.4 Credit risk of loans

The Group maintains an allowance for loan losses associated with credit risk on loans to manage its credit risk.

Loans are categorized as follows:

(In millions of Korean won)

	2014					
Loans	**Retail**		**Corporate**		**Total**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Neither past due nor impaired	₩ 110,154,228	98.14	₩ 98,992,267	97.81	₩ 209,146,495	97.98
Past due but not impaired	1,437,183	1.28	328,393	0.32	1,765,576	0.83
Impaired	652,092	0.58	1,888,994	1.87	2,541,086	1.19
	112,243,503	100.00	101,209,654	100.00	213,453,157	100.00
Allowances	(476,974)	0.42	(1,450,623)	1.43	(1,927,597)	0.90
Carrying amount	₩ 111,766,529		₩ 99,759,031		₩ 211,525,560	

(In millions of Korean won)

	2013					
Loans	**Retail**		**Corporate**		**Total**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Neither past due nor impaired	₩ 101,595,876	97.29	₩ 97,889,878	96.84	₩ 199,485,754	97.06
Past due but not impaired	1,890,536	1.81	529,237	0.52	2,419,773	1.18
Impaired	944,275	0.90	2,664,212	2.64	3,608,487	1.76
	104,430,687	100.00	101,083,327	100.00	205,514,014	100.00
Allowances	(572,286)	0.55	(1,817,973)	1.80	(2,390,259)	1.16
Carrying amount	₩ 103,858,401		₩ 99,265,354		₩ 203,123,755	

Credit quality of loans that are neither past due nor impaired are as follows:

(In millions of Korean won)

	2014		
	Retail	**Corporate**	**Total**
Grade 1	₩ 97,566,588	₩ 42,053,952	₩ 139,620,540
Grade 2	11,043,769	43,764,285	54,808,054
Grade 3	872,739	10,949,734	11,822,473
Grade 4	453,942	1,858,963	2,312,905

Grade 5	217,190	365,333	582,523
	₩ 110,154,228	₩ 98,992,267	₩ 209,146,495

(In millions of Korean won)

	2013		
	Retail	**Corporate**	**Total**
Grade 1	₩ 87,397,741	₩ 40,079,476	₩ 127,477,217
Grade 2	12,116,588	43,441,095	55,557,683
Grade 3	1,195,457	11,933,816	13,129,273
Grade 4	630,547	2,174,914	2,805,461
Grade 5	255,543	260,577	516,120
	₩ 101,595,876	₩ 97,889,878	₩ 199,485,754

Credit quality of loans graded according to internal credit ratings are as follows:

	Retail	**Corporate**
Grade 1	1 to 5 grade	AAA to BBB+
Grade 2	6 to 8 grade	BBB to BB
Grade 3	9 to 10 grade	BB- to B
Grade 4	11 grade	B- to CCC
Grade 5	12 grade or under	CC or under

Loans that are past due but not impaired are as follows:

(In millions of Korean won)

	2014			
	1 ~ 29 days	**30 ~ 59 days**	**60 ~ 89 days**	**Total**
Retail	₩ 1,231,819	₩ 138,947	₩ 66,417	₩ 1,437,183
Corporate	277,288	37,090	14,015	328,393
	₩ 1,509,107	₩ 176,037	₩ 80,432	₩ 1,765,576

(In millions of Korean won)

	2013			
	1 ~ 29 days	**30 ~ 59 days**	**60 ~ 89 days**	**Total**
Retail	₩ 1,726,992	₩ 108,070	₩ 55,474	₩ 1,890,536
Corporate	427,767	53,796	47,674	529,237
	₩ 2,154,759	₩ 161,866	₩ 103,148	₩ 2,419,773

Impaired loans are as follows:

(In millions of Korean won)

	2014		
	Retail	**Corporate**	**Total**
Loans	₩ 652,092	₩ 1,888,994	₩ 2,541,086
Allowances	(257,641)	(986,848)	(1,244,489)
Individual	-	(780,376)	(780,376)
Collective	(257,641)	(206,472)	(464,113)
	₩ 394,451	₩ 902,146	₩ 1,296,597

(In millions of Korean won)

	2013		
	Retail	**Corporate**	**Total**
Loans	₩ 944,275	₩ 2,664,212	₩ 3,608,487
Allowances	(377,158)	(1,306,282)	(1,683,440)
Individual	-	(1,087,101)	(1,087,101)
Collective	(377,158)	(219,181)	(596,339)
	₩ 567,117	₩ 1,357,930	₩ 1,925,047

A quantification of the extent to which collateral and other credit enhancements mitigate credit risk as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014				
	Impaired Loans		**Non-impaired Loans**		
	Individual	**Collective**	**Past due**	**Not past due**	**Total**
Guarantee	₩ 18,255	₩ 143,431	₩ 277,607	₩ 34,969,421	₩ 35,408,714
Deposits and savings	948	15,466	35,568	1,781,548	1,833,530
Property and equipment	7,604	4,806	1,943	1,151,842	1,166,195
Real estate	177,623	507,705	1,124,130	123,011,312	124,820,770
	₩ 204,430	₩ 671,408	₩ 1,439,248	₩ 160,914,123	₩163,229,209

(In millions of Korean won)

	2013				
	Impaired Loans		**Non-impaired Loans**		
	Individual	**Collective**	**Past due**	**Not past due**	**Total**
Guarantee	₩ 29,929	₩ 172,122	₩ 307,587	₩ 29,459,512	₩ 29,969,150
Deposits and savings	317	17,787	55,902	1,850,313	1,924,319
Property and equipment	8,901	1,758	799	1,110,056	1,121,514
Real estate	331,462	503,322	1,492,675	114,531,350	116,858,809
	₩ 370,609	₩ 694,989	₩ 1,856,963	₩ 146,951,231	₩149,873,792

4.2.5 Credit quality of securities

The financial assets at fair value through profit or loss and financial investments (debt securities) excluding equity securities, that are exposed to credit risk are as follows:

(In millions of Korean won)	**2014**	**2013**
Securities that are neither past due nor impaired	₩ 33,908,029	₩ 34,315,191
Impaired securities	790	758
	₩ 33,908,819	₩ 34,315,949

The credit quality of securities (debt securities) that are neither past due nor impaired as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014					
	Grade 1	**Grade 2**	**Grade 3[1]**	**Grade 4**	**Grade 5**	**Total**
Financial assets held for trading	₩ 6,187,646	₩ 1,181,137	₩ -	₩ -	₩ -	₩ 7,368,783
Available-for-sale financial assets	16,062,648	288,531	63,931	-	-	16,415,110
Held-to-maturity financial assets	10,124,136	-	-	-	-	10,124,136
	₩ 32,374,430	₩ 1,469,668	₩ 63,931	₩ -	₩ -	₩ 33,908,029

(In millions of Korean won)

	2013					
	Grade 1	**Grade 2**	**Grade 3[1]**	**Grade 4**	**Grade 5**	**Total**
Financial assets held for trading	₩ 5,759,568	₩ 1,113,077	₩ -	₩ -	₩ -	₩ 6,872,645
Available-for-sale financial assets	16,134,333	236,359	₩ 60,336	-	-	16,431,028
Held-to-maturity financial assets	11,011,518	-	-	-	-	11,011,518
	₩ 32,905,419	₩ 1,349,436	₩ 60,336	₩ -	₩ -	₩ 34,315,191

[1] As there is no foreign credit rating, it is classified as Grade 3.

The credit qualities of securities (debt securities) according to the credit ratings by external rating agencies are as follows:

Credit quality	Domestic			Foreign		
	KAP	KIS	NICE P&I	S&P	Fitch-IBCA	Moody's
Grade 1	AA0 to AAA	AA0 to AAA	AA0 to AAA	A- to AAA	A- to AAA	A3 to Aaa
Grade 2	A- to AA-	A- to AA-	A- to AA-	BBB- to BBB+	BBB- to BBB+	Baa3 to Baa1
Grade 3	BBB0 to BBB+	BBB0 to BBB+	BBB0 to BBB+	BB to BB+	BB to BB+	Ba2 to Ba1
Grade 4	BB0 to BBB-	BB0 to BBB-	BB0 to BBB-	B+ to BB-	B+ to BB-	B1 to Ba3
Grade 5	BB- or under	BB- or under	BB- or under	B or under	B or under	B2 or under

Debt securities' credit qualities denominated in Korean won are based on the lowest credit rating by the three domestic credit rating agencies above, and those denominated in foreign currencies are based on the lowest credit ratings by the three foreign credit rating agencies above.

4.2.6 Credit risk mitigation of derivative financial instruments

A quantification of the extent to which collateral mitigates credit risk of derivative financial instruments as of December 31, 2014 and 2013, is as follows:

(In millions of Korean won)	2014	2013
Deposits and savings, securities and others	₩ 329,482	₩ 271,380

4.2.7 Credit risk concentration analysis

The details of the Group's loans by country as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014					
	Retail	Corporate	Total	%	Allowances	Carrying amount
Korea	₩ 112,193,456	₩ 99,117,030	₩ 211,310,486	99.00	₩(1,876,968)	₩ 209,433,518
China	84	764,415	764,499	0.36	(15,543)	748,956
Japan	2,581	271,914	274,495	0.13	(31,393)	243,102
U.S.	-	698,294	698,294	0.33	(629)	697,665
Europe	9	184,307	184,316	0.09	(389)	183,927
Others	47,373	173,694	221,067	0.09	(2,675)	218,392
Total	₩ 112,243,503	₩ 101,209,654	₩ 213,453,157	100.00	₩(1,927,597)	₩ 211,525,560

(In millions of Korean won)

	2013					
	Retail	Corporate	Total	%	Allowances	Carrying amount
Korea	₩ 104,332,072	₩ 99,282,038	₩ 203,614,110	99.08	₩(2,326,731)	₩ 201,287,379
China	227	583,176	583,403	0.28	(16,075)	567,328

Japan	5,708	475,242	480,950	0.23	(44,248)	436,702
U.S.	-	448,868	448,868	0.22	(653)	448,215
Europe	9	98,752	98,761	0.05	(287)	98,474
Others	92,671	195,251	287,922	0.14	(2,265)	285,657
Total	₩ 104,430,687	₩ 101,083,327	₩ 205,514,014	100.00	₩(2,390,259)	₩ 203,123,755

The details of the Group's corporate loans by industry as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014			
	Loans	**%**	**Allowances**	**Carrying amount**
Financial institutions	₩ 8,988,881	8.88	₩ (81,715)	₩ 8,907,166
Manufacturing	32,644,110	32.25	(520,898)	32,123,212
Service	39,106,240	38.64	(276,889)	38,829,351
Wholesale and retail	13,150,375	12.99	(150,237)	13,000,138
Construction	3,688,014	3.64	(396,672)	3,291,342
Public	741,679	0.74	(6,718)	734,961
Others	2,890,355	2.86	(17,494)	2,872,861
	₩ 101,209,654	100.00	₩ (1,450,623)	₩ 99,759,031

(In millions of Korean won)

	2013			
	Loans	**%**	**Allowances**	**Carrying amount**
Financial institutions	₩ 10,436,196	10.32	₩ (84,912)	₩ 10,351,284
Manufacturing	31,112,982	30.78	(605,527)	30,507,455
Service	38,213,720	37.80	(434,041)	37,779,679
Wholesale and retail	13,855,900	13.71	(192,569)	13,663,331
Construction	4,283,211	4.24	(474,580)	3,808,631
Public	654,998	0.65	(8,469)	646,529
Others	2,526,320	2.50	(17,875)	2,508,445
	₩ 101,083,327	100.00	₩ (1,817,973)	₩ 99,265,354

The details of the Group's retail loans by type as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014			
	Loans	**%**	**Allowances**	**Carrying amount**
Housing purpose	₩ 52,456,336	46.73	₩ (30,199)	₩ 52,426,137
General purpose	59,787,167	53.27	(446,775)	59,340,392
	₩ 112,243,503	100.00	₩ (476,974)	₩ 111,766,529

(in millions of Korean won)	2013			
	Loans	**%**	**Allowances**	**Carrying amount**
Housing purpose	₩ 46,422,195	44.45	₩ (77,222)	₩ 46,344,973
General purpose	58,008,492	55.55	(495,064)	57,513,428
	₩ 104,430,687	100.00	₩ (572,286)	₩ 103,858,401

The details of the Group's securities (debt securities) and derivative financial instruments by industry as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	
	Amount	**%**
Financial assets held for trading		
Government and government funded institutions	₩ 2,683,605	36.42
Banking and Insurance	3,863,046	52.42
Others	822,132	11.16
	7,368,783	100.00
Derivative financial assets		
Government and government funded institutions	19,732	1.03
Banking and Insurance	1,755,495	91.90
Others	134,990	7.07
	1,910,217	100.00
Available-for-sale financial assets		
Government and government funded institutions	7,204,867	43.89
Banking and Insurance	7,458,222	45.43
Others	1,752,811	10.68
	16,415,900	100.00
Held-to-maturity financial assets		
Government and government funded institutions	8,072,831	79.74
Banking and Insurance	1,519,324	15.01
Others	531,981	5.25
	10,124,136	100.00
	₩ 35,819,036	

(In millions of Korean won)

	2013	
	Amount	**%**
Financial assets held for trading		
Government and government funded institutions	₩ 2,649,342	38.55
Banking and Insurance	3,438,297	50.03
Others	785,006	11.42
	6,872,645	100.00
Derivative financial assets		
Government and government funded institutions	18,248	1.06
Banking and Insurance	1,589,627	92.48
Others	111,007	6.46
	1,718,882	100.00
Available-for-sale financial assets		
Government and government funded institutions	8,980,993	54.65
Banking and Insurance	6,394,560	38.92
Others	1,056,233	6.43
	16,431,786	100.00
Held-to-maturity financial assets		
Government and government funded institutions	9,146,802	83.06
Banking and Insurance	1,137,057	10.33
Others	727,659	6.61
	11,011,518	100.00
	₩ 36,034,831	

The details of the Group's securities (debt securities) and derivative financial instruments by country, as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	
	Amount	%
Financial assets held for trading		
Korea	₩ 7,309,697	99.20
India	-	-
Others	59,086	0.80
	7,368,783	100.00
Derivative financial assets		
Korea	736,644	38.56
United States	273,807	14.33
Others	899,766	47.11
	1,910,217	100.00
Available-for-sale financial assets		
Korea	16,363,300	99.68
Others	52,600	0.32
	16,415,900	100.00
Held-to-maturity financial assets		
Korea	10,124,136	100.00
	10,124,136	100.00
	₩ 35,819,036	

(In millions of Korean won)	2013	
	Amount	%
Financial assets held for trading		
Korea	₩ 6,856,355	99.76
India	3,194	0.05
Others	13,096	0.19
	6,872,645	100.00
Derivative financial assets		
Korea	526,203	30.61
United States	283,827	16.52
Others	908,852	52.87
	1,718,882	100.00
Available-for-sale financial assets		
Korea	16,407,240	99.85
Others	24,546	0.15
	16,431,786	100.00
Held-to-maturity financial assets		
Korea	11,011,518	100.00
	11,011,518	100.00
	₩ 36,034,831	

The counterparties to the financial assets under due from financial institutions and financial instruments indexed to the price of gold within financial assets held for trading and derivatives are in the banking and insurance industries and have high credit ratings.

4.3 Liquidity risk

4.3.1 Overview of liquidity risk

Liquidity risk is the risk of insolvency or loss due to a disparity between the inflow and outflow of funds, unexpected outflow of funds, and obtaining funds at a high price or disposing of securities at an unfavorable price due to lack of available funds. The Group manages its liquidity risk through analysis of the contractual maturity of interest-bearing assets and liabilities, assets and liabilities related to the other in and outflows, and off-balance items related to the inflow and outflows of currency derivative instruments and others.

4.3.2. Liquidity risk management and indicator

The liquidity risk is managed by ALM (‘Asset Liability Management’) and related guidelines which are applied to the risk management policies and procedures that addresses all the possible risks that arise from the overall business of the Group.

The Group has to establish the liquidity risk management strategy including the objectives of liquidity risk management, management policies and internal control system, and obtain approval from Risk Management Committee. Risk Management Committee operates the Risk Management Council for the purpose of efficient risk management, monitors establishment and enforcement of policies based on risk management strategy.

For the purpose of liquidity management, liquidity gap ratio, liquidity ratio, maturity gap ratio and the results of the stress testing related to liquidity risk on transactions affecting the inflow and outflows of funds and transactions of off-balance items are measured, managed and reported to the Risk Management Council and Risk Management Committee on a regular basis.

4.3.3. Analysis of remaining contractual maturity of financial assets and liabilities

Cash flows disclosed below are undiscounted contractual principal and interest to be received (paid) and, thus, differ from the amount in the consolidated financial statements which are based on the present value of expected cash flows. The amount of interest to be received or paid on floating rate assets and liabilities is measured on the assumption that the current interest rate would be the same through maturity.

The remaining contractual maturity of financial assets and liabilities as of December 31, 2014 and 2013, is as follows:

(In millions of Korean won)

	2014						
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets							
Cash and due from financial institutions[1]	₩ 6,199,811	₩ 115,410	₩ 397,630	₩ 398,069	₩ -	₩ -	₩ 7,110,920
Financial assets held for trading[2]	7,520,471	-	-	-	-	-	7,520,471
Derivatives held for trading[2]	1,800,664	-	-	-	-	-	1,800,664
Derivatives held for hedging[3]	-	7,742	(1,147)	20,804	77,968	118,803	224,170
Loans	-	15,031,604	20,823,904	73,586,107	55,823,249	87,750,770	253,015,634
Available-for-sale financial assets[4]	2,647,102	435,221	1,537,962	4,386,464	10,272,973	767,319	20,047,041
Held-to-maturity financial assets	-	272,086	630,918	3,354,275	6,281,737	462,437	11,001,453
Other financial assets	-	4,791,711	-	1,293,372	-	-	6,085,083
	₩ 18,168,048	₩ 20,653,774	₩ 23,389,267	₩ 83,039,091	₩ 72,455,927	₩ 89,099,329	₩ 306,805,436
Financial liabilities							
Financial liabilities held for trading	₩ 51,650	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 51,650
Derivatives held for trading[2]	1,755,674	-	-	-	-	-	1,755,674
Derivatives held for hedging[3]	-	-	652	146	6,304	(15,581)	(8,479)
Deposits [5]	83,199,560	13,960,805	25,460,933	80,474,828	9,602,204	3,266,903	215,965,233
Debts	813	3,958,587	1,814,096	4,840,755	3,646,259	281,796	14,542,306
Debentures	159,620	278,543	1,037,466	3,419,151	7,922,417	3,907,637	16,724,834
Other financial liabilities	-	6,200,724	895	67,886	12,182	86,576	6,368,263
	₩ 85,167,317	₩ 24,398,659	₩ 28,314,042	₩ 88,802,766	₩ 21,189,366	₩ 7,527,331	₩ 255,399,481
Off- balance items							
Commitments[6]	₩ 59,612,220	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 59,612,220
Financial guarantee contracts[7]	4,438,399	-	-	-	-	-	4,438,399
	₩ 64,050,619	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 64,050,619

(In millions of Korean won)

	2013						
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets							
Cash and due from financial institutions[1]	₩ 5,726,599	₩ 71,127	₩ 114,727	₩ 357,637	₩ -	₩ -	₩ 6,270,090
Financial assets held for trading[2]	7,069,875	-	-	-	-	-	7,069,875
Derivatives held for trading[2]	1,581,436	-	-	-	-	-	1,581,436
Derivatives held for hedging[3]	-	10,944	1,617	15,533	124,794	123,782	276,670
Loans	-	15,809,702	20,506,220	72,953,127	54,324,507	80,955,869	244,549,425
Available-for-sale financial assets[4]	2,341,974	522,162	1,470,780	4,475,576	10,305,903	1,341,860	20,458,255
Held-to-maturity financial assets	-	252,760	497,434	3,189,761	7,747,310	522,007	12,209,272
Other financial assets	-	3,572,795	2,798	1,334,108	-	-	4,909,701
	₩ 16,719,884	₩ 20,239,490	₩ 22,593,576	₩ 82,325,742	₩ 72,502,514	₩ 82,943,518	₩ 297,324,724
Financial liabilities							
Financial liabilities held for trading	₩ 40,067	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 40,067
Derivatives held for trading[2]	1,561,392	-	-	-	-	-	1,561,392
Derivatives held for hedging[3]	-	-	25,411	179,000	8,959	-	213,370
Deposits [5]	74,289,043	14,249,778	28,682,303	76,910,326	8,677,170	2,676,923	205,485,543
Debts	2,615	3,221,888	1,711,330	4,522,295	4,043,146	355,736	13,857,010
Debentures	17,917	605,205	1,594,452	6,652,434	5,987,039	4,596,871	19,453,918
Other financial liabilities	-	6,848,581	837	63,086	3,380	31,619	6,947,503
	₩ 75,911,034	₩ 24,925,452	₩ 32,014,333	₩ 88,327,141	₩ 18,719,694	₩ 7,661,149	₩ 247,558,803
Off- balance items							
Commitments[6]	₩ 59,359,752	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 59,359,752
Financial guarantee contracts[7]	3,097,372	-	-	-	-	-	3,097,372
	₩ 62,457,124	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 62,457,124

[1] The amounts of ₩ 6,879,144 million and ₩ 7,471,062 million, which are restricted amount due from the financial institutions as of December 31, 2014 and 2013, respectively, are excluded.

[2] Financial instruments held for trading, and derivatives held for trading are not managed by contractual maturity because they are held for trading or redemption before maturity. Therefore, the carrying amounts are classified as the 'On demand' category.

[3] Cash flows of derivative instruments held for fair value hedging are shown at net amounts of cash inflows and outflows by remaining contractual maturity.

[4] Equity investments in financial assets classified as available-for-sale are generally included in the 'On demand' category as most are available for sale at anytime. However, in the case of equity investments which are restricted for sale, these are classified in the maturity section to which the end of the restriction period applies.

[5] Deposits that are contractually repayable on demand or on short notice are classified under the 'On demand' category.

[6] Unused lines of credit within commitments are included under the 'On demand' category as

payments can be required upon request.
[7] Financial guarantee contracts are included under the 'On demand' category as payments can be required upon request.

4.4 Market risk

4.4.1 Concept

Market risk is the risk of possible losses which arise from changes in market factors, such as interest rate, stock price, foreign exchange rate and other market factors that affect the fair value or future cash flows of financial instruments, such as securities and derivatives amongst others. The most significant risks associated with trading positions are interest rate risks and currency risks, and other risks include stock price risks. In addition, the Group is exposed to interest rate risks and currency risks associated with non-trading positions. The Group classifies exposures to market risk into either trading or non-trading positions for managerial purpose.

4.4.2 Risk management

The Group sets economic capital limits for market risk and interest rate risk and monitors the risks to manage the risk of trading and non-trading positions. The Group maintains risk management systems and procedures, such as trading policies and procedures, market risk management guidelines for trading positions and ALM risk management guidelines for non-trading positions in order to manage market risk efficiently. The procedures mentioned are implemented with approval from the Risk Management Committee and Risk Management Council.

The Group establishes market risk management policy, sets position limits, loss limits and VaR limits of each business group and approves newly developed derivative instruments through its Risk Management Council. The Market Risk Management Committee, which is chaired by the Chief Risk Officer (CRO), is practically the decision maker and sets position limits, loss limits, VaR limits, sensitivity limits and scenario loss limits for each division, at the level of each individual business department.

The ALCO determines the operational standards of interest and commission, the details of the establishment and prosecution of the Asset Liability Management (ALM) policies and enacts and amends relevant guidelines. The Risk Management Committee and Risk Management Council monitor the establishment and enforcement of ALM risk management policies and enact and amend ALM risk management guidelines. The interest rate risk limit is set based on the future assets/liabilities position and interest rate volatility estimation reflects the annual work plan. The Financial Planning Department and Risk Management Department measures and monitors the interest risk status and limits on a regular basis. The status and limits of interest rate risks, such as interest rate gap, duration gap and interest rate VaR, are reported to the ALCO and Risk Management Council on a monthly basis and to the Risk Management Committee on a quarterly basis. To ensure adequacy of interest rate and liquidity risk management, the Risk Management Department assigns the limits, monitors and reviews the risk management procedures and tasks conducted by the Financial Planning Department. Also, the Risk Management Department independently reports related information to management.

4.4.3 Trading Position

Definition of a trading position

Trading positions subject to market risk management are interest rate, stock price, commodity positions for short-term profit-taking and others. Also, they include all foreign exchange rate positions. The basic requirements of trading positions are defined under the Trading Policy and Guideline, are as follows:

- The trading position is not restricted for sale, is measured daily at fair value, and its significant inherent risks are able to be hedged in the market.
- The criteria for classification as a trading position are clearly defined in the Trading Policy and guideline, and separately managed by the trading department.
- The trading position is operated in accordance with the documented trading strategy and managed through position limits.
- The operating department or professional dealers have an authority to enforce a deal on the trading position within predetermined limits without pre-approval.
- The trading position is reported periodically to management for the purpose of the Group's risk management.

Observation method on market risk arising from trading positions

The Group calculates VaR to measure the market risk by using market risk management systems on the entire trading portfolio. Generally, the Group manages market risk on the trading portfolio. In addition, the Group controls and manages the risk of derivative trading based on the regulations and guidelines formulated by the Financial Supervisory Service.

Value at Risk (VaR)

i. Value at Risk (VaR)

The Group uses the value-at-risk methodology to measure the market risk of trading positions.

The Group now uses the 10-day VaR, which estimates the maximum amount of loss that could occur in ten days under an historical simulation model which is considered to be a full valuation method. The distributions of portfolio's value changes are estimated based on the data over the previous 250 business days, and ten-day VaR is calculated by subtracting net present market value from the value measured at a 99% confident level of portfolio's value distribution results.

VaR is a commonly used market risk measurement technique. However, the method has some shortcomings. VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movements are, however, not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses may vary depending on the assumptions made at the time of the calculation. In addition, the time periods used for the model, generally one or ten days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not

sufficient, or too long, the VaR results may understate or overstate the potential loss.

The Group uses an internal model (VaR) to measure general risk, and a standard method to measure each individual risk. Also, general and individual risks in some positions included in the consolidated financial statements in adoption of Korean IFRS, are measured using a standard method. Therefore, the market risk VaR may not reflect the market risk of each individual risk and some specific positions.

ii. Back Testing

Back testing is conducted on a daily basis to validate the adequacy of the market risk model. In back testing, the Group compares both the actual and hypothetical profit and loss with the VaR calculations.

iii. Stress Testing

Stress testing is carried out to analyze the impact of abnormal market situations on the trading and available-for-sale portfolio. It reflects changes in interest rates, stock prices, foreign exchange rates, implied volatilities of derivatives and other risk factors that have significant influence on the value of the portfolio. The Group mainly uses an historical scenario tool and also uses a hypothetical scenario tool for the analysis of abnormal market situations. Stress testing is performed at least once every quarter.

VaR at a 99%, excluding Stressed Value at Risks, confidence level of interest rate, stock price and foreign exchange rate risk for trading positions with a ten-day holding period by a subsidiary as of December 31, 2014 and 2013, are as follows:

	2014			
(In millions of Korean won)	**Average**	**Minimum**	**Maximum**	**Ending**
Interest rate risk	₩ 12,938	₩ 7,657	₩ 19,801	₩ 10,148
Stock price risk	1,627	714	3,858	851
Foreign exchange rate risk	12,049	5,070	14,705	10,814
Deduction of diversification effect				(8,809)
Total VaR	₩ 15,383	₩ 10,089	₩ 23,560	₩ 13,004

	2013			
(In millions of Korean won)	**Average**	**Minimum**	**Maximum**	**Ending**
Interest rate risk	₩ 16,270	₩ 7,428	₩ 24,979	₩ 16,967
Stock price risk	3,480	932	7,114	1,049
Foreign exchange rate risk	9,264	5,287	13,589	5,287
Deduction of diversification effect				(6,928)
Total VaR	₩ 17,316	₩ 10,868	₩ 22,249	₩ 16,375

Meanwhile, the required equity capital using the standardized method related to the positions which are not measured by VaR as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	**2014**	**2013**
Interest rate risk	₩ 792	₩ 921
Stock price risk	1,101	2
Foreign exchange rate risk	9,387	9,214
	₩ 11,280	₩ 10,137

Details of risk factors

i. Interest rate risk

Trading position interest rate risk usually arises from debt securities denominated in Korean won. The Group's trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. The Group manages interest rate risk on trading positions using market value-based tools such as VaR and sensitivity analysis (Price Value of a Basis Point: PVBP).

ii. Stock price risk

Stock price risk only arises from trading securities denominated in Korean won as the Group does not have any trading exposure to shares denominated in foreign currencies. The trading securities portfolio in Korean won are composed of exchange-traded stocks and derivative instruments linked to stock with strict limits on diversification.

iii. Foreign exchange rate risk

Foreign exchange rate risk arises from holding assets and liabilities denominated in foreign currency. Net foreign currency exposure mostly occurs from the foreign assets and liabilities which are denominated in US dollars and Kazakhstan Tenge, and the remainder in Japanese Yen or Euro. The Group sets both loss limits and net foreign currency exposure limits and manages comprehensive net foreign exchange exposures which consider both trading and non-trading portfolios.

4.4.4 Non-trading position

Definition of non-trading position

The most critical market risk that arises in non-trading portfolios is interest rate risk. Interest rate risk occurs due to mismatches on maturities and interest rate change periods between interest sensitive assets and liabilities. The Group measures interest rate risk arising from assets and liabilities denominated in Korean won and foreign currencies including derivative financial instruments held for hedging. Most interest-bearing assets and interest-bearing liabilities are denominated in Korean won. Most foreign currency assets and liabilities are denominated in US Dollars and the remainder in Japanese Yen or Euro.

Observation method on market risk arising from non-trading position

The main objective of interest rate risk management is to generate stable net interest income and to protect asset values against interest rate fluctuations. The Group manages the risk through interest rate gap analysis on interest rate maturities between interest-bearing assets and interest-bearing liabilities and measuring interest rate VaR.

Disclosure of results from each observation method

i. Interest rate gap analysis

Interest rate gap analysis is based on the interest rates repricing dates for interest-bearing assets and interest-bearing liabilities. It measures expected changes in net interest income by calculating the difference in the amounts of interest-bearing assets and interest-bearing liabilities in each maturity bucket. The Group conducts interest gap analysis on assets denominated in Korean won and foreign currencies on a monthly basis. However, where there is no contractual maturity for a particular instrument, then a maturity date is set according to internal liquidity risk management guidelines, determined by ALM.

The results of the interest rate gap analysis as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014					
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
Interest-bearing assets in Korean won						
Loans	₩ 68,690,823	₩ 55,960,715	₩ 43,966,843	₩ 11,880,610	₩ 12,884,897	₩193,383,888
Securities	3,291,226	2,140,258	4,959,292	13,258,159	3,052,427	26,701,362
Others	9,428,674	262,105	274,844	702,923	105,144	10,773,690
	₩ 81,410,723	₩ 58,363,078	₩ 49,200,979	₩ 25,841,692	₩ 16,042,468	₩230,858,940
Interest-bearing liabilities in Korean won						
Deposits	₩ 76,841,562	₩ 37,205,842	₩ 51,232,529	₩ 21,161,079	₩ 16,554,060	₩202,995,072
Debts	5,050,420	-	1,861	-	149,999	5,202,280
Others	10,126,026	1,310,000	1,761,900	4,677,338	3,187,784	21,063,048
	₩ 92,018,008	₩ 38,515,842	₩ 52,996,290	₩ 25,838,417	₩ 19,891,843	₩229,260,400
Gap	(10,607,285)	19,847,236	(3,795,311)	3,275	(3,849,375)	1,598,540
Accumulated gap	(10,607,285)	9,239,951	5,444,640	5,447,915	1,598,540	
Percentage (%)	(4.59)	4.00	2.36	2.36	0.69	
Interest-bearing assets in foreign currencies						
Loans	₩8,893,457	₩1,924,609	₩1,054,314	₩ 260,329	₩ 10,936	₩12,143,645
Securities	212,317	33,220	78,759	366,650	106,550	797,496
Others	870,227	329,637	335,499	879,360	-	2,414,723
	₩9,976,001	₩2,287,466	₩1,468,572	₩ 1,506,339	₩117,486	₩15,355,864

Interest-bearing liabilities in foreign currencies						
Deposits	₩ 1,855,823	₩ 2,399,770	₩ 354,414	₩ 124,060	₩ 38,045	₩ 4,772,112
Debts	3,995,282	1,311,170	823,802	82,773	13,026	6,226,053
Others	3,470,659	-	297,470	1,209,119	-	4,977,248
	₩ 9,321,764	₩ 3,710,940	₩1,475,686	₩1,415,952	₩ 51,071	₩15,975,413
Gap	₩ 654,237	₩(1,423,474)	₩ (7,114)	₩ 90,387	₩ 66,415	₩ (619,549)
Accumulated gap	654,237	(769,237)	(776,351)	(685,964)	(619,549)	
Percentage (%)	4.26	(5.01)	(5.06)	(4.47)	(4.03)	

	2013					
	Up to 3 months	**3~6 months**	**6~12 months**	**1~3 years**	**Over 3 years**	**Total**
Interest-bearing assets in Korean won						
Loans	₩ 72,001,554	₩ 53,136,309	₩ 41,279,196	₩ 8,007,075	₩ 10,032,240	₩184,456,374
Securities	3,148,736	1,415,750	5,476,813	13,295,939	4,226,456	27,563,694
Others	8,785,149	37,387	76,853	305,322	38,543	9,243,254
	₩ 83,935,439	₩ 54,589,446	₩ 46,832,862	₩ 21,608,336	₩ 14,297,239	₩221,263,322
Interest-bearing liabilities in Korean won						
Deposits	₩ 78,495,667	₩ 35,611,776	₩ 49,147,277	₩ 18,658,789	₩ 14,277,083	₩196,190,592
Debts	4,660,240	-	-	-	30,000	4,690,240
Others	8,350,016	2,354,810	1,500,677	2,290,000	3,937,784	18,433,287
	₩ 91,505,923	₩ 37,966,586	₩ 50,647,954	₩ 20,948,789	₩ 18,244,867	₩219,314,119
Gap	₩ (7,570,484)	₩ 16,622,860	₩ (3,815,092)	₩ 659,547	₩ (3,947,628)	₩ 1,949,203
Accumulated gap	(7,570,484)	9,052,376	5,237,284	5,896,831	1,949,203	
Percentage (%)	(3.42)	4.09	2.37	2.67	0.88	
Interest-bearing assets in foreign currencies						
Loans	₩ 9,340,182	₩ 1,652,576	₩ 540,205	₩ 170,500	₩ 7,964	₩ 11,711,427
Securities	223,361	26,143	32,469	226,214	249,455	757,642
Others	549,362	210,005	34,825	-	-	794,192
	₩ 10,112,905	₩ 1,888,724	₩ 607,499	₩ 396,714	₩ 257,419	₩ 13,263,261
Interest-bearing liabilities in foreign currencies						
Deposits	₩ 2,403,901	₩ 1,519,366	₩ 786,493	₩ 128,579	₩ 45,210	₩ 4,883,549
Debts	4,285,418	850,920	613,773	24,707	79,147	5,853,965
Others	2,811,246	261,107	126,888	72,014	-	3,271,255
	₩ 9,500,565	₩ 2,631,393	₩ 1,527,154	₩ 225,300	₩ 124,357	₩ 14,008,769
Gap	₩ 612,340	₩ (742,669)	₩ (919,655)	₩ 171,414	₩ 133,062	₩ (745,508)
Accumulated gap	612,340	(130,329)	(1,049,984)	(878,570)	(745,508)	
Percentage (%)	4.62	(0.98)	(7.92)	(6.62)	(5.62)	

ii. Interest Rate VaR

Interest rate VaR is the maximum possible loss due to interest rate risk under a normal distribution at a 99.94% confidence level. The measurement results of risk as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	**2014**	**2013**
Interest Rate VaR	₩ 112,500	₩ 203,503

4.4.5 Financial assets and liabilities in foreign currencies

Financial assets and liabilities in foreign currencies as of December 31, 2014 and 2013, are as follows:

	2014						
(In millions of Korean won)	**USD**	**JPY**	**EUR**	**GBP**	**CNY**	**Others**	**Total**
Financial assets							
Cash and due from financial institutions	₩ 1,517,144	₩ 145,574	₩ 104,880	₩ 10,827	₩ 47,653	₩ 115,641	₩ 1,941,719
Financial assets held for trading	43,753	-	15,333	-	-	-	59,086
Derivatives held for trading	55,879	-	694	-	-	-	56,573
Derivatives held for hedging	5,032	-	-	-	-	-	5,032
Loans	10,753,455	900,972	402,656	6,613	3,492	115,633	12,182,821
Available-for-sale financial assets	797,416	-	-	-	-	870	798,286
Other financial assets	1,189,303	61,140	75,970	1,710	46,434	8,908	1,383,465
	₩14,361,982	₩ 1,107,686	₩ 599,533	₩ 19,150	₩ 97,579	₩ 241,052	₩ 16,426,982
Financial liabilities							
Derivatives held for trading	₩ 85,042	₩ -	₩ 920	₩ -	₩ -	₩ -	₩ 85,962
Derivatives held for hedging	226	-	-	-	-	-	226
Deposits	4,612,649	386,851	188,386	19,887	21,297	273,317	5,502,387
Debts	6,388,482	258,483	303,866	880	3,577	168,908	7,124,196
Debentures	2,766,605	73,606	26,731	-	-	22,672	2,889,614
Other financial liabilities	1,194,856	76,150	78,093	7,157	46,710	13,029	1,415,995
	₩15,047,860	₩ 795,090	₩ 597,996	₩ 27,924	₩ 71,584	₩ 477,926	₩ 17,018,380
Off- balance items	₩17,494,274	₩ 3,511	₩ 6,549	₩ 4,704	₩ 11,628	₩ 72,747	₩ 17,593,413

	2013						
(In millions of Korean won)	**USD**	**JPY**	**EUR**	**GBP**	**CNY**	**Others**	**Total**
Financial assets							
Cash and due from financial institutions	₩ 1,321,708	₩ 119,494	₩ 87,765	₩ 5,460	₩ 130,221	₩ 85,910	₩ 1,750,558
Financial assets held for trading	16,290	-	-	-	-	-	16,290
Derivatives held for trading	94,324	-	946	-	-	-	95,270
Derivatives held for hedging	16,094	-	-	-	-	-	16,094
Loans	10,061,930	1,235,187	381,414	51,677	456	190,828	11,921,492
Available-for-sale financial assets	773,501	10,052	-	-	-	1,504	785,057
Other financial assets	509,268	314,632	76,016	1,222	-	91,250	992,388
	₩12,793,115	₩1,679,365	₩ 546,141	₩ 58,359	₩ 130,677	₩ 369,492	₩ 15,577,149
Financial liabilities							
Derivatives held for trading	₩ 127,213	₩ -	₩ 1,333	₩ -	₩ -	₩ -	₩ 128,546
Deposits	3,914,992	511,583	150,714	15,789	10,905	279,566	4,883,549
Debts	5,830,466	574,307	318,748	4,382	100,464	174,898	7,003,265
Debentures	2,402,032	236,020	193,062	-	-	148,687	2,979,801
Other financial liabilities	1,474,842	59,820	150,815	51,568	913	42,242	1,780,200
	₩13,749,545	₩1,381,730	₩ 814,672	₩ 71,739	₩ 112,282	₩ 645,393	₩ 16,775,361
Off- balance items	₩16,548,855	₩ 3,486	₩ 4,879	₩ 4,787	₩ 9,958	₩ 60,221	₩ 16,632,186

4.5 Operational Risk

4.5.1 Concept

The Group defines operational risk broadly to include all financial and non-financial risks that may arise from operating activities and could cause a negative effect on capital.

4.5.2 Risk management

The purpose of operational risk management is not only to comply with supervisory and regulatory requirements but also to promote a risk management culture, strengthen internal controls, innovate processes and provide timely feedback to management and employees. In addition, the Group established Business Continuity Plans (BCP) to ensure critical business functions can be maintained, or restored, in the event of material disruptions arising from internal or external events. It has constructed replacement facilities as well as has carried out exercise drills for head office and IT departments to test its BCPs.

4.6 Capital Adequacy

The Group complies with the capital adequacy standard established by the Financial Services Commission. The capital adequacy standard is based on Basel III published by Basel Committee on Banking Supervision in Bank of International Settlements in June 2011, and was implemented in Korea in December 2013. The Group is required to maintain a minimum Common Equity Tier 1 ratio of at least 4.0% (2013: 3.5%), a minimum Tier 1 ratio of 5.5% (2013: 4.5%) and a minimum Total Regulatory Capital of 8.0% (2013: 8.0%) in December 2014.

The Group's equity capital is classified into three categories in accordance with Detailed Supervisory Regulations on Banking Business:

- Common Equity Tier 1 Capital: Common equity Tier 1 Capital represents the issued capital that takes the first and proportionately greatest share of any losses and represents the most subordinated claim in liquidation of the Group, and not repaid outside of liquidation. It includes common shares issued, capital surplus, retained earnings, non-controlling interests of consolidated subsidiaries, accumulated other comprehensive income, other capital surplus and others.

- Additional Tier 1 Capital: Additional Tier 1 Capital includes (i) perpetual instruments issued by the Group that meet the criteria for inclusion in Additional Tier 1 capital, and (ii) stock surplus resulting from the issue of instruments included in Additional Tier 1 capital and others.

- Tier 2 Capital: Tier 2 Capital represents the capital that takes the proportionate share of losses in the liquidation of the Group. Tier 2 Capital includes a fund raised by issuing subordinated debentures maturing in not less than 5 years that meet the criteria for inclusion in Tier 2 capital, and the allowance for loan losses which are accumulated for assets classified as normal or precautionary as a result of classification of asset soundness in accordance with Detailed Supervisory Regulations on Banking Business and others.

Risk-weighted asset means the assets weighted according to the inherent risks in the total assets and the possible losses resulting from the errors of internal process and external events which the Group should cover. The Group calculates risk-weighted asset by each risk (credit risk, market risk, and operational risk) based on Detailed Supervisory Regulations on Banking Business and uses it for its captial ratio calculation.

In addition to the capital ratio, the Group assesses its adequacy of capital by using the internal assessment and management policy of the capital adequacy. The assessment of the capital adequacy is conducted by comparing available capital (actual amount of available capital) and economic capital (amount of capital enough to cover all significant risks under target credit rate set by the Group). The Group monitors the soundness of finance and provides risk adjusted basis for performance review using the assessment of the capital adequacy. The economic capital is calculated by adding the stress testing results and other required items to the total economic capitals which are calculated for each risk.

The Risk Management Council of the Group determines the Group's risk appetite and allocates economic capital by risk type and business group. Each business group efficiently operates its capital within range of granted economic capital. The Risk Management Department of the Group monitors a management of the limit on economic capital and reports the results to management and the Risk Management Council. The Group maintains the adequacy of capital through proactive review and approval of the Risk Management Committee when the economic capital is expected to exceed the limits due to new business or business expansion. The Group and its subsidiaries complied with external capital adequacy requirements as of December 31, 2014 and 2013.

The details of the Group's capital adequacy calculation in line with Basel Ⅲ requirements as of December 31, 2014 and 2013, is as follows:

(In millions of Korean won)	2014	2013
Equity capital	₩ 23,421,797	₩ 22,624,072
Tier I Capital	19,620,849	18,501,833
Common Equity Tier 1 Capital	19,620,849	18,501,833
Tier II Capital	3,800,948	4,122,239
Risk-weighted assets:	146,689,770	146,742,788
Credit risk[1]	132,453,117	131,830,537
Market risk[2]	3,445,138	4,011,905
Operational risk[3]	10,791,515	10,900,346
Equity Capital (%):	15.97	15.42
Tier I Capital (%)	13.38	12.61
Common Equity Tier 1 Capital (%)	13.38	12.61

[1] Credit risk-weighted assets are measured using the Internal Rating-Based Approach and Standardized Approach.
[2] Market risk-weighted assets are measured using the Internal Model-Based Approach and Standardized Approach.
[3] Operational risk-weighted assets are measured using the Advanced Measurement Approach.

5. Segment Information

5.1 Overall Segment Information and Business Segments

The Group is organized into Corporate Banking, Retail Banking and Other Activities. These business divisions are based on the nature of the products and services provided, the type or class of customer, and the Group's management organization.

- Corporate banking : The activities within this segment include providing credit, deposit products and other related financial services to large, small-and medium-sized enterprises and SOHOs.
- Retail banking : The activities within this segment include providing credit, deposit products and other related financial services to individuals and households.
- Other activities : The activities within this segment include trading activities in securities and derivatives, funding and other supporting activities.

Financial information by business segment for the year ended December 31, 2014, is as follows:

(In millions of Korean won)	2014				
	Corporate Banking	Retail Banking	Others	Intra-group Adjustment	Total
Operating revenues from external customers	₩ 1,742,308	₩ 2,211,969	₩ 1,682,954	₩ -	₩ 5,637,231
Segment operating revenues(expenses)	38,379	(48,256)	60,295	(50,418)	-
	1,780,687	2,163,713	1,743,249	(50,418)	5,637,231
Net interest income	2,448,966	2,079,834	407,018	35,628	4,971,446
Interest income	4,008,584	4,432,760	1,286,127	(24,844)	9,702,627
Interest expense	(1,559,618)	(2,352,926)	(879,109)	60,472	(4,731,181)
Net fee and commission income	237,229	524,784	333,768	(17,736)	1,078,045
Fee and commission income	277,196	597,072	416,316	(19,246)	1,271,338
Fee and commission expense	(39,967)	(72,288)	(82,548)	1,510	(193,293)
Net gains(losses) on financial assets/ liabilities at fair value through profit or loss	179	(20,238)	376,282	68	356,291
Net other operating income(expenses)	(905,687)	(420,667)	626,181	(68,378)	(768,551)
General and administrative expenses	(711,029)	(1,695,563)	(966,266)	-	(3,372,858)
Operating profit before provision for credit losses	1,069,658	468,150	776,983	(50,418)	2,264,373
Provision for credit losses	(566,942)	(304,116)	(10,204)	(6,392)	(887,654)
Operating profit	502,716	164,034	766,779	(56,810)	1,376,719
Share of profit of associates	-	-	17,555	-	17,555
Net other non-operating income(expense)	1,242	-	20,309	(55,550)	(33,999)
Segment profit before income tax expense	503,958	164,034	804,643	(112,360)	1,360,275
Income tax expenses	(120,504)	(53,967)	(156,056)	(707)	(331,234)
Profit for the period	383,454	110,067	648,587	(113,067)	1,029,041
Profit attributable to Shareholders of the parent entity	383,454	110,067	648,587	(113,067)	1,029,041
Profit attributable to Non-controlling interests	-	-	-	-	-
Total assets[1]	94,313,469	111,074,156	74,917,627	(4,851,588)	275,453,664
Total liabilities[1]	83,780,834	123,792,699	47,552,921	(1,613,263)	253,513,191

[1] Amount before intra-group transaction adjustment.

Financial information by business segment for the year ended December 31, 2013, is as follows:

(In millions of Korean won)	**2013[1]**				
	Corporate Banking	**Retail Banking**	**Others**	**Intra-group Adjustment**	**Total**
Operating revenues from external customers	₩ 1,690,127	₩ 2,453,683	₩ 1,756,289	₩ -	₩ 5,900,099
Segment operating revenues(expenses)	46,588	(91,800)	85,759	(40,547)	-
	1,736,715	2,361,883	1,842,048	(40,547)	5,900,099
Net interest income	2,550,728	2,012,661	505,926	90,925	5,160,240
Interest income	4,390,623	4,785,526	1,428,056	(8,825)	10,595,380
Interest expense	(1,839,895)	(2,772,865)	(922,130)	99,750	(5,435,140)
Net fee and commission income	240,698	612,165	268,051	(16,170)	1,104,744
Fee and commission income	282,403	674,250	344,540	(19,543)	1,281,650
Fee and commission expense	(41,705)	(62,085)	(76,489)	3,373	(176,906)
Net gains on financial assets/ liabilities at fair value through profit or loss	184	(1,804)	691,698	423	690,501
Net other operating income(expenses)	(1,054,895)	(261,139)	376,373	(115,725)	(1,055,386)
General and administrative expenses	(821,503)	(1,739,768)	(835,545)	28	(3,396,788)
Operating profit before provision for credit losses	915,212	622,115	1,006,503	(40,519)	2,503,311
Provision for credit losses	(706,464)	(358,150)	(4,241)	3,666	(1,065,189)
Operating profit	208,748	263,965	1,002,262	(36,853)	1,438,122
Share of profit of associates	-	-	(202,880)	-	(202,880)
Net other non-operating income(expense)	1,662	-	(8,978)	(16,315)	(23,631)
Segment profit before income tax expense	210,410	263,965	790,404	(53,168)	1,211,611
Income tax expenses	(53,195)	(86,283)	(257,398)	15,977	(380,899)
Profit for the period	157,215	177,682	533,006	(37,191)	830,712
Profit attributable to Shareholders of the parent entity	157,215	177,682	533,006	(37,275)	830,628
Profit attributable to Non-controlling interests	-	-	-	84	84
Total assets[2]	92,498,513	103,202,391	75,742,515	(5,855,034)	265,588,385
Total liabilities[2]	81,008,201	122,206,712	44,680,475	(3,253,760)	244,641,628

[1]Financial information by business segment for the year ended December 31, 2013, were restated due to a retrospective application of changes in accounting policies of Korean IFRS.
[2] Amount before intra-group transaction adjustment.

5.2 Services and Geographical Segments

5.2.1 Services information

Operating revenues from external customers by services for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	2013
Corporate banking service	₩ 1,742,308	₩ 1,690,127
Retail banking service	2,211,969	2,453,683
Other service	1,682,954	1,756,289
	₩ 5,637,231	₩ 5,900,099

5.2.2 Geographical information

Operating revenues from external customers for the years ended December 31, 2014 and 2013, and major non-current assets as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014		2013	
	Revenues from external customers	Major non-current assets	Revenues from external customers	Major non-current assets
Domestic	₩ 5,533,506	₩ 3,492,836	₩ 5,845,877	₩ 3,314,338
United States	11,655	256	12,730	21
New Zealand	6,684	193	8,581	20
China	46,892	7,518	32,190	10,488
Japan	19,842	1,391	(17,182)	1,722
Argentina	573	-	6	-
Vietnam	3,130	287	3,268	316
Cambodia	5,364	564	5,741	898
United Kingdom	9,585	108	8,888	9
Intra-group adjustment	-	1,202	-	1,202
	₩ 5,637,231	₩ 3,504,355	₩ 5,900,099	₩ 3,329,014

6. Financial Assets and Financial Liabilities

6.1 Classification and Fair Value

Carrying amount and fair values of financial assets and liabilities as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and due from financial institutions	₩ 13,973,510	₩ 13,973,773	₩ 13,730,250	₩ 13,730,720
Financial assets held for trading	7,520,471	7,520,471	7,069,875	7,069,875
Debt securities	7,368,783	7,368,783	6,872,645	6,872,645
Equity securities	100,343	100,343	156,978	156,978
Others	51,345	51,345	40,252	40,252
Derivatives held for trading	1,800,664	1,800,664	1,581,436	1,581,436
Derivatives held for hedging	109,553	109,553	137,446	137,446
Loans	211,525,560	211,830,395	203,123,755	203,279,962
Available-for-sale financial assets	19,134,391	19,134,391	19,075,086	19,075,086
Debt securities	16,415,900	16,415,900	16,431,786	16,431,786
Equity securities	2,717,991	2,717,991	2,643,050	2,643,050
Others	500	500	250	250
Held-to-maturity financial assets	10,124,136	10,486,946	11,011,518	11,337,813
Other financial assets	6,529,032	6,529,032	5,162,649	5,162,649
	₩ 270,717,317	₩ 271,385,225	₩ 260,892,015	₩ 261,374,987
Financial liabilities				
Financial liabilities held for trading	₩ 51,650	₩ 51,650	₩ 40,067	₩ 40,067
Derivatives held for trading	1,755,674	1,755,674	1,561,392	1,561,392
Derivatives held for hedging	3,425	3,425	204,642	204,642
Deposits	211,611,432	212,004,857	200,967,688	201,212,062
Debts	14,297,460	14,344,110	13,569,923	13,568,598
Debentures	15,250,464	15,693,318	16,212,758	17,368,030
Other financial liabilities	9,344,847	9,344,892	10,865,130	10,865,162
	₩ 252,314,952	₩ 253,197,926	₩ 243,421,600	₩ 244,819,953

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. For each class of financial assets and financial liabilities, the Group discloses the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount at the end of each reporting period. The best evidence of fair value of financial instruments is a quoted price in an active market.

Methods of determining fair value for financial instruments are as follows:

Cash and due from financial institutions	The carrying amounts of cash and demand due from financial institutions and payment due from financial institutions are reasonable approximation of fair values. These financial instruments do not have a fixed maturity and are receivable on demand. Fair value of ordinary due from financial institutions is measured using DCF model (Discounted Cash Flow Model).
Investment securities	The fair value of financial instruments that are quoted in active markets is determined using the quoted prices. Fair value is determined through the use of independent third-party pricing services where quoted prices are not available. Pricing services use one or more of the following valuation techniques including DCF Model, Free Cash Flow to Equity Model, Comparable Company Analysis, Dividend Discount Model, Risk Adjusted Discount Rate Method, and Net Asset Value Method.
Loans	DCF Model is used to determine the fair value of loans. Fair value is determined by discounting the expected cash flows, which are contractual cash flows adjusted by the expected prepayment rate, at appropriate discount rate.
Derivatives	For exchange traded derivatives, quoted price in an active market is used to determine fair value and for OTC derivatives, fair value is determined using valuation techniques. The Group uses internally developed valuation models that are widely used by market participants to determine fair values of plain vanilla OTC derivatives including options, interest rate swaps, and currency swaps, based on observable market parameters. However, some complex financial instruments are valued using appropriate models developed from generally accepted market valuation models including the Finite Difference Method and the Monte Carlo Simulation or independent third-party valuation service.
Deposits	Carrying amount of demand deposits is regarded as representative of fair value because they do not have a fixed maturity and are payable on demand. Fair value of time deposits is determined using a DCF model. Fair value is determined by discounting the expected cash flows, which are contractual cash flows adjusted by the expected prepayment rate, at an appropriate discount rate.
Debts	Carrying amount of overdraft in foreign currency is regarded as representative of fair value because they do not have a fixed maturity and are payable on demand. Fair value of other debts is determined using a DCF model discounting contractual future cash flows at an appropriate discount rate.
Debentures	Fair value is determined by using the valuations of independent third-party pricing services, which are calculated using market inputs.
Other financial assets and other financial liabilities	The carrying amounts are reasonable approximation of fair values. These financial instruments are temporary accounts used for other various transactions and their maturities are relatively short or not defined. However, fair value of finance lease liabilities is measured using a DCF model.

Fair value hierarchy

The Group believes that valuation methods used for measuring the fair values of financial instruments are reasonable and that the fair values recognized in the statements of financial position are appropriate. However, the fair values of the financial instruments recognized in the statements of financial position may be different if other valuation methods or assumptions are used. Additionally, as there is a variety of valuation techniques and assumptions used in measuring fair value, it may be difficult to reasonably compare the fair value with that of other financial institutions.

The Group classifies and discloses fair value of the financial instruments into the following three-level hierarchy:

Level 1: The fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: The fair values are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: The fair values are based on unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

Fair value hierarchy of financial assets and liabilities measured at fair value in the statements of financial position

The fair value hierarchy of financial assets and liabilities measured at fair value in the statements of financial position as of December 31, 2014 and 2013, follows:

	2014			
(In millions of Korean won)	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Debt securities	₩ 3,190,784	₩ 4,177,999	₩ -	₩ 7,368,783
Equity securities	68,963	31,380	-	100,343
Others	51,345	-	-	51,345
	3,311,092	4,209,379	-	7,520,471
Derivatives held for trading	-	1,768,638	32,026	1,800,664
Derivatives held for hedging	-	109,293	260	109,553
Available-for-sale financial assets				
Debt securities	6,707,878	9,708,022	-	16,415,900
Equity securities[1]	1,145,988	633	1,571,370	2,717,991
Others	-	500	-	500
	7,853,866	9,709,155	1,571,370	19,134,391
	₩ 11,164,958	₩ 15,796,465	₩ 1,603,656	₩ 28,565,079
Financial liabilities				
Financial liabilities held for trading	₩ 51,650	₩ -	₩ -	₩ 51,650
Derivatives held for trading	-	1,747,645	8,029	1,755,674
Derivatives held for hedging	-	1,144	2,281	3,425
	₩ 51,650	₩ 1,748,789	₩ 10,310	₩ 1,810,749

(In millions of Korean won)	2013			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Debt securities	₩ 2,827,007	₩ 4,045,638	₩ -	₩ 6,872,645
Equity securities	120,196	36,782	-	156,978
Others	40,252	-	-	40,252
	2,987,455	4,082,420	-	7,069,875
Derivatives held for trading	241	1,561,326	19,869	1,581,436
Derivatives held for hedging	-	136,994	452	137,446
Available-for-sale financial assets				
Debt securities	9,582,063	6,849,723	-	16,431,786
Equity securities[1]	1,080,684	699	1,561,667	2,643,050
Others	-	250	-	250
	10,662,747	6,850,672	1,561,667	19,075,086
	₩ 13,650,443	₩ 12,631,412	₩ 1,581,988	₩ 27,863,843
Financial liabilities				
Financial liabilities held for trading	₩ 40,067	₩ -	₩ -	₩ 40,067
Derivatives held for trading	-	1,536,869	24,523	1,561,392
Derivatives held for hedging	-	195,800	8,842	204,642
	₩ 40,067	₩ 1,732,669	₩ 33,365	₩ 1,806,101

[1] The amounts of equity securities carried at cost in “Level 3” which do not have a quoted market price in an active market and cannot be measured reliably at fair value are ₩ 27,526 million and ₩ 30,531 million as of December 31, 2014 and 2013, respectively. These equity securities are carried at cost because it is practically difficult to quantify the intrinsic values of the equity securities issued by unlisted public and non-profit entities. In addition, due to significant fluctuations in estimated cash flows arising from entities being in its initial stages, which further results in varying and unpredictable probabilities, unlisted equity securities issued by project financing cannot be reliably and reasonably assessed. Therefore, these equity securities are carried at cost.

Valuation techniques and the inputs used in the fair value measurement of financial assets and liabilities classified as Level 2

Valuation techniques and inputs of financial assets and liabilities measured at fair value in the statement of financial position and classified as Level 2 as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	Fair value		Valuation techniques	Inputs
	2014	2013		
Financial assets				
Financial assets held for trading				
Debt securities	₩ 4,177,999	₩ 4,045,638	DCF model	Discount rate
Equity securities	31,380	36,782	DCF model	Discount rate
	4,209,379	4,082,420		
Derivatives held for trading	1,768,638	1,561,326	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate, stock price and others
Derivatives held for hedging	109,293	136,994	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate and others
Available-for-sale financial assets				
Debt securities	9,708,022	6,849,723	DCF model	Discount rate
Equity securities	633	699	DCF model	Discount rate
Others	500	250	DCF model	Discount rate
	9,709,155	6,850,672		
	₩15,796,465	₩12,631,412		
Financial liabilities				
Derivatives held for trading	₩ 1,747,645	₩ 1,536,869	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate, stock price and others
Derivatives held for hedging	1,144	195,800	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate and others
	₩ 1,748,789	₩ 1,732,669		

Fair value hierarchy of financial assets and liabilities whose fair value is disclosed

The fair value hierarchy of financial assets and liabilities whose fair value is disclosed as of December 31, 2014 and 2013, are as follows:

	2014			
(In millions of Korean won)	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and due from financial institutions[1]	₩ 2,544,205	₩ 10,198,808	₩ 1,230,760	₩ 13,973,773
Loans	-	-	211,830,395	211,830,395
Held-to-maturity financial assets	2,616,385	7,870,561	-	10,486,946
Other financial assets[2]	-	-	6,529,032	6,529,032
	₩ 5,160,590	₩ 18,069,369	₩ 219,590,187	₩ 242,820,146
Financial liabilities				
Deposits[1]	₩ -	₩ 82,783,564	₩ 129,221,293	₩ 212,004,857
Debts[1]	-	48,984	14,295,126	14,344,110
Debentures	-	15,693,318	-	15,693,318
Other financial liabilities[3]	-	-	9,344,892	9,344,892
	₩ -	₩ 98,525,866	₩ 152,861,311	₩ 251,387,177

	2013			
(In millions of Korean won)	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and due from financial institutions[1]	₩ 2,697,722	₩ 10,180,432	₩ 852,566	₩ 13,730,720
Loans	-	-	203,279,962	203,279,962
Held-to-maturity financial assets	3,492,584	7,845,229	-	11,337,813
Other financial assets[2]	-	-	5,162,649	5,162,649
	₩ 6,190,306	₩ 18,025,661	₩ 209,295,177	₩ 233,511,144
Financial liabilities				
Deposits[1]	₩ -	₩ 73,039,926	₩ 128,172,136	₩ 201,212,062
Debts[1]	-	156,349	13,412,249	13,568,598
Debentures	-	17,265,172	102,858	17,368,030
Other financial liabilities[3]	-	-	10,865,162	10,865,162
	₩ -	₩ 90,461,447	₩ 152,552,405	₩ 243,013,852

[1] The amounts included in Level 2 are the carrying amounts which are reasonable approximations of the fair values.

[2] The ₩ 6,529,032 million and ₩ 5,162,649 million of other financial assets included in Level 3 are the carrying amounts which are reasonable approximations of fair values as of December 31, 2014 and 2013, respectively.

[3] The ₩ 9,331,606 million and ₩10,863,257 million of other financial liabilities included in Level 3 are the carrying amounts which are reasonable approximation of fair values as of December 31, 2014 and 2013, respectively.

Valuation techniques and inputs used in the fair value measurement

Valuation techniques and inputs of financial assets and liabilities which are disclosed by the carrying amounts because it is a reasonable approximation of fair value are not subject to be disclosed.

Valuation techniques and inputs of financial assets and liabilities whose fair values are disclosed and classified as Level 2 as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	Fair value		Valuation techniques	Inputs
	2014	2013		
Financial assets				
Held-to-maturity financial assets	₩ 7,870,561	₩ 7,845,229	DCF model	Discount rate
Financial liabilities				
Debentures	₩ 15,693,318	₩ 17,265,172	DCF model	Discount rate

Valuation techniques and inputs of financial assets and liabilities whose fair values are disclosed and classified as Level 3 as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	Fair value		Valuation techniques	Inputs	Unobservable inputs
	2014	2013			
Financial assets					
Cash and due from financial institutions	₩ 1,230,760	₩ 852,566	DCF model	Credit spread, other spread, interest rate	Credit spread, other spread
Loans	211,830,395	203,279,962	DCF model	Credit spread, other spread, prepayment rate, interest rate	Credit spread, other spread, prepayment rate
	₩ 213,061,155	₩ 204,132,528			
Financial liabilities					
Deposits	₩ 129,221,293	₩ 128,172,136	DCF model	Other spread, prepayment rate, interest rate	Other spread, prepayment rate
Debts	14,295,126	13,412,249	DCF model	Other spread, interest rate	Other spread
Debentures	-	102,858	DCF model	Other spread, implied default probability, interest rate	Other spread, implied default probability
Other financial liabilities	13,286	1,905	DCF model	Other spread, interest rate	Other spread
	₩ 143,529,705	₩ 141,689,148			

6.2 Level 3 of the fair value hierarchy disclosure

6.2.1 Valuation policy and process of Level 3 fair value

The Group uses external, independent and qualified independent third-party valuation service in addition to internal valuation models to determine the fair value of the Group's assets at the end of every reporting period.

Where a reclassification between the levels of the fair value hierarchy occurs for a financial asset or liability, the Group's policy is to recognize such transfers as having occurred at the beginning of the reporting period.

6.2.2 Changes in fair value (Level 3) measured using valuation technique based on unobservable in market

Changes in Level 3 of the fair value hierarchy for the year ended December 31, 2014, are as follows:

(In millions of Korean won)

	Financial investments	Net derivatives	
	Available-for-sale financial assets	Derivatives held for trading	Derivatives held for hedging
	Equity securities		
Beginning balance	₩ 1,561,667	₩ (4,654)	₩ (8,390)
Total gains or losses			
- Profit or loss	(112,649)	(1,393)	6,579
- Other comprehensive-income	118,579	-	-
Purchases	154,243	-	-
Sales	(170,591)	-	-
Issues	-	-	-
Settlements	-	7,393	(210)
Transfers into Level 3	24,736	22,651	-
Transfers out of Level 3	(4,615)	-	-
Ending balance	₩ 1,571,370	₩ 23,997	₩ (2,021)

Changes in Level 3 of the fair value hierarchy for the year ended December 31, 2013, are as follows:

(In millions of Korean won)

	Financial investments	Net derivatives	
	Available-for-sale financial assets		
	Equity securities	Derivatives held for trading	Derivatives held for hedging
Beginning balance	₩ 1,488,102	₩ (18,741)	₩ (6,535)
Total gains or losses			
- Profit or loss	(9,087)	(14,026)	(1,229)
- Other comprehensive-income	53,280	-	-
Purchases	404,423	-	-
Sales	(81,887)	-	-
Issues	-	(107)	-
Settlements	-	28,220	(626)
Transfers into Level 3	441	-	-
Transfers out of Level 3	(293,605)	-	-
Ending balance	₩ 1,561,667	₩ (4,654)	₩ (8,390)

In relation to changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the year, and total gains or losses for the year included in profit or loss for financial instruments held at the end of the reporting period in the statements of comprehensive income for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014	
	Net income from financial investments at fair value through profit or loss	Other operating income
Total gains or losses included in profit or loss for the year	₩ (1,393)	₩ (106,070)
Total gains or losses for the year included in profit or loss for financial instruments held at the end of the reporting year	7,533	(112,164)

(In millions of Korean won)

	2013	
	Net income from financial investments at fair value through profit or loss	Other operating income
Total gains or losses included in profit or loss for the year	₩ (14,026)	₩ (10,316)
Total gains or losses for the year included in profit or loss for financial instruments held at the end of the reporting year	(3,111)	(15,162)

6.2.3 Sensitivity analysis of changes in unobservable inputs

Information about fair value measurements using unobservable inputs as of December 31, 2014, is as follows:

(In millions of Korean won)

	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobserva-ble inputs (%)	Relationship of unobservable inputs to fair value
Financial assets						
Derivatives held for trading						
Derivatives held for trading (Stock and index)	₩ 29,031	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rates, volatility of the underlying asset, correlation of the underlying assets(rates of return on stocks), dividend yield	Volatility of the underlying asset	24.20 ~ 45.82	Higher the volatility, higher the fair value fluctuation
				Correlation of the underlying assets(rates of return on stocks)	-3.27 ~ 52.23	Higher the correlation, higher the fair value fluctuation
Derivatives held for trading (currency)	2,995	DCF model	Interest rate, exchange rate, loss rate from bankruptcy.	loss rate from bankruptcy.	6.78 ~ 90.56	Higher the loss rate, decrease the fair value
Derivatives held for hedging						
Interest	260	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, Interest rates, volatility of the underlying asset	Volatility of the underlying asset	3.91	Higher the correlation, higher the fair value fluctuation
Available-for-sale						
Available-for-sale equity securities	1,571,370	DCF Model, Comparable Company Analysis, Risk Adjusted Discount Rate Method	Growth rate, discount rate, volatilities of real estate price, liquidation value , discount rate of cash flows from rent, recovery rate of receivables' acquisition cost	Growth rate	0.00 ~ 3.00	Higher the growth rate, higher the fair value
				Discount rate	2.29 ~ 21.55	Lower the discount rate, higher the fair value
				Volatilities of real estate price	1.10	Higher real estate price, higher the fair value
				Liquidation value	0.00	Higher the liquidation value, higher the fair value
				Discount rate of cash flows from rent	6.89	Lower the discount rate of cash flows from rent, higher the fair value
				Recovery rate of receivables' acquisition cost	155.83	Higher the recovery rate of receivables' acquisition cost, higher the fair value
	₩ 1,603,656					
Financial liabilities						
Derivatives held for trading						
Stock and index	₩ 8,029	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset, correlation of the underlying assets(rates of return on stocks), dividend yield	Volatility of the underlying asset	25.13 ~ 41.79	Higher the volatility, higher the fair value fluctuation
				Correlation of the underlying assets(rates of return on stocks)	-3.83 ~ 68.20	Higher the correlation, higher the fair value fluctuation
Derivatives held for hedging						
Interest	2,281	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rates, volatility of the underlying asset,	Volatility of the underlying asset	2.35 ~ 3.91	Higher the volatility, higher the fair value fluctuation

	₩ 10,310					

Information about fair value measurements using unobservable inputs as of December 31, 2013, is as follows:

	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobserva-ble inputs (%)	Relationship of unobservable inputs to fair value
Financial assets						
Derivatives held for trading						
Derivatives held for trading (Stock and index)	₩ 13,379	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rates, volatility of the underlying asset, correlation of the underlying assets(rates of return on stocks), dividend yield	Volatility of the underlying asset Correlation of the underlying assets(rates of return on stocks)	10.9 ~ 45.64 11.43 ~ 79.26	Higher the volatility, higher the fair value fluctuation Higher the correlation, higher the fair value fluctuation
Derivatives held for trading (currency)	6,490	DCF model	Interest rate, exchange rate, loss rate from bankruptcy	loss rate from bankruptcy	88.24 ~ 94.12	Higher the loss rate, decrease the fair value
Derivatives held for hedging						
Interest	452	DCF model, Closed Form, FDM, Monte Carlo Simulation	Interest rates, correlation of the underlying assets(rates of return on interest rates), foreign exchange rate	Correlation of the underlying assets(rates of return on interest rates)	0.03	Higher the correlation, higher the fair value fluctuation
Available-for-sale						
Available-for-sale equity securities	1,561,667	DCF Model, Comparable Company Analysis, Risk Adjusted Discount Rate Method	Growth rate, discount rate, volatilities of real estate price, liquidation value , discount rate of cash flows from rent	Growth rate Discount rate Volatilities of real estate price Liquidation value Discount rate of cash flows from rent	0.00 2.86 ~ 17.69 0.74 0.00 6.84	Higher the growth rate, higher the fair value Lower the discount rate, higher the fair value Higher real estate price, higher the fair value Higher the liquidation value, higher the fair value Lower the discount rate of cash flows from rent, higher the fair value
	₩ 1,581,988					
Financial liabilities						
Derivatives held for trading						
Stock and index	₩ 24,523	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset, correlation of the underlying assets(rates of return on stocks), dividend yield	Volatility of the underlying asset Correlation of the underlying assets(rates of return on stocks)	15.24 ~ 45.64 17.29 ~ 79.26	Higher the volatility, higher the fair value fluctuation Higher the correlation, higher the fair value fluctuation
Derivatives held for hedging						
Interest	8,842	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rates, volatility of the underlying asset	Volatility of the underlying asset	3.00~ 5.28	Higher the volatility, higher the fair value fluctuation
	₩ 33,365					

Sensitivity analysis of changes in unobservable inputs

Sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the amounts represent the most favorable or unfavorable. Amongst Level 3 financial instruments subject to sensitivity analysis are interest rate-related derivatives and equity-related derivatives whose fair value changes are recognized in profit or loss as well as unlisted equity securities and private equity funds whose fair value changes are recognized in profit or loss or other comprehensive income and loss.

Sensitivity analyses by type of instrument as a result of varying input parameters are as follows:

(In millions of Korean won)	2014			
	Recognition in profit or loss			
	Favorable changes		Unfavorable changes	
Financial assets				
Derivatives held for trading[1]	₩	310	₩	(307)
Derivatives held for hedging[1]		17		(15)
Available-for-sale financial assets[2]		-		-
	₩	327	₩	(322)
Financial liabilities				
Derivatives held for trading[1]	₩	535	₩	(535)
Derivatives held for hedging[1]		86		(76)
	₩	621	₩	(611)

(In millions of Korean won)	2014			
	Other comprehensive income or loss			
	Favorable changes		Unfavorable changes	
Financial assets				
Derivatives held for trading[1]	₩	-	₩	-
Derivatives held for hedging[1]		-		-
Available-for-sale financial assets[2]		360,970		(136,378)
	₩	360,970	₩	(136,378)
Financial liabilities				
Derivatives held for trading[1]	₩	-	₩	-
Derivatives held for hedging[1]		-		-
	₩	-	₩	-

(In millions of Korean won)	2013			
	Recognition in profit or loss			
	Favorable changes		Unfavorable changes	
Financial assets				
Derivatives held for trading[1]	₩	1,070	₩	(1,082)
Derivatives held for hedging		0		0
Available-for-sale financial assets[2]		-		-
	₩	1,070	₩	(1,082)
Financial liabilities				
Derivatives held for trading[1]	₩	1,561	₩	(1,451)
Derivatives held for hedging[1]		345		(333)
	₩	1,906	₩	(1,784)

(In millions of Korean won)	2013			
	Other comprehensive income or loss			
	Favorable changes		Unfavorable changes	
Financial assets				
Derivatives held for trading[1]	₩	-	₩	-
Derivatives held for hedging		-		-
Available-for-sale financial assets[2]		299,581		(111,457)
	₩	299,581	₩	(111,457)
Financial liabilities				
Derivatives held for trading[1]	₩	-	₩	-
Derivatives held for hedging[1]		-		-
	₩	-	₩	-

[1] For stock and index-related derivatives, the changes in fair value are calculated by shifting principal unobservable input parameters such as the correlation of rates of return on stocks and the volatility of the underlying asset by ± 10%. For foreign currency derivatives, the changes in fair value are calculated by shifting the unobservable input parameters, such as the loss given default ratio by ± 1%. For interest rate-related derivatives, the correlation of the interest rates or the volatility of the underlying asset is shifted by ± 10% to calculate the fair value changes.

[2] For equity securities, the changes in fair value are calculated by shifting principal unobservable input parameters such as correlation between growth rate (0~0.5%) and discount rate, or liquidation value (-1~1%) and discount rate, or recovery rate of receivables' acquisition cost (-1~1%). Sensitivity of fair values to unobservable parameters of private equity fund is practically impossible, but in the case of equity fund composed of real estates, the changes in fair value are calculated by shifting correlation between discount rate of cash flows from rent (-1~1%) and volatilities of real estate price (-1~1%).

6.2.4 Day one gain or loss

If the Group uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of financial instruments, there could be a difference between the transaction price and the amount determined using that valuation technique. In these circumstances, the fair value of financial instruments is recognized as the transaction price

and the difference is deferred and not recognized in profit or loss, and is amortized by using the straight-line method over the life of the financial instrument. If the fair value of the financial instruments is subsequently determined using observable market inputs, the remaining deferred amount is recognized in profit or loss.

The aggregate difference yet to be recognized in profit or loss at the beginning and end of the year and a reconciliation of changes in the balance of this difference, are as follows:

(In millions of Korean won)	**2014**	**2013**
Balance at the beginning of the year (A)	₩ 1,330	₩ 5,998
New transactions (B)	-	34
Amounts recognized in profit or loss during the year (C= a+b)	(1,143)	(4,702)
a. Amortization	(73)	(275)
b. Settlement	(1,070)	(4,427)
Balance at the end of year (A+B+C)	₩ 187	₩ 1,330

6.3 Carrying amounts of financial instruments by category

Financial assets and liabilities are measured at fair value or amortized cost. Measurement policies for each class of financial assets and liabilities are disclosed in Note 3, 'Significant accounting policies'.

The carrying amounts of financial assets and liabilities by category as of December 31, 2014, are as follows:

(In millions of Korean won)

	Financial assets at fair value through profit or loss						
	Held for trading	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Derivatives held for hedging	Total
Financial assets						
Cash and due from financial institutions	₩ -	₩ 13,973,510	₩ -	₩ -	₩ -	₩ 13,973,510
Financial assets at fair value through profit or loss	7,520,471	-	-	-	-	7,520,471
Derivatives	1,800,664	-	-	-	109,553	1,910,217
Loans	-	211,525,560	-	-	-	211,525,560
Financial investments	-	-	19,134,391	10,124,136	-	29,258,527
Other financial assets	-	6,529,032	-	-	-	6,529,032
	₩ 9,321,135	₩ 232,028,102	₩19,134,391	₩10,124,136	₩ 109,553	₩270,717,317

(In millions of Korean won)

	Financial liabilities at fair value through profit or loss			
	Held for trading	Financial liability at amortized cost	Derivatives held for hedging	Total
Financial liabilities				
Financial liabilities at fair value through profit or loss	₩ 51,650	₩ -	₩ -	₩ 51,650
Derivatives	1,755,674	-	3,425	1,759,099
Deposits	-	211,611,432	-	211,611,432
Debts	-	14,297,460	-	14,297,460
Debentures	-	15,250,464	-	15,250,464
Other financial liabilities	-	9,344,847	-	9,344,847
	₩ 1,807,324	₩ 250,504,203	₩ 3,425	₩ 252,314,952

The carrying amounts of financial assets and liabilities by category as of December 31, 2013, are as follows:

(In millions of Korean won)

	Financial assets at fair value through profit or loss		Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Derivatives held for hedging	Total
	Held for trading						
Financial assets							
Cash and due from financial institutions	₩	-	₩ 13,730,250	₩ -	₩ -	₩ -	₩ 13,730,250
Financial assets at fair value through profit or loss		7,069,875	-	-	-	-	7,069,875
Derivatives		1,581,436	-	-	-	137,446	1,718,882
Loans		-	203,123,755	-	-	-	203,123,755
Financial investments		-	-	19,075,086	11,011,518	-	30,086,604
Other financial assets		-	5,162,649	-	-	-	5,162,649
	₩	8,651,311	₩ 222,016,654	₩ 19,075,086	₩11,011,518	₩ 137,446	₩260,892,015

(In millions of Korean won)

	Financial liabilities at fair value through profit or loss		Financial liability at amortized cost	Derivatives held for hedging	Total
	Held for trading				
Financial liabilities					
Financial liabilities at fair value through profit or loss	₩	40,067	₩ -	₩ -	₩ 40,067
Derivatives		1,561,392	-	204,642	1,766,034
Deposits		-	200,967,688	-	200,967,688
Debts		-	13,569,923	-	13,569,923
Debentures		-	16,212,758	-	16,212,758
Other financial liabilities		-	10,865,130	-	10,865,130
	₩	1,601,459	₩ 241,615,499	₩ 204,642	₩ 243,421,600

6.4 Transfer of financial assets

6.4.1 Transferred financial assets that are derecognized in their entirety

The Group transferred loans and other financial assets that are derecognized in their entirety to SPEs, while the maximum exposure to loss(carrying amount) from its continuing involvement in the derecognized financial assets as of December 31, 2014 and 2013, are as follows :

(In millions of Korean won)

		2014		
	Type of continuing involvement	**Classification of financial instruments**	**Carrying amount of continuing involvement in statement of financial position**	**Fair value of continuing involvement in statement of financial position**
KR ABS Ltd.	Subordinated debt	Available-for-sale financial assets	₩ 4,921	₩ 4,921
KR 2nd Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	22,219	22,219
EAK ABS Ltd.	Subordinated debt	Available-for-sale financial assets	11,211	11,211
AP 1st Securitization Specialty Co., Ltd.	Senior debt	Loans and receivables	9,762	9,842
	Subordinated debt	Available-for-sale financial assets	17,346	17,346
Discovery 1st Securitization Specialty Co., Ltd.	Senior debt	Loans and receivables	1,175	1,194
	Subordinated debt	Available-for-sale financial assets	22,591	22,591
EAK 2nd Securitization Specialty Co., Ltd. [1]	Senior debt	Loans and receivables	19,806	20,026
	Subordinated debt	Available-for-sale financial assets	38,207	38,207

FK 1411 ABS Ltd. [2]	Senior debt	Loans and receivables	44,966	44,917
	Subordinated debt	Available-for-sale financial assets	47,600	47,600
			₩ 239,804	₩ 240,074

[1] Recognized net gain from transferring loans to the SPEs amounts to ₩ 6,924 million.
[2] Recognized net loss from transferring loans to the SPEs amounts to ₩ 27,365 million.
[3] In addition to the above, the recovered portion in excess of the consideration paid attributable to adjustments based on the agreement with the National Happiness Fund for non-performing loans amounts to ₩ 3,145 million.

(In millions of Korean won)

		2013		
	Type of continuing involvement	**Classification of financial instruments**	**Carrying amount of continuing involvement in statement of financial position**	**Fair value of continuing involvement in statement of financial position**
KR ABS Ltd.	Mezzanine / subordinated debt	Available-for-sale financial assets	₩ 11,434	₩ 11,434
KR 2nd Securitization Specialty Co., Ltd. [1]	Senior debt	Loans and receivables	26,065	26,227
	Subordinated debt	Available-for-sale financial assets	33,017	33,017
EAK ABS Ltd.[2]	Subordinated debt	Available-for-sale financial assets	35,020	35,020
AP 1st Securitization Specialty Co., Ltd. [3]	Senior debt	Loans and receivables	67,326	67,353
	Subordinated debt	Available-for-sale financial assets	16,669	16,669
Discovery 1st Securitization Specialty Co., Ltd. [4]	Senior debt	Loans and receivables	23,494	23,547
	Subordinated debt	Available-for-sale financial	21,454	21,454

assets	₩ 234,479	₩ 234,721

[1] Recognized net loss from transferring loans to the SPEs amounts to ₩ 24,589 million.

[2] Recognized net loss from transferring loans to the SPEs amounts to ₩ 2,480 million.

[3] Recognized net loss from transferring loans to the SPEs amounts to ₩ 18,556 million.

[4] Recognized net loss from transferring loans to the SPEs amounts to ₩ 37,975 million.

[5] In addition to the above, there were gains from the transfer of non-performing loans to the National Happiness Fund ('the Fund') amounting to ₩ 18,111 million as of December 31, 2013. According to the agreement with the Fund, when the recovered amounts exceed the consideration paid by the Fund for the non-performing loans, the excess amount is to be reimbursed to the Group.

6.4.2 Transferred financial assets that are not derecognized in their entirety

The Group securitized the loans and received the subordinated debts as part of consideration related to the securitization to provide credit enhancements to other senior debtors, and this transaction was recognized by the Group as collateralized debts. As of December 31, 2014, there is no related transaction, and the liabilities and related securitized assets as of December 31, 2013, are as follows:

(In millions of Korean won)

	2013		
	KB Mortgage Loan 1st Securitization Specialty Co., Ltd.	**KAMCO Value Recreation 3rd Securitization Specialty Co., Ltd.**	**KH First Co., Ltd.[1]**
Carrying amount of assets (underlying assets)	₩ 295,679	₩ 8,291	₩ 99,763
Carrying amount of related liabilities	193,062	1,958	100,900
For those liabilities that have recourse only to the transferred assets:			
Fair value of assets (underlying assets)	₩ 295,679	₩ 8,291	₩ -
Fair value of related liabilities (Senior Debts)	192,972	1,958	-
Fair value net position	₩ 102,707	₩ 6,333	₩ -

[1] According to purchase agreements with third-party investors, the Group provides purchase commitments to third-party investors over the associated liabilities. Furthermore, as the third-party investors also have right of recourse to the asset-backed security, the Group did not disclose the fair value of the above liabilities.

6.4.3 Securities under repurchase agreements and loaned securities

The Group continues to recognize the financial assets related to repurchase agreements and securities lending transactions on the statements of financial position since those transactions are not qualified for derecognition even though the Group transfers the financial assets. A financial asset is sold under a reverse repurchase agreement to repurchase the same asset at a fixed price, or loaned under a securities lending agreement to be returned as the same asset. Thus, the Group retains substantially all the risks and rewards of ownership of the financial asset. The amounts of transferred assets and related liabilities as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	**2014**	
	Carrying amount of transferred asset	**Carrying amount of related liabilities**
Securities under repurchase agreements	₩ 164,382	₩ 148,869
Loaned securities	59,120	-
Government and public bonds	59,120	-
Stocks	-	-
	₩ 223,502	₩ 148,869

(In millions of Korean won)	**2013**	
	Carrying amount of transferred asset	**Carrying amount of related liabilities**
Securities under repurchase agreements	₩ 416,634	₩ 382,779
Loaned securities	457,838	-
Government and public bonds	447,427	-
Stocks	10,411	-
	₩ 874,472	₩ 382,779

6.5 Offsetting financial assets and financial liabilities

The Group enters into International Derivatives Swaps and Dealers Association ("ISDA") master netting agreements and other arrangements with the Group's derivative and spot exchange counterparties. Similar netting agreements are also entered into with the Group's reverse repurchase, securities and others. Pursuant to these agreements, in the event of default by one party, contracts are to be terminated and receivables and payables are to be offset. Further, as the law allows for the right to offset, domestic uncollected receivables balances and domestic accrued liabilities balances are shown in its net settlement balance in the statement of financial position.

The details of financial assets subject to offsetting, enforceable master netting arrangements or similar agreements as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014					
		Gross amounts of recognized financial liabilities offset 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		
	Gross amounts of recognized financial assets			Financial instruments	Cash collateral received	Net amount
Derivatives held for trading	₩ 1,798,280	₩ -	₩ 1,798,280	₩ (1,472,239)	₩ (1,635)	₩ 324,406
Derivatives held for hedging	109,553	-	109,553	(15,688)	-	93,865
Receivable spot exchange	2,343,308	-	2,343,308	(2,342,116)	-	1,192
Reverse repurchase, securities borrowing and similar agreements	3,529,900	-	3,529,900	(3,529,900)	-	-
Other financial instruments	18,249,521	(16,161,647)	2,087,874	-	-	2,087,874
	₩ 26,030,562	₩ (16,161,647)	₩ 9,868,915	₩ (7,359,943)	₩ (1,635)	₩ 2,507,337

(In millions of Korean won)

	2013					
		Gross amounts of recognized financial liabilities offset 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		
	Gross amounts of recognized financial assets			Financial instruments	Cash collateral received	Net amount
Derivatives held for trading	₩ 1,578,868	₩ -	₩ 1,578,868	₩ (1,186,724)	₩ (1,850)	₩ 390,294
Derivatives held for hedging	137,446	-	137,446	(35,550)	-	101,896
Receivable spot exchange	2,256,532	-	2,256,532	(2,255,085)	-	1,447
Reverse repurchase, securities borrowing and similar agreements[1]	4,173,200	-	4,173,200	(4,173,200)	-	-
Other financial instruments	16,095,694	(15,371,808)	723,886	-	-	723,886
	₩24,241,740	₩ (15,371,808)	₩ 8,869,932	₩ (7,650,559)	₩ (1,850)	₩ 1,217,523

[1] Includes a portion of the securities loaned.

The details of financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014					
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives held for trading	₩ 1,755,221	₩ -	₩ 1,755,221	₩ (1,316,268)	₩ -	₩ 438,953
Derivatives held for hedging	3,425	-	3,425	(3,013)	-	412
Payable spot exchange	2,343,234	-	2,343,234	(2,342,116)	-	1,118
Repurchase, securities lending and similar agreements[1]	148,870	-	148,870	(148,870)	-	-
Other financial instruments	16,284,444	(16,161,647)	122,797	(122,797)	-	-
	₩20,535,194	₩ (16,161,647)	₩ 4,373,547	₩ (3,933,064)	₩ -	₩ 440,483

(In millions of Korean won)

	2013					
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives held for trading	₩ 1,559,374	₩ -	₩ 1,559,374	₩ (987,963)	₩ -	₩ 571,411
Derivatives held for hedging	204,642	-	204,642	(16,320)	-	188,322
Payable spot exchange	2,256,147	-	2,256,147	(2,255,085)	-	1,062
Repurchase, securities lending and similar agreements[1]	382,779	-	382,779	(382,779)	-	-
Other financial instruments	16,358,240	(15,371,808)	986,432	(946,800)	-	39,632
	₩ 20,761,182	₩ (15,371,808)	₩ 5,389,374	₩ (4,588,947)	₩ -	₩ 800,427

[1] Includes repurchase agreements sold to customers.

7. Due from financial institutions

The details of due from financial institutions as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)		Financial Institutions	Interest rate(%)	2014	2013
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	0.00~2.03	₩ 6,283,230	₩ 6,709,634
	Due from banking institutions	NH Bank and others	0.00~2.60	585,028	308,740
	Due from others	KB Investment & Securities Co., Ltd. and others	1.00	3,013,288	2,615,369
				9,881,546	9,633,743
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	-	898,437	855,388
	Time deposits in foreign currencies	Bank of Communications and others	0.11~6.70	613,153	528,419
	Due from others	Bank of Japan and others	-	36,169	14,978
				1,547,759	1,398,785
				₩ 11,429,305	₩ 11,032,528

Due from financial institutions, classified by type of financial institution as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014		
	In Korean won	In foreign currencies	Total
Bank of Korea	₩ 6,283,230	₩ 225,393	₩ 6,508,623
Other banking institutions	585,028	1,303,794	1,888,822
Other financial institutions	3,013,288	18,572	3,031,860
	₩ 9,881,546	₩ 1,547,759	₩ 11,429,305

(In millions of Korean won)	2013		
	In Korean won	In foreign currencies	Total
Bank of Korea	₩ 6,709,634	₩ 410,328	₩ 7,119,962
Other banking institutions	308,740	976,790	1,285,530
Other financial institutions	2,615,369	11,667	2,627,036
	₩ 9,633,743	₩ 1,398,785	₩ 11,032,528

Restricted due from financial institutions as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)

		Financial Institution	2014	2013	Reason for restriction
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	₩ 6,283,230	₩ 6,709,634	Bank of Korea Act
	Due from banking institutions	Hana Bank and others	279,200	261,000	Agreement for allocation of deposit
	Due from others	KB Investment & Securities Co., Ltd. and others	1,668	1,703	Derivatives margin account and others
			6,564,098	6,972,337	
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	293,067	482,296	Bank of Korea Act and others
	Time deposits in foreign currencies	Bank of Communications	16,488	10,553	New York State Banking Law
	Due from others	Woori Futures Co., Ltd. and others	4,022	4,876	Derivatives margin account and others
			313,577	497,725	
			₩ 6,877,675	₩ 7,470,062	

8. Assets pledged as collateral

The details of assets pledged as collateral as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

		2014		
Assets pledged	**Pledgee**	**Carrying amount**	**Collateralized amount**	**Reason of pledge**
Financial assets held for trading	Korea Securities Depository and others	₩ 82,990	₩ 83,000	Repurchase agreements
	Samsung Futures Inc. and others	9,861	9,800	Derivatives transitions
	Others	17,864	17,720	Settlement of Korea Exchange and others
		110,715	110,520	
Available-for-sale financial assets	Samsung Futures Inc. and others	3,308	3,298	Derivatives transitions
Held-to-maturity financial assets	Korea Securities Depository and others	1,460,932	1,452,000	Repurchase agreements
	Bank of Korea	993,853	990,000	Borrowings from Bank of Korea
	Bank of Korea	1,440,821	1,416,800	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	339,107	338,492	Derivatives transitions
	Others	254,980	253,500	Others
		4,489,693	4,450,792	
		₩ 4,603,716	₩ 4,564,610	

(In millions of Korean won)

		2013		
Assets pledged	**Pledgee**	**Carrying amount**	**Collateralized amount**	**Reason of pledge**
Financial assets held for trading	Korea Securities Depository and others	₩ 207,812	₩ 208,650	Repurchase agreements
	Samsung Futures Inc. and others	10,162	10,100	Derivatives transitions
		217,974	218,750	
Available-for-sale financial assets	Samsung Futures Inc. and others	3,254	3,166	Derivatives transitions
	Korea Securities Depository and others	3,577,052	3,572,000	Repurchase agreements
Held-to-maturity financial assets	Bank of Korea	617,250	610,000	Borrowings from Bank of Korea
	Bank of Korea	956,284	946,800	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	325,616	325,521	Derivatives transitions
	Others	258,615	258,500	Others
		5,734,817	5,712,821	
Mortgage loans	Others	846,000	843,127	Covered Bond
		₩ 6,802,045	₩ 6,777,864	

The fair value of collateral available to sell or repledge, and collateral sold or repledged, regardless of debtor's default as of December 31, 2014 and 2013, is as follows:

(In millions of Korean won)	2014	
	Fair value of collateral	**Fair value of collateral sold or repledged**
Securities	₩ 3,598,732	₩ -

(In millions of Korean won)	2013	
	Fair value of collateral	**Fair value of collateral sold or repledged**
Securities	₩ 4,258,909	₩ -

9. Derivative financial instruments and hedge accounting

The Group's derivative operations focus on addressing the needs of the Group's corporate clients to hedge their risk exposure and to hedge the Group's risk exposure that results from such client contracts. The Group also engages in derivative trading activities to hedge the interest rate and foreign currency risk exposures that arise from the Group's own assets and liabilities. In addition, the Group engages in proprietary trading of derivatives within the Group's regulated open position limits.

The Group provides and trades a range of derivatives products, including:

- Interest rate swaps, relating to interest rate risks in Korean won.
- Cross-currency swaps, forwards and options relating to foreign exchange rate risks.
- Stock price index options linked with the KOSPI index.

In particular, the Group uses cross currency swaps, interest rate swaps and others to hedge the risk of changes in fair values due to changes in interest rates and foreign exchange rates of subordinated debts in Korean won, structured debts and financial debentures in foreign currencies.

The details of derivative financial instruments for trading as of December 31, 2014 and 2013, are as follows:

	2014		
(In millions of Korean won)	**Notional amount**	**Assets**	**Liabilities**
Interest rate			
Futures[1]	₩ 290,290	₩ -	₩ -
Swaps	101,441,724	923,094	956,130
Options	8,398,000	86,277	128,185
	110,130,014	1,009,371	1,084,315
Currency			
Forwards	₩ 21,256,930	₩ 340,246	₩ 214,759
Futures[1]	554,794	-	-
Swaps	18,430,843	415,842	441,696
Options	616,977	6,057	6,078
	40,859,544	762,145	662,533
Stock and index			
Futures[1]	₩ 76,298	₩ -	₩ -
Swaps	45,135	26,648	1,166
Options	114,617	2,500	7,660
	236,050	29,148	8,826
Others	-	-	-
	₩ 151,225,608	₩ 1,800,664	₩ 1,755,674

	2013		
(In millions of Korean won)	**Notional amount**	**Assets**	**Liabilities**
Interest rate			
Futures[1]	₩ 581,604	₩ -	₩ -
Swaps	141,111,150	581,343	638,451
Options	8,285,091	45,063	85,906
	149,977,845	626,406	724,357
Currency			
Forwards	₩ 22,923,249	₩ 241,804	₩ 289,368
Futures[1]	360,143	-	-
Swaps	17,414,405	693,115	503,663
Options	273,745	2,428	1,492
	40,971,542	937,347	794,523
Stock and index			
Futures[1]	₩ 59,381	₩ -	₩ -
Swaps	73,658	11,051	12,170
Options	1,110,131	6,278	29,965
	1,243,170	17,329	42,135
Others	60,000	354	377
	₩ 192,252,557	₩ 1,581,436	₩ 1,561,392

[1] A gain or loss from daily mark-to-market futures is reflected in the margin accounts.

Fair value hedge

The details of derivatives designated as fair value hedging instruments as of December 31, 2014, are as follows:

(In millions of Korean won)	**Notional amount**	**Assets**	**Liabilities**
Interest rate			
Swaps	₩ 2,179,779	₩ 109,293	₩ 1,144
Currency			
Swap	-	-	-
Other	140,000	260	2,281
	₩ 2,319,779	₩ 109,553	₩ 3,425

The details of derivatives designated as fair value hedging instruments as of December 31, 2013, are as follows:

(In millions of Korean won)	**Notional amount**	**Assets**	**Liabilities**
Interest rate			
Swaps	₩ 1,951,013	₩ 137,446	₩ -
Currency			
Swap	1,055,300	-	195,800
Other	140,000	-	8,842
	₩ 3,146,313	₩ 137,446	₩ 204,642

Gains and losses from fair value hedging instruments and hedged items attributable to the hedged risk for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	**2014**	**2013**
Gains(losses) on hedging instruments	₩ (28,269)	₩ (49,047)
Gains(losses) on the hedged item attributable to the hedged risk	42,393	81,428
	₩ 14,124	₩ 32,381

10. Loans

Loans as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	**2014**	**2013**
Loans	₩ 212,907,660	₩ 205,050,752
Deferred loan origination fees and costs	545,497	463,262
Allowances	(1,927,597)	(2,390,259)
Carrying amount	₩ 211,525,560	₩ 203,123,755

Loans to banks as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	**2014**	**2013**
Loans	₩ 6,208,391	₩ 6,335,056
Allowances	-	(26)
Carrying amount	₩ 6,208,391	₩ 6,335,030

Loans to customers other than banks as of December 31, 2014 and 2013, consist of:

(In millions of Korean won)	2014		
	Retail	**Corporate**	**Total**
Loans in Korean won	₩ 112,193,456	₩ 84,006,216	₩ 196,199,672
Loans in foreign currencies	50,047	2,574,041	2,624,088
Domestic import usance bills	-	3,693,951	3,693,951
Off-shore funding loans	-	664,794	664,794
Call loans	-	290,243	290,243
Bills bought in Korean won	-	6,678	6,678
Bills bought in foreign currencies	-	1,958,251	1,958,251
Guarantee payments under payment guarantee	-	12,975	12,975
Reverse repurchase agreements	-	1,079,900	1,079,900
Privately placed bonds	-	714,214	714,214
	112,243,503	95,001,263	207,244,766
Proportion (%)	54.16	45.84	100.00
Allowances	(476,974)	(1,450,623)	(1,927,597)
	₩ 111,766,529	₩ 93,550,640	₩ 205,317,169

(In millions of Korean won)	2013		
	Retail	**Corporate**	**Total**
Loans in Korean won	₩ 104,332,073	₩ 83,440,778	₩ 187,772,851
Loans in foreign currencies	98,614	2,956,418	3,055,032
Domestic import usance bills	-	2,978,478	2,978,478
Off-shore funding loans	-	669,602	669,602
Call loans	-	674,399	674,399
Bills bought in Korean won	-	14,243	14,243
Bills bought in foreign currencies	-	1,588,065	1,588,065
Guarantee payments under payment guarantee	-	38,319	38,319
Reverse repurchase agreements	-	1,683,200	1,683,200
Privately placed bonds	-	704,769	704,769
	104,430,687	94,748,271	199,178,958
Proportion (%)	52.43	47.57	100.00
Allowances	(572,286)	(1,817,947)	(2,390,233)
	₩ 103,858,401	₩ 92,930,324	₩ 196,788,725

The changes in deferred loan origination fees and costs for the years ended December 31, 2014 and 2013, are as follows:

	2014				
(In millions of Korean won)	**Beginning**	**Increase**	**Decrease**	**Other**	**Ending**
Deferred loan origination costs					
Loans in Korean won	₩ 495,619	₩ 355,270	₩ 278,781	₩ -	₩ 572,108
Other origination costs	378	1,100	880	-	598
	495,997	356,370	279,661	-	572,706
Deferred loan origination fees					
Loans in Korean won	25,064	4,579	7,650	-	21,993
Other origination fees	7,671	1,073	3,535	7	5,216
	32,735	5,652	11,185	7	27,209
	₩ 463,262	₩ 350,718	₩ 268,476	₩ (7)	₩ 545,497

	2013				
(In millions of Korean won)	**Beginning**	**Increase**	**Decrease**	**Other**	**Ending**
Deferred loan origination costs					
Loans in Korean won	₩ 460,855	₩ 310,770	₩ 276,006	₩ -	₩ 495,619
Other origination costs	343	636	601	-	378
	461,198	311,406	276,607	-	495,997
Deferred loan origination fees					
Loans in Korean won	33,056	2,903	10,895	-	25,064
Other origination fees	6,527	3,872	2,709	(19)	7,671
	39,583	6,775	13,604	(19)	32,735
	₩ 421,615	₩ 304,631	₩ 263,003	₩ 19	₩ 463,262

11. Allowances for Loan Losses

The changes in the allowances for loan losses for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014		
	Retail	**Corporate**	**Total**
Beginning	₩ 572,286	₩ 1,817,973	₩ 2,390,259
Written-off	(521,422)	(1,068,490)	(1,589,912)
Recoveries from written-off loans	132,296	257,972	390,268
Sale	(6,726)	(61,255)	(67,981)
Other changes	(6,555)	(68,443)	(74,998)
Provision[1]	307,095	572,866	879,961
Ending	₩ 476,974	₩ 1,450,623	₩ 1,927,597

(In millions of Korean won)

	2013		
	Retail	**Corporate**	**Total**
Beginning	₩ 680,535	₩ 2,189,157	₩ 2,869,692
Written-off	(580,235)	(1,097,057)	(1,677,292)
Recoveries from written-off loans	126,572	146,575	273,147
Sale	(8,483)	(74,979)	(83,462)
Other changes	(7,310)	(52,232)	(59,542)
Provision[1]	361,207	706,509	1,067,716
Ending	₩ 572,286	₩ 1,817,973	₩ 2,390,259

[1] Provision for credit losses in statements of comprehensive income also include provision(reversal) for unused commitments and guarantees (Note 22), provision(reversal) for financial guarantee contracts (Note 22), and provision(reversal) for other financial assets (Note 17).

The amounts of written-off loans, over which the Group still has a right to claim against the borrowers and guarantors due to unexpired statute of limitations, are ₩ 13,264,264 million and ₩ 12,013,004 million as of December 31, 2014 and 2013, respectively.

The coverage ratios of allowances for loan losses as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	**2014**	**2013**
Loans	₩ 213,453,157	₩ 205,514,014
Allowances for loan losses	1,927,597	2,390,259
Ratio (%)	0.90	1.16

12. Financial assets at fair value through profit or loss and Financial Investments

The details of financial assets at fair value through profit or loss and financial investments as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)		2014		2013
Financial assets held for trading				
Debt securities:				
Government and public bonds	₩	2,035,150	₩	1,760,325
Financial bonds		3,581,035		3,156,497
Corporate bonds		1,204,083		1,469,800
Asset-backed securities		282,011		281,800
Others		266,504		204,223
Equity securities:				
Stocks		60,122		93,122
Beneficiary certificates		40,221		63,856
Others		51,345		40,252
Total financial assets at fair value through profit or loss	₩	7,520,471	₩	7,069,875
Available-for-sale financial assets				
Debt securities:				
Government and public bonds	₩	4,214,383	₩	6,528,440
Financial bonds		6,259,941		5,201,359
Corporate bonds		4,743,295		3,508,786
Asset-backed securities		1,198,281		1,193,201
Equity securities:				
Stocks		1,788,178		1,690,384
Equity investments		45,578		73,874
Beneficiary certificates		884,235		878,792
Others		500		250
		19,134,391		19,075,086
Held-to-maturity financial assets				
Debts securities:				
Government and public bonds		2,724,716		3,685,150
Financial bonds		1,047,049		770,283
Corporate bonds		5,880,095		6,189,311
Asset-backed securities		472,276		366,774
		10,124,136		11,011,518
Total financial investments	₩	29,258,527	₩	30,086,604

The impairment losses and the reversal of impairment losses in financial investment for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014		
	Impairment	**Reversal**	**Net**
Available-for-sale financial assets	₩ (180,784)	₩ -	₩ (180,784)
Held-to-maturity financial assets	-	-	-
	₩ (180,784)	₩ -	₩ (180,784)

(In millions of Korean won)

	2013		
	Impairment	**Reversal**	**Net**
Available-for-sale financial assets	₩ (155,194)	₩ -	₩ (155,194)
Held-to-maturity financial assets	(5)	-	(5)
	₩ (155,199)	₩ -	₩ (155,199)

13. Investments in associates

Investments in associates as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014					
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
Balhae Infrastructure Fund[1]	12.61	₩ 122,623	₩ 125,119	₩ 125,119	Investment finance	Korea
Korea Credit Bureau Co., Ltd.[1]	9.00	4,500	4,222	4,222	Credit information	Korea
UAMCO., Ltd.[1]	17.50	85,050	114,240	121,182	Other finance	Korea
JSC Bank CenterCredit Ordinary share [2] Preference share[2]	29.56 93.15	954,104	36,763	29,279	Banking	Kazakhstan
KB12-1 Venture Investment Partnership[3]	80.00	28,800	29,119	29,119	Investment finance	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	30.00	18,981	15,705	16,675	Investment finance	Korea
United PF 1st Recovery Private Equity Fund[1]	17.72	191,617	203,270	198,089	Other finance	Korea
CH Engineering Co., Ltd.	41.73	-	178	20	Architectural design and related service	Korea
Shinla Construction Co., Ltd.	20.17	-	(502)	-	Specialty construction	Korea
KB GwS Private Securities Investment Trust	20.93	89,124	99,818	98,562	Investment finance	Korea
Incheon Bridge Co., Ltd. [1]	14.99	24,677	(1,716)	-	Operation of highways and related facilities	Korea
KoFC POSCO HANHWA KB shared growth Private Equity Fund	20.00	21,000	18,563	20,663	Investment finance	Korea
Future Planning KB Start-up Creation Fund[3]	50.00	4,000	3,825	4,000	Investment finance	Korea
Terra Corporation	24.06	-	(99)	-	Manufacture of fabricated and processed metal products	Korea
KB Star office Private real estate Investment Trust No.1	21.05	20,000	20,402	20,402	Investment finance	Korea
		₩ 1,564,476	₩ 668,907	₩ 667,332		

(in millions of Korean won)

	2013					
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
Balhae Infrastructure Fund[1]	12.61	121,817	124,968	124,968	Investment finance	Korea
Korea Credit Bureau Co., Ltd.[1]	9.00	4,500	4,185	4,185	Credit information	Korea
UAMCO., Ltd.[1]	17.50	85,050	139,286	150,826	Other finance	Korea
JSC Bank CenterCredit						
Ordinary share[2]	29.56					
Preference share[2]	93.15	954,104	51,989	68,110	Banking	Kazakhstan
KB06-1 Venture Investment Partnership[3]	50.00	2,500	861	861	Investment finance	Korea
KB08-1 Venture Investment Partnership[3]	66.67	5,300	9,345	9,345	Investment finance	Korea
KB12-1 Venture Investment Partnership[3]	80.00	23,200	22,817	23,200	Investment finance	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	30.00	28,548	27,898	28,548	Investment finance	Korea
United PF 1st Recovery Private Equity Fund[1]	17.72	191,617	203,618	197,941	Other finance	Korea
CH Engineering Co., Ltd.	41.73	-	64	-	Architectural design and related service	Korea
Shinla Construction Co., Ltd.	20.17	-	(468)	-	Specialty construction	Korea
Kores Co., Ltd.[4]	10.39	634	1,925	1,505	Manufacture of automobile components	Korea
KB GwS Private Securities Investment Trust	20.93	89,124	99,044	97,788	Investment finance	Korea
Incheon Bridge Co., Ltd. [1]	14.99	24,677	(429)	-	Operation of highways and related facilities	Korea
KoFC POSCO HANHWA KB shared growth Private Equity Fund	20.00	11,220	9,296	10,329	Investment finance	Korea
Future Planning KB Start-up Creation Fund[3]	80.00	4,000	4,030	4,030	Investment finance	Korea
Terra Corporation	24.06	-	20	4	Manufacture of fabricated and processed metal products	Korea
Ssangyong Engineering & Construction Co., Ltd.[4]	15.64	28,779	2,490	-	Office and commercial building construction	Korea
KB Star office Private real estate Investment Trust No.1	21.05	20,000	20,347	20,347	Investment finance	Korea
		₩ 1,595,070	₩ 721,286	₩ 741,987		

[1] As of December 31, 2014 and 2013, the Group is represented in the governing bodies of its associates. Therefore, the Group has significant influence over the decision-making process relating to their financial and business policies.

[2] The fair value of ordinary shares of JSC Bank CenterCredit, reflecting the quoted market price as of December 31, 2014 and 2013, amounts to ₩ 42,945 million and ₩57,476 million,

respectively. The Group determined that ordinary shares and convertible preference shares issued by JSC Bank CenterCredit are the same in economic substance except for voting rights, and therefore, the equity method of accounting is applied on the basis of single ownership ratio of 41.93%, calculated based on ordinary and convertible preference shares held by the Group against the total outstanding ordinary and convertible preference shares issued by JSC Bank CenterCredit.

[3] As of December 31, 2014 and 2013, the Group is a partner in a limited partnership and does not have the right to control over these entities.

[4] Where the Group has acquired shares of entities through debt-for-equity swaps, the Group is represented in the creditor council. Therefore, the Group has significant influence over the decision-making process relating to their financial and business policies.

Summarized financial information on the main associates, the carrying amount of the Group's interest in the main associates and dividends received from the main associates are as follows:

(In millions of Korean won)

	2014[1]						
	Total assets	Total liabilities	Paid-in capital	Equity	Share of net asset amount	Unrealized gains and losses and others	Carrying amount
Balhae Infrastructure Fund	₩ 994,768	₩ 2,158	₩ 999,430	₩ 992,610	₩ 125,119	₩ -	₩ 125,119
Korea Credit Bureau Co., Ltd.	54,717	7,806	10,000	46,911	4,222	-	4,222
UAMCO., Ltd.	4,357,490	3,688,589	2,430	668,901	114,240	6,942	121,182
JSC Bank CenterCredit	6,278,391	6,156,255	546,794	122,136	36,763	(7,484)	29,279
KB12-1 Venture Investment Partnership	36,978	580	36,000	36,398	29,119	-	29,119
KoFC KBIC Frontier Champ 2010-5(PEF)	52,499	148	63,270	52,351	15,705	970	16,675
United PF 1st Recovery Private Equity Fund	1,187,406	40,240	1,081,400	1,147,166	203,270	(5,181)	198,089
CH Engineering Co., Ltd.[2]	1,086	659	158	427	178	(158)	20
KB GwS Private Securities Investment Trust	477,646	738	425,814	476,908	99,818	(1,256)	98,562
Incheon Bridge Co., Ltd.	727,659	739,105	164,621	(11,446)	(1,716)	1,716	-
KoFC POSCO HANHWA KB shared growth Private Equity Fund	94,731	1,917	105,000	92,814	18,563	2,100	20,663
Future Planning KB Start-up Creation Fund	8,040	390	8,000	7,650	3,825	175	4,000
KB Star office Private real estate Investment Trust No.1	218,250	121,341	95,000	96,909	20,402	-	20,402

(In millions of Korean won)

	2014[1]				
	Operating revenues	Profit (Loss)	Other comprehensive income(loss)	Comprehensive income(loss)	Dividends
Balhae Infrastructure Fund	₩ 53,100	₩ 44,616	₩ -	₩ 44,616	₩ 6,280
Korea Credit Bureau Co., Ltd.	46,111	114	-	114	-
UAMCO., Ltd.	548,990	57,438	-	57,438	35,041
JSC Bank CenterCredit	425,506	(22,973)	(26,987)	(49,960)	2
KB06-1 Venture Investment Partnership	570	558	(32)	526	-
KB08-1 Venture Investment Partnership	4,368	3,008	(455)	2,553	4,946
KB12-1 Venture Investment Partnership	3,302	647	230	877	-
KoFC KBIC Frontier Champ 2010-5(PEF)	16,942	957	(3,249)	(2,292)	1,938
United PF 1st Recovery Private Equity Fund	105,369	(1,962)	-	(1,962)	-
CH Engineering Co., Ltd.[2]	787	251	-	251	-
KB GwS Private Securities Investment Trust	39,207	38,207	-	38,207	7,222
Incheon Bridge Co., Ltd.	83,578	(8,185)	-	(8,185)	-
KoFC POSCO HANHWA KB shared growth Private Equity Fund	9,228	3,771	(6,337)	(2,566)	-
Future Planning KB Start-up Creation Fund	123	(330)	-	(330)	45
KB Star office Private real estate Investment Trust No.1	17,413	8,585	-	8,585	1,752

[1] The amounts included in the financial statements of the associates are adjusted to reflect adjustments made by the entity, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

[2] As the financial statements as of the end of December are not available, the Group applied the equity method by using the financial statements as of the end of November 2014 and adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

(In millions of Korean won)

	2013[1]						
	Total assets	Total liabilities	Paid-in capital	Equity	Share of net asset amount	Unrealized gains and losses and others	Carrying amount
Balhae Infrastructure Fund	₩ 993,571	₩ 2,157	₩ 993,030	₩ 991,414	₩ 124,968	₩ -	₩ 124,968
Korea Credit Bureau Co., Ltd.	63,043	16,542	10,000	46,501	4,185	-	4,185
UAMCO., Ltd.	4,365,097	3,567,972	2,430	797,125	139,286	11,540	150,826
JSC Bank CenterCredit	7,083,662	6,903,416	546,794	180,246	51,989	16,121	68,110
KB06-1 Venture Investment Partnership	1,722	-	5,000	1,722	861	-	861
KB08-1 Venture Investment Partnership	14,024	6	7,950	14,018	9,345	-	9,345
KB12-1 Venture Investment Partnership	28,524	3	29,000	28,521	22,817	383	23,200
KoFC KBIC Frontier Champ 2010-5(PEF)	93,367	375	95,160	92,992	27,898	650	28,548
United PF 1st Recovery Private Equity Fund	1,159,220	10,092	1,081,400	1,149,128	203,618	(5,677)	197,941
CH Engineering Co., Ltd. [2]	917	763	158	154	64	(64)	-
Kores Co., Ltd. [3]	92,937	80,914	11,099	12,023	1,925	(420)	1,505
KB GwS Private Securities Investment Trust	473,946	738	425,814	473,208	99,044	(1,256)	97,788
Incheon Bridge Co., Ltd.	740,321	743,182	164,621	(2,861)	(429)	429	-
KoFC POSCO HANHWA KB shared growth Private Equity Fund	48,192	1,712	56,100	46,480	9,296	1,033	10,329
Future Planning KB Start-up Creation Fund	5,038	1	5,000	5,037	4,030	-	4,030
Terra Corporation[3]	1,659	1,576	254	83	20	(16)	4
Ssangyong Engineering & Construction Co., Ltd.[3]	1,359,658	1,343,734	73,045	15,924	2,490	(2,490)	-
KB Star office Private real estate Investment Trust No.1	217,557	120,910	95,000	96,647	20,347	-	20,347

(In millions of Korean won)

	2013[1]				
	Operating revenues	Profit (Loss)	Other comprehensive income(loss)	Comprehensive income(loss)	Dividends
Balhae Infrastructure Fund	₩ 57,754	₩ 49,685	₩ -	₩ 49,685	₩ 6,299
Korea Credit Bureau Co., Ltd.	51,571	4,909	-	4,909	-
UAMCO., Ltd.	708,035	105,085	-	105,085	-
JSC Bank CenterCredit	532,768	(497,885)	(5,732)	(503,617)	3
KB06-1 Venture Investment Partnership	89	(151)	32	(119)	-
KB08-1 Venture Investment Partnership	2,707	266	455	721	3,000
KB12-1 Venture Investment Partnership	2,239	(163)	(239)	(402)	-
KoFC KBIC Frontier Champ 2010-5(PEF)	3,368	(2,454)	7,064	4,610	-
United PF 1st Recovery Private Equity Fund	152,315	13,769	-	13,769	-
CH Engineering Co., Ltd. [2]	681	(102)	-	(102)	-
Kores Co., Ltd. [3]	100,769	565	2,472	3,037	-
KB GwS Private Securities Investment Trust	42,239	41,247	-	41,247	6,960
Incheon Bridge Co., Ltd.	77,311	(13,533)	-	(13,533)	-
KoFC POSCO HANHWA KB shared growth Private Equity Fund	1,685	(8,803)	1,759	(7,044)	-
Future Planning KB Start-up Creation Fund	39	37	-	37	-
Terra Corporation[3]	1,422	17	-	17	-
Ssangyong Engineering & Construction Co., Ltd. [3]	1,724,742	(314,105)	(8,615)	(322,720)	-
KB Star office Private real estate Investment Trust No.1	16,672	8,490	-	8,490	1,751

[1] The amounts included in the financial statements of the associates are adjusted to reflect adjustments made by the entity, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

[2] As the financial statements as of the end of December are not available, the Group applied the equity method by using the financial statements as of the end of November 2013 and adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

[3] As the financial statements as of the end of December are not available, the Group applied the equity method by using the financial statements as of the end of September 2013 and adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

The changes in investments in associates for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014							
	Beginning	Acquisition and others	Disposal and others	Dividends	Gains (losses)	Other comprehen-sive loss	Impairment losses	Ending
Balhae Infrastructure Fund	₩124,968	₩ 806	₩ -	₩ (6,280)	₩ 5,625	₩ -	₩ -	₩ 125,119
Korea Credit Bureau Co., Ltd.	4,185	-	-	-	37	-	-	4,222
UAMCO., Ltd.	150,826	-	-	(35,041)	5,397	-	-	121,182
JSC Bank CenterCredit	68,110	-	-	(2)	(6,278)	(32,551)	-	29,279
KB06-1 Venture Investment Partnership	861	-	(1,124)	-	279	(16)	-	-
KB08-1 Venture Investment Partnership	9,345	-	(6,100)	(4,946)	2,005	(304)	-	-
KB12-1 Venture Investment Partnership	23,200	5,600	-	-	326	(7)	-	29,119
KoFC KBIC Frontier Champ 2010-5(PEF)	28,548	30	(9,597)	(1,938)	-	-	(368)	16,675
United PF 1st Recovery Private Equity Fund	197,941	-	-	-	148	-	-	198,089
Kores Co., Ltd.	1,505	-	(1,505)	-	-	-	-	-
KB GwS Private Securities Investment Trust	97,788	-	-	(7,222)	7,996	-	-	98,562
KoFC POSCO HANHWA KB shared growth Private Equity Fund	10,329	9,780	-	-	798	(244)	-	20,663
Future Planning KB Start-up Creation Fund	4,030	-	-	(45)	15	-	-	4,000
CH Engineering Co., Ltd.	-	-	-	-	20	-	-	20
Terra Corporation	4	-	-	-	(4)	-	-	-
KB Star office Private real estate Investment Trust No.1	20,347	-	-	(1,752)	1,807	-	-	20,402
	₩741,987	₩16,216	₩ (18,326)	₩ (57,226)	₩18,171	₩ (33,122)	₩ (368)	₩667,332

(In millions of Korean won)

	2013							
	Beginning	Acquisition and others	Disposal and others	Dividends	Gains (losses)	Other comprehen-sive income (loss)	Impairment losses	Ending
Balhae Infrastructure Fund	₩125,004	₩ -	₩ -	₩ (6,299)	₩6,263	₩ -	₩ -	₩124,968
Korea Credit Bureau Co., Ltd.	3,790	-	-	-	395	-	-	4,185
UAMCO., Ltd.	139,760	-	-	-	11,066	-	-	150,826
JSC Bank CenterCredit	281,889	-	-	(3)	(204,312)	(9,464)	-	68,110
KB06-1 Venture Investment Partnership	1,920	-	(1,000)	-	(75)	16	-	861
KB08-1 Venture Investment Partnership	19,565	-	(7,700)	(3,000)	176	304	-	9,345
KB12-1 Venture Investment Partnership	12,000	11,200	-	-	-	-	-	23,200
KoFC KBIC Frontier Champ 2010-5(PEF)	19,186	9,390	(132)	-	104	-	-	28,548
United PF 1st Recovery Private Equity Fund	195,425	-	-	-	2,516	-	-	197,941
Kores Co., Ltd.	1,384	-	-	-	91	450	(420)	1,505
KB GwS Private Securities Investment Trust	96,109	-	-	(6,960)	8,639	-	-	97,788
Incheon Bridge Co., Ltd.	1,630	-	-	-	(1,630)	-	-	-
KoFC POSCO HANHWA KB shared growth Private Equity Fund	4,983	6,220	-	-	(972)	98	-	10,329
Future Planning KB Start-up Creation Fund	-	4,000	-	-	30	-	-	4,030
Terra Corporation	-	-	-	-	4	-	-	4
Ssangyong Engineering & Construction Co., Ltd. [1]	-	28,779	-	-	(8,200)	(1,176)	(19,403)	-
KB Star office Private real estate Investment Trust No.1	20,311	-	-	(1,751)	1,787	-	-	20,347
	₩922,956	₩59,589	₩ (8,832)	₩ (18,013)	₩ (184,118)	₩ (9,772)	₩ (19,823)	₩741,987

[1] Impairment recognized on reorganization proceedings filed on December 30, 2013.

Accumulated unrecognized share of losses in investments in associates due to discontinuation of applying the equity method for the years ended December 31, 2014 and 2013, are as follows:

	2014		2013	
	Unrecognized loss	Accumulated unrecognized loss	Unrecognized loss	Accumulated unrecognized loss
Incheon Bridge Co., Ltd.	₩ 1,287	₩ 1,716	₩ 429	₩ 429
CH Engineering Co., Ltd.	-	-	43	94
Shinla Construction Co., Ltd.	34	134	41	100
Terra Corporation	115	115	-	-

14. Property and Equipment, and Investment Property

The details of property and equipment as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩ 1,884,029	₩ -	₩ -	₩ 1,884,029
Buildings	1,153,465	(345,704)	(2,117)	805,644
Leasehold improvements	576,099	(528,629)	-	47,470
Equipment and vehicles	1,492,601	(1,362,673)	-	129,928
Construction in-progress	606	-	-	606
Financial lease assets	21,245	(728)	-	20,517
	₩ 5,128,045	₩ (2,237,734)	₩ (2,117)	₩ 2,888,194

(In millions of Korean won)	2013			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩ 1,914,966	₩ -	₩ -	₩ 1,914,966
Buildings	1,151,223	(328,701)	(2,117)	820,405
Leasehold improvements	545,936	(495,966)	-	49,970
Equipment and vehicles	1,437,687	(1,328,503)	-	109,184
Construction in-progress	-	-	-	-
Financial lease assets	66,641	(57,741)	-	8,900
	₩ 5,116,453	₩ (2,210,911)	₩ (2,117)	₩ 2,903,425

The changes in property and equipment for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014						
	Beginning	**Acquisition**	**Transfers[1]**	**Disposal**	**Depreciation**	**Others**	**Ending**
Land	₩ 1,914,966	₩ 4,786	₩ (35,698)	₩ -	₩ -	₩ (25)	₩ 1,884,029
Buildings	820,405	10,226	2,186	-	(27,093)	(80)	805,644
Leasehold improvements	49,970	2	29,628	(138)	(35,248)	3,256	47,470
Equipment and vehicles	109,184	88,570	1,946	(313)	(70,393)	934	129,928
Construction in-progress	-	54,859	(54,253)	-	-	-	606
Financial lease assets	8,900	29,152	(1,946)	-	(15,589)	-	20,517
	₩ 2,903,425	₩ 187,595	₩ (58,137)	₩ (451)	₩ (148,323)	₩ 4,085	₩ 2,888,194

(In millions of Korean won)

	2013						
	Beginning	**Acquisition**	**Transfers[1]**	**Disposal**	**Depreciation**	**Others**	**Ending**
Land	₩ 1,932,744	₩ 102	₩ (17,640)	₩ (167)	₩ -	₩ (73)	₩ 1,914,966
Buildings	835,840	776	11,386	(219)	(27,136)	(242)	820,405
Leasehold improvements	49,627	736	32,718	(22)	(42,307)	9,218	49,970
Equipment and vehicles	108,881	77,051	-	(234)	(76,553)	39	109,184
Construction in-progress	893	51,268	(52,161)	-	-	-	-
Financial lease assets	9,767	10,734	-	-	(11,601)	-	8,900
	₩ 2,937,752	₩ 140,667	₩ (25,697)	₩ (642)	₩ (157,597)	₩ 8,942	₩ 2,903,425

[1] Including transfers from investment property and assets held for sale.

The changes in accumulated impairment losses of property and equipment for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

2014				
Beginning	**Impairment**	**Reversal**	**Others**	**Ending**
₩ (2,117)	₩ -	₩ -	₩ -	₩ (2,117)

(In millions of Korean won)

2013				
Beginning	**Impairment**	**Reversal**	**Others**	**Ending**
₩ (3,242)	₩ -	₩ -	₩ 1,125	₩ (2,117)

The details of investment property as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014		
	Acquisition cost	**Accumulated depreciation**	**Carrying amount**
Land	₩ 253,533	₩ -	₩ 253,533
Buildings	167,931	(12,198)	155,733
	₩ 421,464	₩ (12,198)	₩ 409,266

(In millions of Korean won)	2013		
	Acquisition cost	**Accumulated depreciation**	**Carrying amount**
Land	₩ 122,190	₩ -	₩ 122,190
Buildings	89,001	(10,186)	78,815
	₩ 211,191	₩ (10,186)	₩ 201,005

The valuation technique and input variables that are used to measure the fair value of investment property as of December 31, 2013, are as follows:

(In millions of Korean won)	2014		
	Fair Value	**Valuation technique**	**Inputs**
Land and Buildings	₩ 409,647	Cost model	- Price per square meter - Replacement cost

As of December 31, 2014 and 2013, fair values of the investment properties amount to ₩409,647 million and ₩ 221,884 million, respectively. The investment properties were measured by qualified independent appraisers with experience in valuing similar properties in the same area. In addition, per the fair value hierarchy on Note 6.1, the fair value hierarchy of all investment properties has been categorized and classified as Level 3.

Rental income from the above investment properties for the years ended December 31, 2014 and 2013, amounts to ₩ 7,167 million and ₩ 5,016 million, respectively.

The changes in investment property for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014				
	Beginning	Acquisitions	Transfers	Depreciation	Ending
Land	₩ 122,190	₩ 132,923	₩ (1,580)	₩ -	₩ 253,533
Buildings	78,815	79,072	147	(2,301)	155,733
	₩ 201,005	₩ 211,995	₩ (1,433)	₩ (2,301)	₩ 409,266

(In millions of Korean won)

	2013				
	Beginning	Acquisitions	Transfers	Depreciation	Ending
Land	₩ 70,046	₩ 56,056	₩ (3,912)	₩ -	₩ 122,190
Buildings	22,158	58,553	(74)	(1,822)	78,815
	₩ 92,204	₩ 114,609	₩ (3,986)	₩ (1,822)	₩ 201,005

Property and equipment insured as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

Type	Assets insured	2014 Insurance coverage	2013 Insurance coverage	Insurance company
General property insurance	Buildings[1]	₩ 1,085,153	₩ 991,003	Samsung Fire & Marine Insurance Co., Ltd. and others
	Leasehold improvements	108,281	109,107	
	Equipment and vehicles and others	103,008	76,084	
		₩ 1,296,442	₩ 1,176,194	

[1] Buildings include office buildings, investment properties and assets held for sale.

15. Intangible Assets

The details of intangible assets as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Goodwill	₩ 66,490	₩ -	₩ -	₩ 66,490
Other intangible assets	714,034	(568,100)	(5,529)	140,405
	₩ 780,524	₩ (568,100)	₩ (5,529)	₩ 206,895

(In millions of Korean won)	2013			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Goodwill	₩ 66,490	₩ -	₩ -	₩ 66,490
Other intangible assets	696,380	(532,794)	(5,492)	158,094
	₩ 762,870	₩ (532,794)	₩ (5,492)	₩ 224,584

The details of goodwill as of December 31, 2014 and 2013, are as follows:

	2014		2013	
(In millions of Korean won)	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount
Housing & Commercial Bank	₩ 65,288	₩ 65,288	₩ 65,288	₩ 65,288
KB Cambodia Bank	1,202	1,202	1,202	1,202
	₩ 66,490	₩ 66,490	₩ 66,490	₩ 66,490

There is no change in goodwill for the years ended December 31, 2014 and 2013.

The details of allocating goodwill to cash-generating units and related information for impairment testing as of December 31, 2014, are as follows:

(In millions of Korean won)

	Housing & Commercial Bank		KB Cambodia Bank	Total
	Retail Banking	Corporate Banking		
Carrying amounts	₩ 49,315	₩ 15,973	₩ 1,202	₩ 66,490
Recoverable amount exceeded carrying amount	1,090,789	1,058,505	735	2,150,029
Discount rate (%)	17.1	17.5	33.4	
Permanent growth rate (%)	2.0	2.0	2.0	

Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the combination for impairment testing, and cash-generating units consist of an operating segment or units which are not larger than an operating segment. The Group recognized the amount of ₩ 65,288 million related to goodwill acquired in the merger of Housing & Commercial Bank. Of those respective amounts, the amounts of ₩ 49,315 million and ₩ 15,973 million were allocated to the Retail Banking and Corporate Banking, respectively. Cash-generating units to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit.

The recoverable amount of a cash-generating unit is measured at the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. If it is difficult to measure the amount obtainable from the sale of the cash-generating unit, the Group measures the fair value less costs to sell by reflecting the characteristics of the measured cash-generating unit. If it is not possible to obtain the reliable information to measure the fair value less costs to sell, the Group uses the asset's value in use as its recoverable amount. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The projections of the future cash flows are based on the most recent financial budget approved by management and generally cover a period of five years. The future cash flows after projection period are estimated on the assumption that the future cash flows will increase by 2.0% for Retail Banking, Corporate Banking and KB Cambodia Bank every year. The key assumptions used for the estimation of the future cash flows are the market size and the Group's market share. The discount rate is a pre-tax rate that reflects assumptions regarding risk-free interest rate, market risk premium and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

The details of intangible assets, excluding goodwill, as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Industrial property rights	₩ 1,295	₩ (1,006)	₩ -	₩ 289
Software	560,121	(505,998)	-	54,123
Other intangible assets	128,644	(60,743)	(5,529)	62,372
Finance leases assets	23,974	(353)	-	23,621
	₩ 714,034	₩ (568,100)	₩ (5,529)	₩ 140,405

(In millions of Korean won)

	2013			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Industrial property rights	₩ 1,245	₩ (881)	₩ -	₩ 364
Software	539,293	(460,775)	-	78,518
Other intangible assets	126,391	(49,743)	(5,492)	71,156
Finance leases assets	29,451	(21,395)	-	8,056
	₩ 696,380	₩ (532,794)	₩ (5,492)	₩ 158,094

The changes in intangible assets, excluding goodwill, for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014						
	Beginning	Acquisition	Transfer	Disposal	Amortization	Others	Ending
Industrial property rights	₩ 364	₩ 36	₩ -	₩ -	₩ (117)	₩ 6	₩ 289
Software	78,518	16,370	4,528	-	(44,491)	(802)	54,123
Other intangible assets[1]	71,156	1,673	-	(2,577)	(8,252)	372	62,372
Finance leases assets	8,056	28,208	(4,528)	-	(8,115)	-	23,621
	₩ 158,094	₩ 46,287	₩ -	₩ (2,577)	₩ (60,975)	₩ (424)	₩ 140,405

(In millions of Korean won)

	2013					
	Beginning	Acquisition	Disposal	Amortization	Others	Ending
Industrial property rights	₩ 373	₩ 104	₩ -	₩ (111)	₩ (2)	₩ 364
Software	127,626	21,196	-	(69,499)	(805)	78,518
Other intangible assets[1]	63,240	24,674	(2,981)	(6,150)	(7,627)	71,156
Finance leases assets	7,089	6,036	-	(5,069)	-	8,056
	₩ 198,328	₩ 52,010	₩ (2,981)	₩ (80,829)	₩ (8,434)	₩ 158,094

[1] Impairment loss for membership rights under other intangible assets with indefinite useful lives was recognized when their recoverable amount is lower than their carrying amount, and reversal of impairment losses was recognized when their recoverable amount is higher than their carrying amount.

The changes in accumulated impairment losses on intangible assets for the years ended December 31, 2014 and 2013, are as follows:

	2014				
(In millions of Korean won)	Beginning	Impairment	Reversal	Others	Ending
Accumulated impairment losses on intangible assets	₩ (5,492)	₩ (128)	₩ 321	₩ (230)	₩ (5,529)

	2013				
(In millions of Korean won)	Beginning	Impairment	Reversal	Others	Ending
Accumulated impairment losses on intangible assets	₩ (4,801)	₩ (723)	₩ 24	₩ 8	₩ (5,492)

16. Deferred income tax assets and liabilities

The details of deferred income tax assets and liabilities as of December 31, 2014 and 2013, are as follows:

	2014		
(In millions of Korean won)	**Assets**	**Liabilities**	**Net amount**
Other provisions	₩ 65,033	₩ -	₩ 65,033
Impairment losses on property and equipment	5,412	-	5,412
Interest on equity index-linked deposits	183	-	183
Share-based payments	7,806	-	7,806
Provisions for guarantees	50,115	-	50,115
Gains(losses) from valuation on derivatives	-	(51,167)	(51,167)
Present value discount	-	(34)	(34)
Gains(losses) from fair value hedged	12,834	-	12,834
Accrued interest	-	(48,019)	(48,019)
Deferred loan origination fees and costs	-	(110,160)	(110,160)
Gains from revaluation	-	(272,696)	(272,696)
Investments in subsidiaries and associates	6,336	(71,565)	(65,229)
Others	562,200	(261,322)	300,878
	709,919	(814,963)	(105,044)
Offsetting of deferred income tax assets and liabilities	(704,605)	704,605	-
Total	₩ 5,314	₩ (110,358)	₩ (105,044)

	2013		
(In millions of Korean won)	**Assets**	**Liabilities**	**Net amount**
Other provisions	₩ 78,295	₩ -	₩ 78,295
Impairment losses on property and equipment	2,873	-	2,873
Interest on equity index-linked deposits	340	-	340
Share-based payments	8,241	-	8,241
Provisions for guarantees	50,461	-	50,461
Gains(losses) from valuation on derivatives	-	(13,196)	(13,196)
Present value discount	195	-	195
Gains(losses) from fair value hedged	16,670	-	16,670
Accrued interest	-	(60,327)	(60,327)
Deferred loan origination fees and costs	-	(93,960)	(93,960)
Gains from revaluation	-	(273,806)	(273,806)
Investments in subsidiaries and associates	69,706	(59,923)	9,783
Others	417,242	(262,732)	154,510
	644,023	(763,944)	(119,921)
Offsetting of deferred income tax assets and liabilities	(643,580)	643,580	-
Total	₩ 443	₩ (120,364)	₩ (119,921)

Unrecognized deferred income tax liabilities

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩ 27,367 million associated with investments in subsidiaries and associates as of December 31, 2014, due to the following reasons:

- The Group is able to control the timing of the reversal of the temporary difference.
- It is probable that the temporary difference will not be reversed in the foreseeable future.

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩ 65,288 million arising from the initial recognition of goodwill from the merger of Housing and Commercial Bank as of December 31, 2014.

Unrecognized deferred income tax assets

No deferred income tax assets have been recognized for the deductible temporary difference of ₩ 547,965 million associated with investments in subsidiaries and associates as of December 31, 2014, because it is not probable that the temporary differences will be reversed in the foreseeable future.

No deferred income tax assets have been recognized for deductible temporary differences of ₩ 199 million, ₩ 80,204 million and ₩ 18,185 million associated other provisions, loss on SPE repurchase and others, respectively, as of December 31, 2014, due to the uncertainty that these will be realized in the future.

The changes in cumulative temporary differences for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014			
	Beginning	**Decrease**	**Increase**	**Ending**
Deductible temporary differences				
Gains(losses) from fair value hedge	₩ 68,884	₩ 68,884	₩ 53,033	₩ 53,033
Other provisions	323,781	323,781	268,931	268,931
Impairment losses on property and equipment	11,873	11,873	22,363	22,363
Interest on equity index-linked deposits	1,407	1,325	676	758
Share-based payments	34,053	34,053	32,256	32,256
Provisions for guarantees	208,517	208,517	207,087	207,087
Present value discount	804	804	-	-
Loss on SPE repurchase	80,204	-	-	80,204
Investment in subsidiaries and associates	882,728	308,051	4,802	579,479
Others	1,737,460	1,017,320	1,621,331	2,341,471
	3,349,711	₩ 1,974,608	₩ 2,210,479	3,585,582
Unrecognized deferred income tax assets:				
Other provisions	250			199
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	595,196			547,965
Others	13,376			18,185
	₩ 2,660,685			₩ 2,939,029
Tax rate (%)	24.2			24.2
Total deferred income tax assets from deductible temporary differences	₩ 644,023			₩ 709,919

(In millions of Korean won)

	2014			
	Beginning	**Decrease**	**Increase**	**Ending**
Taxable temporary differences				
Accrued interest	₩ (249,286)	₩ (217,151)	₩ (166,289)	₩ (198,424)
Deferred loan origination fees and costs	(388,266)	(388,266)	(455,207)	(455,207)
Gains(losses) from valuation on derivatives	(54,531)	(54,531)	(211,434)	(211,434)
Present value discount	-	-	(140)	(140)
Goodwill from merger	(65,288)	-	-	(65,288)
Gains from revaluation	(1,131,429)	(4,587)	-	(1,126,842)
Investment in subsidiaries and associates	(365,424)	(57,931)	(15,199)	(322,692)
Others	(1,087,088)	(376,397)	(369,155)	(1,079,846)
	(3,341,312)	₩ (1,098,863)	₩ (1,217,424)	(3,459,873)
Unrecognized deferred income tax liabilities:				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(118,748)			(27,367)
	₩ (3,157,276)			₩ (3,367,218)
Tax rate (%)	24.2			24.2
Total deferred income tax liabilities from deductible temporary differences	₩ (763,944)			₩ (814,962)

(In millions of Korean won)

	2013			
	Beginning	**Decrease**	**Increase**	**Ending**
Deductible temporary differences				
Gains(losses) from fair value hedge	₩ 127,281	₩ 127,281	₩ 68,884	₩ 68,884
Other provisions	318,070	318,070	323,781	323,781
Impairment losses on property and equipment	8,723	8,723	11,873	11,873
Interest on equity index-linked deposits	2,985	2,985	1,407	1,407
Share-based payments	24,986	24,986	34,053	34,053
Provisions for guarantees	208,247	208,247	208,517	208,517
Present value discount	245	245	804	804
Loss on SPE repurchase	80,204	-	-	80,204
Investment in subsidiaries and associates	591,676	7,737	298,789	882,728
Others	1,469,644	698,775	966,591	1,737,460
	2,832,061	₩ 1,397,049	₩ 1,914,699	3,349,711
Unrecognized deferred income tax assets:				
Share-based payments	10			-
Other provisions	817			250
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	398,516			595,196
Others	6,870			13,376
	₩ 2,345,644			₩ 2,660,685
Tax rate (%)	24.2			24.2
Total deferred income tax assets from deductible temporary differences	₩ 567,774			₩ 644,023

(In millions of Korean won)

	2013			
	Beginning	**Decrease**	**Increase**	**Ending**
Taxable temporary differences				
Accrued interest	₩ (261,908)	₩ (216,665)	₩ (204,043)	₩ (249,286)
Deferred loan origination fees and costs	(347,996)	(347,996)	(388,266)	(388,266)
Gains(losses) from valuation on derivatives	(152,020)	(152,020)	(54,531)	(54,531)
Goodwill from merger	(65,288)	-	-	(65,288)
Gains from revaluation	(1,132,933)	(1,504)	-	(1,131,429)
Investment in subsidiaries and associates	(395,186)	(80,596)	(50,834)	(365,424)
Others	(944,473)	(376,881)	(519,495)	(1,087,087)
	(3,299,804)	₩ (1,175,662)	₩ (1,217,169)	(3,341,311)
Unrecognized deferred income tax liabilities:				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(83,745)			(118,749)
	₩ (3,150,771)			₩ (3,157,274)
Tax rate (%)	24.2			24.2
Total deferred income tax liabilities from deductible temporary differences	₩ (762,677)			₩ (763,944)

17. Other Assets

The details of other assets as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	2013
Other financial assets		
Other receivables	₩ 2,663,441	₩ 2,820,204
Accrued income	754,702	792,882
Guarantee deposits	1,291,907	1,334,257
Domestic exchange settlement debits	2,086,792	723,886
Others	20,924	19,089
Allowances for loan losses	(288,245)	(527,114)
Present value discount	(489)	(555)
	6,529,032	5,162,649
Other non-financial assets		
Other receivables	1,187	528
Prepaid expenses	182,936	221,160
Guarantee deposits	3,607	3,663
Others	34,925	65,351
Allowances on other assets	(23,174)	(16,146)
	199,481	274,556
	₩ 6,728,513	₩ 5,437,205

The changes in allowances for loan losses on other assets for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014		
	Other financial assets	Other non-financial assets	Total
Beginning	₩ 527,114	₩ 16,146	₩ 543,260
Provision	27,415	4,065	31,480
Written-off	(290,329)	(2,435)	(292,764)
Others	24,045	5,398	29,443
Ending	₩ 288,245	₩ 23,174	₩ 311,419

(In millions of Korean won)	2013		
	Other financial assets	Other non-financial assets	Total
Beginning	₩ 524,661	₩ 7,820	₩ 532,481
Provision	7,927	15,041	22,968
Written-off	(5,474)	(6,715)	(12,189)
Ending	₩ 527,114	₩ 16,146	₩ 543,260

18. Assets held for sale

Fair value measurement of assets held for sale

The details of assets held for sale as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014			
	Acquisition cost[1]	Accumulated impairment	Carrying amount	Fair value less costs to sell
Land	₩ 47,418	₩ (9,442)	₩ 37,976	₩ 40,530
Buildings	26,862	(10,804)	16,058	17,429
	₩ 74,280	₩ (20,246)	₩ 54,034	₩ 57,959

(In millions of Korean won)	2013			
	Acquisition cost[1]	Accumulated impairment	Carrying amount	Fair value less costs to sell
Land	₩ 21,380	₩ (5,109)	₩ 16,271	₩ 16,271
Buildings	9,634	(4,978)	4,656	4,656
	₩ 31,014	₩ (10,087)	₩ 20,927	₩ 20,927

[1] Acquisition cost of buildings held for sale is net of accumulated depreciation.

The valuation technique and input variables that are used to measure the fair value of assets held for sale as of December 31, 2014, are as follows:

(In millions of Korean won)	2014				
	Fair value	Valuation technique[1]	Unobservable inputs[2]	Range of unobservable inputs (%)	Effect of unobservable inputs on fair value
Land and buildings	₩ 57,982	Market comparison approach model	Adjustment index	0.17~2.00	Fair value increases as the adjustment index rises
			Adjustment ratio	-20.00~0.00	Fair value decreases as the absolute value of adjustment ratio rises

[1] The Group adjusted the appraisal value by the adjustment ratio in the event the public sale is unsuccessful.
[2] Adjustment index is calculated using the real estate index or the producer price index, or land price volatility.

The fair values of assets held for sale were measured by qualified independent appraisers with experience in valuing similar properties in the same area. In addition, per the fair value hierarchy on Note 6.1, the fair value hierarchy of all investment properties has been categorized and classified as Level 3.

The changes in accumulated impairment losses of assets held for sale for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

2014				
Beginning	**Provision**	**Reversal**	**Others**	**Ending**
₩ (10,087)	₩ (15,943)	₩ -	₩ 5,784	₩ (20,246)

(In millions of Korean won)

2013				
Beginning	**Provision**	**Reversal**	**Others**	**Ending**
₩ (5,759)	₩ (9,044)	₩ -	₩ 4,716	₩ (10,087)

As of December 31, 2014, assets held for sale consist of 15 real estates of closed offices, which the management of the Group was committed to a plan to sell, but not sold by December 31, 2014. As of December 31, 2014, three assets out of above assets held for sale are under negotiation for sale and the remaining 12 assets are also being actively marketed.

19. Deposits

Deposits as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	2013
Deposits	₩ 211,611,432	₩ 200,967,688

The details of deposits as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	2013
Demand deposits in Korean won		
Checking deposits	₩ 183,805	₩ 322,389
Household checking deposits	495,268	467,229
Special deposits	3,017,638	2,705,704
Ordinary deposits	28,070,909	24,570,520
Public fund deposits	81,899	75,127
Treasury deposits	5,012	5,148
General savings deposits	30,195,868	28,077,274
Corporate savings deposits	13,741,817	10,813,213
Nonresident's deposit in Korean won	53,079	67,468
Nonresident's free deposit in Korean won	16,761	15,002
Other demand deposits	27,535	28,008
	75,889,591	67,147,082
Demand deposits in foreign currencies		
Checking deposits	114,589	251,072
Ordinary deposits	2,813,236	2,471,292
Special deposits	1,677	5,325
Others	87,936	52,765
	3,017,438	2,780,454
	78,907,029	69,927,536
Time deposits in Korean won		
Time deposits	110,861,684	108,144,843
Installment savings deposits	10,111,644	11,069,012
Good-sum formation savings	843,065	422,486
Nonresident's deposit in Korean won	137,578	151,853
Long-term savings deposits for workers	1,488	1,543
Nonresident's free deposit in Korean won	26,361	41,085
Long-term housing savings deposits	1,425,949	2,055,708
Long-term savings for households	163	190
Preferential savings deposits for workers	143	244
Mutual installment deposits	1,266,208	1,478,473
Mutual installment for housing	755,764	853,392
Others	3,207,318	3,093,949
	128,637,365	127,312,778
Fair value adjustments on fair value hedged time deposits in Korean won		
Fair value adjustments on valuation of fair value hedged items (current period portion)	(958)	-
	128,636,407	127,312,778

Time deposits in foreign currencies		
Time deposits	2,456,599	2,082,865
Installment savings deposits	3,053	4,035
Others	25,297	16,195
	2,484,949	2,103,095
	131,121,356	129,415,873
Certificates of deposits	1,583,047	1,624,279
Total deposits	₩ 211,611,432	₩ 200,967,688

20. Debts

The details of debts as of December 31, 2014 and 2013, consist of:

(In millions of Korean won)	**2014**	**2013**
Borrowings	₩ 11,271,860	₩ 10,541,705
Bonds sold under repurchase agreements and others	203,944	460,249
Call money	2,821,656	2,567,969
	₩ 14,297,460	₩ 13,569,923

The details of borrowings as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

		Lender	**Annual interest rate (%)**	**2014**	**2013**
Borrowings in Korean won	Borrowings from the Bank of Korea	Bank of Korea	0.50~1.00	₩ 1,002,796	₩ 557,998
	Borrowings from the government	KEMCO and others	0.00~5.00	611,378	626,593
	Borrowings from banking institutions	Industrial Bank of Korea	1.97	874	1,877
	Borrowings from non-banking financial institutions	Korea Development Bank	0.71~2.70	187,452	142,511
	Other borrowings	Korea Finance Corporation and others	0.00~7.50	3,399,780	3,361,261
				5,202,280	4,690,240
Borrowings in foreign currencies	Due to banks	Royal Bank of Canada and others	-	3,313	158,179
	Borrowings from banking institutions	Wells Fargo Securities and others	0.21~1.70	3,522,159	3,831,929
	Borrowings from other financial institutions	Korea Finance Corporation	0.61~1.36	34,460	3,166
	Other borrowings	JP Morgan Chase	-	2,509,648	1,858,191

	Bank N.A. and others	6,069,580	5,851,465
		₩11,271,860	₩10,541,705

The details of bonds sold under repurchase agreements and others as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	Lenders	Annual interest rate (%)	2014	2013
Bonds sold under repurchase agreements	Individuals, groups, corporations	2.08~3.63	₩ 148,869	₩ 382,779
Bills sold	Individuals, corporations	1.09~2.62	55,075	77,470
			₩ 203,944	₩ 460,249

The details of call money as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	Lenders	Annual interest rate (%)	2014	2013
Call money in Korean won	Woori Bank and others	1.83~1.98	₩ 1,822,000	₩ 1,569,400
Call money in foreign currencies	Central Bank of Uzbekistan and others	0.10~3.61	999,656	998,569
			₩ 2,821,656	₩ 2,567,969

Call money and borrowings from financial institutions as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014			
	Bank of Korea	**Other Banks**	**Others**	**Total**
Call money	₩ -	₩ 1,933,656	₩ 888,000	₩ 2,821,656
Borrowings	1,277,596	5,386,518	591,642	7,255,756
	₩ 1,277,596	₩ 7,320,174	₩ 1,479,642	₩ 10,077,412

(In millions of Korean won)	2013			
	Bank of Korea	**Other Banks**	**Others**	**Total**
Call money	₩ 1,001	₩ 1,890,569	₩ 676,399	₩ 2,567,969
Borrowings	557,998	5,536,151	459,702	6,553,851

₩ 558,999	₩ 7,426,720	₩ 1,136,101	₩ 9,121,820

21. Debentures

The details of debentures as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	**Annual interest rate (%)**	**2014**	**2013**
Debentures in Korean won			
Structured debentures	0.40 ~ 8.62	₩ 1,239,238	₩ 1,499,238
Subordinated fixed rate debentures in Korean won	3.08 ~ 7.51	4,566,124	8,648,474
Fixed rate debentures in Korean won	2.11 ~ 4.09	6,390,553	2,941,142
Floating rate debentures in Korean won	2.17	150,000	102,858
		12,345,915	13,191,712
Fair value adjustments on fair value hedged debentures in Korean won			
Fair value adjustments on valuation of fair value hedged items (current year portion)		5,732	(31,577)
Fair value adjustments on valuation of fair value hedged items (prior year portion)		48,183	81,369
		53,915	49,792
Discount or premium on debentures in Korean won			
Discount on debentures		(38,980)	(8,547)
		12,360,850	13,232,957
Debentures in foreign currencies			
Floating rate debentures	0.38 ~ 1.48	1,318,415	826,770
Fixed rate debentures	0.60 ~ 3.63	1,578,980	2,335,059
		2,897,395	3,161,829
Fair value adjustments on fair value hedged debentures in foreign currencies			
Fair value adjustments on valuation of fair value hedged items (current year portion)		(10,309)	(42,195)
Fair value adjustments on valuation of fair value hedged items (prior year portion)		10,384	(130,011)
		75	(172,206)
Discount or premium on debentures in foreign currencies			
Discount on debentures		(7,856)	(9,822)
		2,889,614	2,979,801
		₩ 15,250,464	₩ 16,212,758

The changes in debentures based on face value for the years ended December 31, 2014 and 2013, are as follows:

	2014				
(In millions of Korean won)	**Beginning**	**Issues**	**Repayments**	**Others**	**Ending**
Debentures in Korean won					
Structured debentures	₩ 1,499,238	₩ 80,000	₩ (340,000)	₩ -	₩ 1,239,238
Subordinated fixed rate debentures in Korean won	8,648,474	-	(4,082,350)	-	4,566,124
Fixed rate debentures in Korean won	2,941,142	4,670,000	(1,220,589)	-	6,390,553
Floating rate debentures in Korean won	102,858	353,200	(306,058)	-	150,000
	13,191,712	5,103,200	(5,948,997)	-	12,345,915
Debentures in foreign currencies					
Floating rate debentures	826,770	754,003	(319,157)	56,799	1,318,415
Fixed rate debentures	2,335,059	803,503	(1,633,588)	74,006	1,578,980
	3,161,829	1,557,506	(1,952,745)	130,805	2,897,395
	₩ 16,353,541	₩6,660,706	₩ (7,901,742)	₩ 130,805	₩15,243,310

	2013				
(In millions of Korean won)	**Beginning**	**Issues**	**Repayments**	**Others**	**Ending**
Debentures in Korean won					
Hybrid capital instrument	₩ 100,000	₩ -	₩ (100,000)	₩ -	₩ -
Structured debentures	1,699,238	100,000	(300,000)	-	1,499,238
Subordinated fixed rate debentures in Korean won	7,896,780	1,000,000	(248,306)	-	8,648,474
Fixed rate debentures in Korean won	3,227,425	1,300,000	(1,586,283)	-	2,941,142
Floating rate debentures in Korean won	104,158	302,600	(303,900)	-	102,858
	13,027,601	2,702,600	(2,538,489)	-	13,191,712
Debentures in foreign currencies					
Floating rate debentures	438,453	537,850	(176,050)	26,517	826,770
Fixed rate debentures	2,553,814	657,465	(772,364)	(103,856)	2,335,059
	2,992,267	1,195,315	(948,414)	(77,339)	3,161,829
	₩16,019,868	₩3,897,915	₩ (3,486,903)	₩ (77,339)	₩16,353,541

22. Provisions

The details of provisions as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	2013
Provisions for unused loan commitments	₩ 125,345	₩ 139,997
Provisions for acceptances and guarantees	207,927	209,110
Provisions for asset retirement obligation	68,999	67,995
Other	81,104	122,635
	₩ 483,375	₩ 539,737

Provisions for unused loan commitments as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014		
	Commitments outstanding	**Provision**	**Ratio (%)**
Corporate loan commitments	₩ 43,129,862	₩ 90,678	0.21
Retail loan commitments	13,846,701	34,667	0.25
	₩ 56,976,563	₩ 125,345	0.22

(In millions of Korean won)	2013		
	Commitments outstanding	**Provision**	**Ratio (%)**
Corporate loan commitments	₩ 42,972,292	₩ 101,876	0.24
Retail loan commitments	13,922,285	38,121	0.27
	₩ 56,894,577	₩ 139,997	0.25

Provisions for acceptances and guarantees as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014		
	Acceptances and guarantees	**Provision**	**Ratio (%)**
Confirmed acceptances and guarantees in Korean won	₩ 1,098,048	₩ 37,507	3.42
Confirmed acceptances and guarantees in foreign currencies	4,061,444	79,966	1.97
Unconfirmed acceptances and guarantees	3,886,332	90,454	2.33
	₩ 9,045,824	₩ 207,927	2.30

(In millions of Korean won)	2013		
	Acceptances and guarantees	**Provision**	**Ratio (%)**
Confirmed acceptances and guarantees in Korean won	₩ 1,231,551	₩ 42,596	3.46
Confirmed acceptances and guarantees in foreign currencies	4,532,037	96,077	2.12
Unconfirmed acceptances and guarantees	4,041,087	70,437	1.74
	₩ 9,804,675	₩ 209,110	2.13

The changes in provisions for unused loan commitments, acceptances and guarantees for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014		
	Provisions for unused loan commitments	**Provisions for acceptances and guarantees**	**Total**
Beginning	₩ 139,997	₩ 209,110	₩ 349,107
Effects of changes in foreign exchange rate	547	3,359	3,906
Reversal	(15,199)	(4,542)	(19,741)
Ending	₩ 125,345	₩ 207,927	₩ 333,272

(In millions of Korean won)	2013		
	Provisions for unused loan commitments	**Provisions for acceptances and guarantees**	**Total**
Beginning	₩ 147,257	₩ 208,746	₩ 356,003
Effects of changes in foreign exchange rate	(165)	(961)	(1,126)
Provision(Reversal)	(7,095)	1,325	(5,770)
Ending	₩ 139,997	₩ 209,110	₩ 349,107

The changes in provisions for asset retirement obligation for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	**2014**		**2013**	
Beginning	₩	67,995	₩	58,701
Provision		2,722		3,184
Used		(4,324)		(1,836)
Unwinding of discount		2,561		1,994
Effects of changes in discount rate		45		5,952
Ending	₩	68,999	₩	67,995

Provisions for asset retirement obligation are present value of estimated costs to be incurred for restoration of the leased properties. Actual expenses are expected to be incurred at the end of each lease contract. Three-year historical data of expired leases were used to estimate the average lease year. Also, the average restoration expense based on actual three-year historical data and the three-year historical average inflation rate were used to estimate the present value of estimated costs.

The details of other provisions as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	**2014**		**2013**	
Provisions for membership rewards program	₩	76	₩	69
Dormant accounts		33,996		16,838
Provisions for litigations		2,622		3,257
Provisions for financial guarantee contracts		2,718		2,699
Others		41,692		99,772
	₩	81,104	₩	122,635

The changes in other provisions for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014					
	Membership rewards program	**Dormant accounts**	**Litigations**	**Financial guarantee liabilities**	**Others**	**Total**
Beginning	₩ 69	₩ 16,838	₩ 3,257	₩ 2,699	₩ 99,772	₩ 122,635
Provision (Reversal)	164	49,040	(632)	19	(892)	47,699
Used and Others	(157)	(31,882)	(3)	-	(57,188)	(89,230)
Ending	₩ 76	₩ 33,996	₩ 2,622	₩ 2,718	₩ 41,692	₩ 81,104

(In millions of Korean won)

	2013					
	Membership rewards program	**Dormant accounts**	**Litigations**	**Financial guarantee liabilities**	**Others**	**Total**
Beginning	₩ 151	₩ 16,028	₩ 2,977	₩ 7,383	₩ 96,108	₩ 122,647
Provision (Reversal)	160	10,595	786	(4,684)	24,310	31,167
Used and Others	(242)	(9,785)	(506)	-	(20,646)	(31,179)
Ending	₩ 69	₩ 16,838	₩ 3,257	₩ 2,699	₩ 99,772	₩ 122,635

23. Net defined benefit liabilities

Defined benefit plan

The Group operates defined benefit plans which have the following characteristics:

- The Group has the obligation to pay the agreed benefits to all its current and former employees.
- Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the Group.

The net defined benefit liability recognized in the statements of financial position is calculated by independent actuaries in accordance with actuarial valuation methods.

The defined benefit obligation is calculated using the Projected Unit Credit method (the 'PUC'). Data used in the PUC such as interest rates, future salary increase rate, mortality rate and consumer price index are based on observable market data and historical data are updated annually.

Actuarial assumptions may differ from actual results, due to changes in the market, economic trends and mortality trends which may impact net defined benefit liabilities and future payments. Actuarial gains and losses arising from changes in actuarial assumptions are recognized in the year incurred through other comprehensive income.

The changes in the net defined benefit liabilities (assets) for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014		
	Present value of defined benefit obligation	**Fair value of plan assets**	**Net defined benefit liabilities**
Beginning	₩ 905,999	₩ (854,474)	₩ 51,525
Current service cost	146,118	-	146,118
Interest cost(income)	35,833	(33,788)	2,045
Remeasurements :			
-Actuarial loss arising from changes in financial assumptions	95,786	-	95,786
-Actuarial loss arising from experience adjustment	3,003	-	3,003
-Return on plan assets (excluding amounts included in interest income)	-	11,505	11,505
Contributions	-	(249,500)	(249,500)
Payments from plans (benefit payments)	(32,908)	32,908	-
Payments from the Group	(2,961)	-	(2,961)
Transfer in	1,352	(1,352)	-
Transfer out	(1,826)	1,826	-
Exchange difference on foreign currency plans	(28)	-	(28)
Ending	₩ 1,150,368	₩ (1,092,875)	₩ 57,493

(In millions of Korean won)	2013		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
Beginning	₩ 878,298	₩ (805,237)	₩ 73,061
Current service cost	156,073	-	156,073
Interest cost(income)	31,030	(28,455)	2,575
Gain on settlement	(4,244)	-	(4,244)
Remeasurements :			
-Actuarial loss arising from changes in demographic assumptions	710	-	710
-Actuarial gain arising from changes in financial assumptions	(62,580)	-	(62,580)
-Actuarial loss arising from experience adjustment	6,109	-	6,109
-Return on plan assets (excluding amounts included in interest income)	-	952	952
Contributions	-	(116,803)	(116,803)
Payments from plans (settlement)	(65,493)	65,212	(281)
Payments from plans (benefit payments)	(30,355)	30,355	-
Payments from the Group	(3,715)	-	(3,715)
Transfer in	1,354	(1,354)	-
Transfer out	(1,093)	856	(237)
Exchange difference on foreign currency plans	(95)	-	(95)
Ending	₩ 905,999	₩ (854,474)	₩ 51,525

The details of the net defined benefit liabilities as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	2013
Present value of defined benefit obligation	₩ 1,150,368	₩ 905,999
Fair value of plan assets	(1,092,875)	(854,474)
Net defined benefit liabilities	₩ 57,493	₩ 51,525

The details of post-employment benefits recognized in profit or loss as employee compensation and benefits for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	2013
Current service cost	₩ 146,118	₩ 156,073
Interest expenses of net defined benefit liabilities	2,045	2,575
Gain on settlement	-	(4,244)
Total	₩ 148,163	₩ 154,404

Remeasurements of net defined benefit liabilities recognized as other comprehensive income for the years ended December 31, 2014 and 2013, are as follows:

(in millions of Korean won)	2014	2013
Remeasurements:		
-Actuarial loss arising from changes in demographic assumptions	₩ -	₩ (710)
-Actuarial loss arising from changes in financial assumptions	(95,786)	62,580
-Actuarial loss arising from experience adjustment	(3,003)	(6,109)
-Return on plan assets (excluding amounts included in interest income)	(11,505)	(952)
Income tax effects	26,691	(13,264)
Remeasurements after income tax	₩ (83,603)	₩ 41,545

The details of fair value of plan assets as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014		
	Assets quoted in an active market	Assets not quoted in an active market	Total
Time deposits	₩ -	₩ 1,073,723	₩ 1,073,723
Repurchase agreements	-	19,152	19,152
	₩ -	₩ 1,092,875	₩ 1,092,875

(In millions of Korean won)	2013		
	Assets quoted in an active market	Assets not quoted in an active market	Total
Time deposits	₩ -	₩ 849,336	₩ 849,336
Repurchase agreements	-	5,138	5,138
	₩ -	₩ 854,474	₩ 854,474

Key actuarial assumptions used as of December 31, 2014 and 2013, are as follows:

	Ratio (%)	
	2014	**2013**
Discount rate (%)	3.00	4.00
Salary increase rate (%)	1.83 ~ 4.55	2.50~4.55
Turnover (%)	0.70	0.70

Mortality assumptions are based on the 7th experience-based mortality table of Korea Insurance Development Institute of 2012.

The sensitivity of the defined benefit obligation to changes in the principal assumptions as of December 31, 2014, is as follows:

(In millions of Korean won)		Effect on defined benefit obligation	
	Changes in principal assumption	Increase in principal assumption	Decrease in principal assumption
Discount rate (%)	0.5%	4.30% decrease	4.61% increase
Salary increase rate (%)	0.5%	4.23% increase	4.00% decrease
Turnover (%)	0.5%	0.44% decrease	0.46% increase

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions using the same method, the projected unit credit method, is applied when calculating the defined benefit obligations recognized within the statement of financial position.

Expected maturity analysis of undiscounted pension benefits as of December 31, 2014, is as follows:

(in millions of Korean won)	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Between 5 and 10 years**	**Over 10 years**	**Total**
Pension benefits	₩ 23,532	₩ 80,546	₩ 310,494	₩ 840,246	₩ 587,758	₩1,842,576

The weighted average duration of the defined benefit obligations is 9.1 years.

Expected contributions to plan assets for the period after December 31, 2014, are estimated to be approximately ₩ 170,000 million.

24. Other liabilities

The details of other liabilities as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)		2014		2013
Other financial liabilities				
Other payables	₩	2,570,369	₩	2,374,288
Prepaid card and debit cards		1,760		1,928
Accrued expenses		2,963,749		3,906,527
Financial guarantee liabilities		12,956		11,797
Deposits for letter of guarantees and others		142,571		141,689
Domestic exchange settlement credits		118,550		986,432
Foreign exchanges settlement credits		69,440		83,237
Borrowings from other business accounts		40,383		7,911
Payables to trust accounts		2,548,578		2,423,675
Liabilities incurred from agency relationship		505,664		532,157
Account for agency businesses		340,061		384,921
Others		30,766		10,568
		9,344,847		10,865,130
Other non-financial liabilities				
Other payables		223,625		145,696
Unearned revenue		42,414		47,445
Accrued expenses		142,385		142,463
Withholding taxes		97,976		106,116
Others		33,028		65,349
		539,428		507,069
	₩	9,884,275	₩	11,372,199

25. Equity

25.1 Capital Stock

The details of outstanding shares of the Group as of December 31, 2014 and 2013, are as follows:

	Ordinary shares	
	2014	**2013**
Number of shares authorized	1,000,000,000	1,000,000,000
Par value per share	₩ 5,000	₩ 5,000
Number of shares	404,379,116	404,379,116
Capital stock[1]	₩ 2,021,896	₩ 2,021,896

[1] In millions of Korean won.

25.2 Capital surplus

The details of capital surplus as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	**2014**	**2013**
Paid-in capital in excess of par value	₩ 4,604,417	₩ 4,604,417
Gain on business combination	397,669	397,669
Revaluation increment	177,229	177,229
Other capital surplus	40,389	40,389
	₩ 5,219,704	₩ 5,219,704

The gain on business combination is a gain from a bargain purchase from the merger with Korea Long Term Credit Bank on December 31, 1998, in accordance with previous Korean GAAP.

25.3 Accumulated other comprehensive income

The details of accumulated other comprehensive income as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	2013
Remeasurements of net defined benefit liabilities	₩ (87,688)	₩ (4,085)
Currency translation differences	(12,149)	(29,430)
Gain on valuation of available-for-sale financial assets	760,530	538,218
Gain on valuation of held-to-maturity financial assets	-	3
Losses on valuation of equity method investments	(89,882)	(57,087)
	₩ 570,811	₩ 447,619

25.4 Retained earnings

Retained earnings as of December 31, 2014 and 2013, consist of:

(In millions of Korean won)	2014	2013
Legal reserves	₩ 1,997,380	₩ 1,909,363
Regulatory reserve for credit losses	1,690,979	1,590,347
Voluntary reserves	8,946,874	8,369,234
Retained earnings before appropriation	1,492,829	1,388,594
	₩ 14,128,062	₩ 13,257,538

With respect to the allocation of net profit earned in a fiscal term, the Bank must set aside in its legal reserve an amount equal to at least 10% of its net income after tax as reported in the separate statement of comprehensive income each time it pays dividends on its net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital in accordance with Article 40 of the Banking Act. The reserves can only be transferred to capital stock or be used to reduce deficit. With respect to the Bank's branches overseas, a portion of the branch's net income is appropriated into legal reserves, in line with the financial legislation of the country where the overseas branch is located.

Regulatory Reserve for Credit Losses

Measurement and Disclosure of Regulatory Reserve for Credit Losses are required in accordance with Articles 29.1 through 29.2 of Regulation on supervision of Banking Business.

The details of the regulatory reserve for credit losses as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	**2014**	**2013**
Beginning	₩ 1,690,979	₩ 1,590,347
Amounts estimated to be appropriated	176,782	100,632
Ending	₩ 1,867,761	₩ 1,690,979

The adjustments to the regulatory reserve for credit losses for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	**2014**	**2013**
Provision of regulatory reserve for credit losses	₩ 176,782	₩ 100,632
Adjusted profit after provision of regulatory reserve for credit losses[1]	852,259	730,080

[1] Adjusted profit after provision of regulatory reserve for credit losses is not accordance with Korean IFRS and calculated on the assumption that provision(reversal) of regulatory reserve for credit losses before income tax is adjusted to the profit.

26. Interest income and expense

The details of interest income and expense for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	**2014**	**2013**
Interest income		
Due from financial institutions	₩ 142,644	₩ 107,090
Loans	8,495,967	9,258,122
Financial investments		
Available-for-sale financial assets	469,173	579,808
Held-to-maturity financial assets	452,652	505,038
Other	142,191	145,322
	9,702,627	10,595,380
Interest expenses		
Deposits	3,842,482	4,274,624
Debts	228,146	261,077
Debentures	594,341	824,057
Other	66,212	75,382
	4,731,181	5,435,140
Net interest income	₩ 4,971,446	₩ 5,160,240

Interest income recognized on impaired loans is ₩ 93,935 million (2013: ₩ 106,603 million) for the year ended December 31, 2014. Interest income recognized on impaired financial investments is ₩ 4 million for the year ended December 31, 2013.

27. Fee and commission income and expense

The details of fee and commission income, and fee and commission expense for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	2013
Fee and commission income		
Banking activity fees	₩ 171,909	₩ 171,582
Lending activity fees	73,605	90,243
Agent activity fees	372,323	411,498
Trust and other fiduciary fees	203,426	137,558
Guarantee fees	29,283	34,173
Credit card related fees and commissions	1,612	1,809
Foreign currency related fees	96,020	102,047
Security activity commissions	145,718	174,179
Other business account commission on consignment	25,311	29,799
Debit card related fees and commissions	637	572
Others	151,494	128,190
	1,271,338	1,281,650
Fee and commission expense		
Trading activity related fees[1]	8,872	9,742
Lending activity fees	18,548	19,535
Credit card related fees and commissions	1,149	1,301
Contributions to external institutions	18,614	17,454
Outsourcing related fees	55,508	55,465
Foreign currency related fees	11,452	12,483
Management fees of written-off loans	9,853	12,071
Others	69,297	48,855
	193,293	176,906
Net fee and commission income	₩ 1,078,045	₩ 1,104,744

[1] The fees from financial assets/liabilities at fair value through profit or loss.

28. Net gains or losses from financial assets/liabilities at fair value through profit or loss

Net gains or losses from financial assets/liabilities at fair value through profit or loss held for trading includes interest income, dividend income, gains or losses arising from changes in the fair values, sales and redemptions. The details for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	2013
Gains from financial instruments held for trading		
Financial assets held for trading		
Debt securities	₩ 298,762	₩ 251,490
Equity securities	12,314	31,829
	311,076	283,319
Derivatives held for trading		
Interest rate	1,313,083	1,031,352
Currency	1,886,636	2,491,176
Stock or index	44,775	49,267
Other	801	2,252
	3,245,295	3,574,047
Financial liabilities held for trading	-	197
Other financial instruments	47	69
	3,556,418	3,857,632
Losses from financial instruments held for trading		
Financial assets held for trading		
Debt securities	19,553	71,706
Equity securities	34,118	29,034
	53,671	100,740
Derivatives held for trading		
Interest rate	1,361,647	1,022,572
Currency	1,763,895	1,975,892
Stock or index	20,346	65,177
Other	401	2,268
	3,146,289	3,065,909
Financial liabilities held for trading	117	453
Other financial instruments	50	29
	3,200,127	3,167,131
Net gain or loss from financial instruments held for trading	₩ 356,291	₩ 690,501

29. Other operating income and expenses

The details of other operating income and expenses for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	2013
Other operating income		
Revenue related to available-for-sale financial assets		
Gains on redemption of available-for-sale financial assets	₩ -	₩ 867
Gains on sale of available-for-sale financial assets	54,769	134,202
	54,769	135,069
Gain on sale of held-to-maturity financial assets	1,668	-
Gains on foreign exchange transactions	1,468,472	1,369,517
Dividend income	75,627	60,789
Others	153,059	161,369
	1,753,595	1,726,744
Other operating expenses		
Expense related to available-for-sale financial assets		
Losses on redemption of available-for-sale financial assets	6	65
Losses on sale of available-for-sale financial assets	2,242	15,458
Impairment on available-for-sale financial assets	180,784	155,194
	183,032	170,717
Impairment on held-to-maturity financial assets	-	5
Losses on foreign exchange transactions	1,452,100	1,663,967
Others	887,014	947,441
	2,522,146	2,782,130
Net other operating expenses	₩ (768,551)	₩ (1,055,386)

30. General and administrative expenses

30.1 General and administrative expenses

The details of general and administrative expenses for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	2013
Employee Benefits		
Salaries and short-term employee benefits - salaries	₩ 1,410,106	₩ 1,395,233
Salaries and short-term employee benefits - welfare expense	652,004	631,584
Post-employment benefits - defined benefit plans	148,163	154,404
Post-employment benefits - defined contribution plans	4,425	2,980
Termination benefits	473	19,269
Share-based payments	7,234	14,616
	2,222,405	2,218,086
Depreciation and amortization	211,599	240,248
Other general and administrative expenses		
Rental expense	262,834	267,992
Tax and dues	100,725	100,462
Communication	23,603	25,492
Electricity and utilities	23,312	22,878
Publication	14,681	14,412
Repairs and maintenance	13,798	13,924
Vehicle	9,155	9,745
Travel	3,313	3,817
Training	14,152	16,828
Service fees	85,097	83,967
Others	388,184	378,937
	938,854	938,454
	₩ 3,372,858	₩ 3,396,788

30.2 Share-based payments

30.2.1 Share options

The details of the share options as of December 31, 2014, are as follows:

(In number of shares)

	Grant date	Exercise year (Years)	Number of granted shares[1]	Vesting conditions
Series 22	2007.02.08	8	855,000	Service year: 1, 3 years
Series 23	2007.03.23	8	30,000	Service year: 3 years
			885,000	

[1] Granted shares represent the total number of shares initially granted to directors and employees whose options have not been exercised at the end of the reporting period.

The changes in the number of granted share options and the weighted average exercise price for the years ended December 31, 2014 and 2013, are as follows:

(In Korean won, except shares)

	2014					
	Number of granted shares			Number of exercisable share	Exercise price per share	Remaining contractual life(Years)
	Beginning	Expired	Ending			
Series 19	751,651	751,651	-	-	₩ -	-
Series 20	25,613	25,613	-	-	-	-
Series 21	18,987	18,987	-	-	-	-
Series 22	657,498	-	657,498	657,498	77,100	0.11
Series 23	15,246	-	15,246	15,246	84,500	0.22
	1,468,995	796,251	672,744	672,744		
Weighted average exercise price	₩ 77,235	₩ 77,207	₩ 77,268	₩ 77,268		

(In Korean won, except shares)

	2013					
	Number of granted shares			Number of exercisable share	Exercise price per share	Remaining contractual life(Years)
	Beginning	Expired	Ending			
Series 15-1	125,362	125,362	-	-	₩ -	-
Series 15-2	440,928	440,928	-	-	-	-
Series 17	29,441	29,441	-	-	-	-
Series 18	7,212	7,212	-	-	-	-
Series 19	751,651	-	751,651	751,651	77,063	0.23

Series 20	25,613	-	25,613	25,613	81,900	0.32
Series 21	18,987	-	18,987	18,987	76,600	0.82
Series 22	657,498	-	657,498	657,498	77,100	1.11
Series 23	15,246	-	15,246	15,246	84,500	1.22
	2,071,938	602,943	1,468,995	1,468,995		
Weighted average exercise price	₩ 68,909	₩ 48,625	₩ 77,235	₩ 77,235		

The fair value of each option granted is estimated using a Black-Scholes option pricing model based on the assumptions in the table below:

(In Korean won)	Share price	Weighted average exercise price	Expected volatility (%)	Option's expected life (Years)	Expected dividends	Risk free interest rate (%)	Fair value
Series 22 (Directors)	₩ 38,200	₩ 77,100	11.15	0.05	₩ 32	2.07	-
Series 22 (Employees)	38,200	77,100	11.15	0.05	32	2.07	-
Series 23 (Non-executive directors)	38,200	84,500	8.01	0.11	67	2.07	-

The option's expected life is separately estimated for employees and directors using actual historical behavior and projected future behavior to reflect the effects of expected early exercise. Expected volatility is based on the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option. To reflect the changes in exercise price which is indexed to the sum of the major competitors' total market capitalization, cross volatility is used in calculating the expected volatility.

30.2.2 Share Grants

The Group changed the scheme of share-based payment from share option to share grants in November 2007. The share grant award program is an incentive plan that sets, on grant date, the maximum amount of shares that can be awarded. Actual shares granted at the end of the vesting period is determined in accordance with achievement of pre-specified targets over the vesting period.

The details of the share grants as of December 31, 2013, are as follows:

(In number of shares)

Share grants	Grant date	Number of granted shares[1]	Vesting conditions
Series 41	2012.08.02	23,521	Service period : 2 years [2,3]
Series 43	2012.11.26	13,918	Service period : 2 years [2,3]
Series 44	2013.01.01	17,242	Service period : 2 years [2,3]
Series 45	2013.01.01	9,698	Service period : 2 years [2,3]
Series 46	2013.01.01	103,440	Service period : 2 years [2,3]
Series 48	2013.07.23	74,666	Service period : 2 years [2,4]
Series 49	2013.07.24	101,828	Service period : 2 years [2,4]
Series 50	2013.07.24	82,926	Service period : 2 years [2,4]
Series 51	2013.07.25	9,899	Service period : 2 years [2,4]
Series 52	2013.08.01	10,278	Service period : 2 years [2,4]
Series 53	2013.07.19	69,256	Service period : 3 years [2,5]
Series 54	2013.07.23	26,689	Service period : 3 years [2,5]
Series 55	2014.01.03	11,060	Service period : 3 years [2,6]
Series 56	2013.12.30	17,798	Service period : 2 years [2,4]
Series 57	2014.01.01	44,265	Service period : 2 years [2,4]
Series 58	2014.01.01	78,700	Service period : 2 years [2,4]
Series 59	2014.08.26	9,106	Service period : 2 years [2,4]
Deferred grant in 2010	-	171	Satisfied
Deferred grant in 2011	-	8,454	Satisfied
Deferred grant in 2012	-	31,348	Satisfied
Deferred grant in 2013	-	92,316	Satisfied
		836,579	

[1] Granted shares represent the total number of shares initially granted to directors and employees at the end of reporting period.

[2] Certain portion of the granted shares is compensated over a maximum period of three years.

[3] The 30%, 40% and 30% of the number of granted shares to be compensated are determined upon the accomplishment of the targeted financial results of the Bank, the targeted relative TSR and the targeted Value-up Index, respectively.

[4] The 40%, 30% and 30% of the number of granted shares to be compensated are determined upon the accomplishment of the targeted Value-up Index, the targeted relative TSR and the targeted financial results of the Bank, respectively. However, as for certain number of shares, half of the number of granted shares to be compensated is determined based on the accomplishment of the targeted relative TSR, while the other half is determined by the targeted Value-up Index.

[5] The 25%, 30% and 45% of the number of granted shares to be compensated are determined upon the accomplishment of the targeted total assets growth rate, the targeted relative TSR and the targeted ROA, respectively.
[6] The number of granted shares to be compensated is fixed and not linked to performance.

The details of share grants linked to short-term performance as of December 31, 2014, are as follows:

	Grant date	Number of vested shares [1]	Vesting conditions
Granted shares for 2010	2010.01.01	363	Satisfied
Granted shares for 2011	2011.01.01	46,845	Satisfied
Granted shares for 2012	2012.01.01	103,177	Satisfied
Granted shares for 2013	2013.01.01	102,343	Satisfied
Granted shares for 2014	2014.01.01	173,132	Proportion to service period

[1] The number of shares, which are exercisable, is determined by the results of performance. The share grants are settled over three years.

Share grants are measured at fair value using the Monte Carlo Simulation Model and assumptions used in determining the fair value as of December 31, 2014, are as follows:

(In Korean won)	Expected exercise period (Years)	Risk free rate (%)	Fair value (Market performance condition)	Fair value (Non-market performance condition)
Linked to long term performance				
Series 41-1	0.00~3.00	2.07	-	36,389~38,111
Series 41-2	0.00~3.00	2.07	-	36,389~38,111
Series 43	0.00~3.00	2.07	-	36,389~38,111
Series 44	0.00~2.00	2.07	-	36,389~40,662
Series 45	0.00~3.00	2.07	-	36,389~38,111
Series 46	0.00~3.00	2.07	-	36,389~38,111
Series 48	0.56~4.00	2.07	35,029	36,389~36,835
Series 48-1	0.00~3.00	2.07	36,734	36,389~38,111
Series 48-2	0.00~3.00	2.07	38,617	36,389~38,111
Series 49	0.56~4.00	2.07	34,972	36,389~36,835
Series 49-1	0.65~4.00	2.07	34,906	36,389~36,835
Series 49-2	0.00~3.00	2.07	38,617	36,389~38,111
Series 50	0.56~4.00	2.07	34,972	36,389~36,835
Series 50-1	0.00~3.00	2.07	38,617	36,389~38,111
Series 51	0.00~3.00	2.07	38,617	36,389~38,111
Series 52	0.58~4.00	2.07	34,977	36,389~36,835
Series 53	0.00~2.68	2.07	38,284	36,317~40,991
Series 54	0.00~3.00	2.07	38,617	36,389~38,111
Series 55	2.01~5.01	2.08	-	36,551~37,053
Series 56	0.00~3.00	2.07	32,595	36,389~36,835

Series 56-1	0.00~3.00	2.07	36,854	36,389~38,111
Series 57	1.00~4.00	2.07	32,645	36,389~36,835
Series 57-1	0.00~3.00	2.07	38,617	36,389~38,111
Series 58	1.00~4.00	2.07	32,645	36,389~36,835
Series 59	0.00~3.00	2.07	38,617	36,389~38,111
Grant deferred in 2012	0.00~1.00	2.07	-	36,389~38,111
Grant deferred in 2013	0.00~2.00	2.07	-	36,205~38,111
Linked to short-term performance				
Share granted in 2012	0.00~1.00	2.07	-	36,389~38,111
Share granted in 2013	0.00~2.00	2.07	-	36,389~38,111
Share granted in 2014	1.00~3.00	2.07	-	36,389~38,111

Expected volatility is based on the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the grant. And the current stock price as of December 31, 2014, was used for the underlying asset price. Additionally, the average three-year historical dividend rate was used as the expected dividend rate.

As of December 31, 2014 and 2013, the accrued expenses related to share-based payments including share options and share grants amounted to ₩ 32,256 million and ₩34,053 million, respectively, and the compensation costs from share options and share grants amounting to ₩ 7,234 million and ₩14,616 million were incurred during the years ended December 31, 2014 and 2013, respectively. There is no intrinsic value of the vested share options as of December 31, 2014 and 2013.

31. Non-operating income and expenses

The details of non-operating income and expenses for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)		2014		2013
Non-operating income				
Gains of disposal in property and equipment and assets held for sale	₩	1,454	₩	844
Rent received		14,093		12,568
Others		57,535		47,237
		73,082		60,649
Non-operating expenses				
Losses of disposal in property and equipment and assets held for sale		1,163		732
Donation		45,884		53,426
Restoration cost		1,818		709
Others		58,216		29,413
		107,081		84,280
Net non-operating expenses	₩	(33,999)	₩	(23,631)

32. Income tax expense

Income tax expense for the years ended December 31, 2014 and 2013, consists of:

(In millions of Korean won)	2014	2013
Tax payable		
Current tax expense	₩ 415,966	₩ 406,642
Adjustments recognized in the period for current tax of prior years	(13,855)	78,543
	402,111	485,185
Changes in deferred income tax assets (liabilities)	(14,876)	(74,982)
Income tax expense of overseas branches	6,202	4,796
Income tax recognized directly in equity		
Changes in value of available-for-sale financial assets	(70,015)	(10,406)
Comprehensive income of investment under equity method	78	74
Changes in remeasurements of net defined benefit liabilities	26,691	(13,264)
	(43,246)	(23,596)
Consolidated tax effect	(18,957)	(10,504)
Tax expense	₩ 331,234	₩ 380,899

An analysis of the net profit before income tax and income tax expense for the years ended December 31, 2014 and 2013, follows:

(In millions of Korean won)	2014	2013
Net profit before income tax	₩ 1,360,275	₩ 1,211,611
Tax at the applicable tax rate[1]	₩ 328,724	₩ 292,747
Non-taxable income	(6,091)	(2,551)
Non-deductible expense	10,665	12,943
Tax credit and tax exemption	(141)	(756)
Temporary difference for which no deferred tax is recognized	17,788	47,125
Tax rebate for tax of prior years	(9,375)	32,934
Income tax expense of overseas branches	6,202	4,796
Tax effect of investments in subsidiaries	2,085	1,520
Income tax expense of overseas branch	765	(871)
Consolidated tax effect	(18,957)	(10,504)
Others	(431)	3,516
Tax expense	₩ 331,234	₩ 380,899
Tax expense / Net profit before income tax (%)	24.35	31.44

[1] Applicable income tax rate for ₩ 200 million and below is 11%, for ₩ 200 million to ₩ 20 billion is 22%, and for over ₩ 20 billion is 24.2%.

The details of current tax liabilities (income tax payable) and current tax assets (income tax refund receivables) before offsetting, as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	2013
Income tax refund receivable prior to offsetting[1]	₩ (215,345)	₩ (268,266)
Tax payables prior to offsetting[2]	414,239	406,080
Tax payables (receivable) after offsetting	198,894	137,814
Adjustment on consolidated tax payable and others[3]	(18,956)	(10,504)
Accounts payable[4]	(172,353)	(125,977)
Current tax payable	₩ 7,585	₩ 1,333

[1] Excludes current tax assets of ₩ 305,831 million (2013: ₩ 329,443 million) by uncertain tax position, which do not qualify for offsetting.

[2] Includes income tax payable of ₩ 7,585 million and ₩ 1,333 million under current tax liabilities as of December 31, 2014 and 2013, respectively, which are not to be offset against any income tax refund receivables, such as those of overseas branches.

[3] Tax expense reduced due to the adoption of consolidated tax return was reclassified as tax benefit.

[4] The amount of income tax payable by the Bank is reclassified as accounts payable, not to the tax authority, but to KB Financial Group Inc. due to the adoption of consolidated tax return.

33. Dividends

The dividend to the shareholders of the parent company in respect of the year ended December 31, 2014, of ₩ 570 per share, amounting to total dividends of ₩ 230,496 million, is to be proposed at the annual general shareholders' meeting on March 26, 2015. The Group's consolidated financial statements as of December 31, 2014, do not reflect this dividend payable.

34. Accumulated other comprehensive income

The details of accumulated other comprehensive income for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014				
	Beginning	Changes except for reclassification	Reclassification to profit or loss	Tax effect	Ending
Remeasurements of net defined benefit liabilities	₩ (4,085)	₩ (110,294)	₩ -	₩ 26,691	₩ (87,688)
Currency translation differences	(29,430)	17,281	-	-	(12,149)
Gain(loss) on valuation of available-for-sale financial assets	538,218	360,397	(68,070)	(70,015)	760,530
Gain(loss) on valuation of held-to-maturity financial assets	3	-	(3)	-	-
Gain(loss) on valuation of equity method investments	(57,087)	(33,122)	249	78	(89,882)
	₩ 447,619	₩ 234,262	₩ (67,824)	₩ (43,246)	₩ 570,811

(In millions of Korean won)

	2013				
	Beginning	Changes except for reclassification	Reclassification to profit or loss	Tax effect	Ending
Remeasurements of net defined benefit liabilities	₩ (45,630)	₩ 54,809	₩ -	₩ (13,264)	₩ (4,085)
Currency translation differences	(27,058)	(2,372)	-	-	(29,430)
Gain(loss) on valuation of available-for-sale financial assets	504,223	233,258	(188,857)	(10,406)	538,218
Gain(loss) on valuation of held-to-maturity financial assets	8	-	(5)	-	3
Gain(loss) on valuation of equity method investments	(47,389)	(9,772)	-	74	(57,087)
	₩ 384,154	₩ 275,923	₩ (188,862)	₩ (23,596)	₩ 447,619

35. Trust Accounts

Financial information of the trust accounts the Group manages as of and for the years ended December 31, 2014 and 2013, is as follows:

(In millions of Korean won)	2014		2013	
	Total assets	Operating revenues	Total assets	Operating revenues
Consolidated	₩ 3,614,835	₩ 150,598	₩ 3,462,823	₩ 138,479
Unconsolidated	28,062,557	1,230,286	22,541,883	1,073,136
	₩ 31,677,392	₩1,380,884	₩ 26,004,706	₩1,211,615

[1] Financial information of the trust accounts has been prepared in accordance with the Statement of Korea Accounting Standard 5004, *Trust Accounts*, and enforcement regulations of Financial Investment Services under the Financial Investment Services and Capital Markets Act.

Significant transactions between the Group and the trust accounts for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	2013
Revenues		
Fees and commissions from trust accounts	₩ 203,426	₩ 137,558
Commissions from early termination in trust accounts	129	69
	203,555	137,627
Expenses		
Interest expenses on due to trust accounts	52,664	62,543
Assets		
Accrued trust fees	24,054	23,332
Liabilities		
Due to trust accounts	2,548,578	2,423,675
Accrued interest on due to trust accounts	5,790	4,576
	2,554,368	2,428,251

36. Supplemental Cash Flow Information

Cash and cash equivalents as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	2013
Cash	₩ 2,018,753	₩ 1,963,148
Checks with other banks	525,452	734,574
Due from Bank of Korea	6,508,623	7,119,962
Due from other financial institutions	4,920,682	3,912,566
	13,973,510	13,730,250
Restricted due from financial institutions	(6,877,675)	(7,470,062)
Due from financial institutions with original maturities over three months	(763,775)	(427,548)
	(7,641,450)	(7,897,610)
	₩ 6,332,060	₩ 5,832,640

Significant non-cash transactions for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	2013
Decrease in loans due to the write-offs	₩ 1,589,912	₩ 1,677,292
Changes in accumulated other comprehensive income due to valuation of financial investments	222,309	33,990
Changes in accumulated other comprehensive income due to investment in associates	(32,795)	(9,698)
Changes in investment in associates due to debt-for-equity swap with Ssangyong Engineering & Construction Co., Ltd.	-	28,779
Changes in financial investments due to debt-for-equity swap with Taihan Electric Wire Co., Ltd.	-	115,716
Changes in financial investments due to debt-for-equity swap with Hyundai Cement Co., Ltd.	25,178	-

Cash inflows and outflows from income tax, interest and dividends for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	Activities	2014	2013
Income tax paid	Operating	₩ 303,291	₩ 561,998
Interest received	Operating	10,204,384	11,030,359
Interest paid	Operating	4,834,915	6,025,179
Dividends received	Operating	82,897	62,221
Dividends paid	Financing	158,517	282,039

37. Contingent liabilities and commitments

Acceptances and guarantees as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	2013
Confirmed acceptances and guarantees		
Confirmed acceptances and guarantees in Korean won		
Acceptances and guarantees for KB purchasing loan	₩ 428,815	₩ 448,906
Others	669,233	782,645
	1,098,048	1,231,551
Confirmed acceptances and guarantees in foreign currencies		
Acceptances of letter of credit	327,963	281,049
Letter of guarantees	61,081	57,596
Bid bond	43,362	24,212
Performance bond	1,175,330	999,872
Refund guarantees	1,494,023	2,263,202
Others	959,685	906,106
	4,061,444	4,532,037
Financial guarantees		
Acceptances and guarantee for issue of debentures	51,200	20,200
Acceptances and guarantees for mortgage	75,651	43,272
Overseas debt guarantees	392,021	319,080
International financing guarantees in foreign currencies	35,949	41,896
Others	600	-
	555,421	424,448
	5,714,913	6,188,036
Unconfirmed acceptances and guarantees		
Guarantees of letter of credit	2,825,919	3,265,906
Refund guarantees	1,060,413	775,181
	3,886,332	4,041,087
	₩ 9,601,245	₩ 10,229,123

Acceptances and guarantees by counterparty as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
Corporations	₩ 4,699,777	₩ 2,936,635	₩ 7,636,412	79.53
Small companies	857,004	562,655	1,419,659	14.79
Public and others	158,132	387,042	545,174	5.68
	₩ 5,714,913	₩ 3,886,332	₩ 9,601,245	100.00

(In millions of Korean won)

	2013			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
Corporations	₩ 4,998,055	₩ 2,723,162	₩ 7,721,217	75.48
Small companies	1,029,029	623,803	1,652,832	16.16
Public and others	160,952	694,122	855,074	8.36
	₩ 6,188,036	₩ 4,041,087	₩ 10,229,123	100.00

Acceptances and guarantees by industry as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
Financial institutions	₩ 213,286	₩ 3,573	₩ 216,859	2.26
Manufacturing	3,179,368	2,410,472	5,589,840	58.22
Service	583,302	114,645	697,947	7.27
Wholesale and retail	932,282	788,804	1,721,086	17.93
Construction	709,582	215,382	924,964	9.63
Public	72,964	336,484	409,448	4.26
Others	24,129	16,972	41,101	0.43
	₩ 5,714,913	₩ 3,886,332	₩ 9,601,245	100.00

(In millions of Korean won)

	2013			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
Financial institutions	₩ 145,198	₩ 3,924	₩ 149,122	1.46
Manufacturing	3,867,871	2,270,253	6,138,124	60.01
Service	523,698	115,710	639,408	6.25
Wholesale and retail	1,083,263	745,658	1,828,921	17.88
Construction	484,754	244,727	729,481	7.13
Public	72,577	635,326	707,903	6.92
Others	10,675	25,489	36,164	0.35
	₩ 6,188,036	₩ 4,041,087	₩ 10,229,123	100.00

Commitments as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014	2013
Commitments		
Corporate loan commitments	₩ 43,129,862	₩ 42,972,292
Retail loan commitments	13,846,701	13,922,285
Other acceptance and guarantees in Korean won	1,000,000	1,000,000
Other purchase of security investment	1,635,657	1,465,175
	59,612,220	59,359,752
Financial Guarantees		
Credit line	3,809,478	2,572,424
Purchase of security investment	73,500	100,500
	3,882,978	2,672,924
	₩ 63,495,198	₩ 62,032,676

Other Matters (including litigation)

a) The Bank has filed 83 lawsuits (excluding minor lawsuits in relation to the collection or management of loans), as the plaintiff, involving aggregate claims of ₩ 812,134 million, and faces 179 lawsuits as the defendant (excluding minor lawsuits in relation to the collection or management of loans) involving aggregate damages of ₩ 341,506 million, which arose in the normal course of the business and are still pending as of December 31, 2014.

Meanwhile, certain customers of the Bank have filed lawsuits against the Bank in connection with fees paid for the registration of fixed collateral. The first and second trials are in progress as of December 31, 2014. The Court ruled in favor and partially in favor of the Bank in the first trial and ruled in favor of the Bank in the second and third trials. There is a low probability of potential losses related to the aforementioned lawsuits.

b) According to shareholders' agreement on September 25, 2009, among the Bank, the International Finance Corporation ("IFC") and the remaining shareholders, the Bank granted a put option to IFC with the right to sell shares of JSC Bank Center Credit to itself or its designee. The exercise price is determined at its fair value by mutual agreement between the Bank and IFC. If the price is not agreed by the designated date, it is determined by the value measured by the selected independent external valuation institution. The put option may be exercised by IFC at any time from February 24, 2013 to February 24, 2017.

c) The face values of the securities sold to general customers through tellers' sale amount to ₩ 26,487 million and ₩ 57,159 million as of December 31, 2014 and 2013, respectively.

d) The Bank underwent a tax investigation by the Seoul Regional Tax Office and in early 2007 was assessed additional corporate tax including local income tax of ₩ 482,755 million. The Bank paid this amount to the Tax authorities. Subsequently, the Bank filed a claim for adjudication in August 2007 for repayment of the amount of ₩ 482,643 million. The case was closed with a final favorable judgement by the Supreme Court in January 2015.

e) The Bank filed a claim for rectification of education tax paid for revenues regarding the credit card business before the spin-off. The claim was ruled in favor of the Bank by the Supreme Court in December 2012, and the refunded education tax amounting to ₩ 83,100 million was recognized as income.

Depending on the judgments of the court or the National Tax Service, the beneficiary of refunded education tax might be changed from the Bank to KB Kookmin Card Co., Ltd., in which the possibility is considered relatively low.

f) During the year ended December 31, 2013, the Bank underwent a tax investigation for the fiscal years 2008 to 2012 by the Seoul Regional Tax Office. As a result, the Bank was fined a total of ₩ 124,357 million for income taxes (including local income taxes) and paid ₩ 123,330 million, excluding local income tax amounting to ₩ 1,027 million recognized as non-trade payable as of December 31, 2014. Meanwhile, the appeal to the tax tribunal over the ₩ 114,283 million is currently pending as of December 31, 2014.

g) In relation to a tax credit for research and human resource development expenses, the Bank filed an administrative litigation (the aggregate amount in 2007 and 2008) and received a refund in the amount of ₩ 16,371 million from National Tax Service based on a recent Supreme Court precedent. However, the appeal to the tax tribunal (the aggregate amount in 2009 is ₩ 13,827 million) is currently pending as of December 31, 2014.

38. Subsidiaries

The details of subsidiaries as of December 31, 2014, are as follows:

Name of subsidiaries	Ownership (%)	Location	Industry
Kookmin Bank Int'l Ltd.(London)	100.00	United Kingdom	Banking and foreign exchange transaction
Kookmin Bank Hong Kong Ltd.	100.00	Hong Kong	Banking and foreign exchange transaction
Kookmin Bank Cambodia PLC.	100.00	Cambodia	Banking and foreign exchange transaction
Kookmin Bank (China) Ltd.	100.00	China	Banking and foreign exchange transaction
Personal pension trust and 10 others [1]	-	Korea	Trust
KAMCO Value Recreation 3rd Securitization Specialty Co., Ltd. and 6 others [2]	-	Korea and others	Asset-backed securitization and others
Heungkuk Multi Private Securities H-19 and 37 others [3]	100.00	Korea	Private equity fund
KB Wise Star Private Real Estate Feeder Fund 1st [3]	86.00	Korea	Investment Trust
KB Star Retail Private Master Real Estate 1 [2,4]	42.12	Korea	Investment Trust
KB Star Office Private Real Estate Investment Trust No.2 [2,4]	38.22	Korea	Investment Trust

[1] The Bank controls the trust because it has power that determines the management performance over the trust and is exposed to variable returns to absorb losses through the guarantees of payment of principal or, payment of principal and fixed rate of return.
[2] The Bank controls these investees because it is exposed to variable returns from its involvement with the investees and has ability to affect those returns through its power, even though it holds less than a majority of the voting rights of the investees.
[3] The Bank controls these investees because it is exposed to variable returns from its involvement with the investees and has ability to affect those returns through its power.
[4] Ownerships are based on consolidated basis.

The condensed financial information of major subsidiaries as of December 31, 2014 and 2013, and for the years ended December 31, 2014 and 2013, follows:

(In millions of Korean won)

	2014				
	Assets	Liabilities	Equity	Operating revenue	Profit (loss) for the year
Kookmin Bank Int'l Ltd.(London)	₩ 441,292	₩ 365,483	₩ 75,809	₩ 11,069	₩ 3,466
Kookmin Bank Hong Kong Ltd.	639,509	498,960	140,549	16,495	8,616
Kookmin Bank Cambodia PLC.	95,864	74,578	21,286	6,021	266

Kookmin Bank (China) Ltd.	1,259,847	846,151	413,696	43,507	7,984
Personal pension trust and 10 others	3,667,615	3,571,818	95,797	167,608	(443)

(In millions of Korean won)

(In millions of Korean won)

	2013				
	Assets	**Liabilities**	**Equity**	**Operating revenue**	**Profit (loss) for the year**
Kookmin Bank Int'l Ltd.(London)	₩ 381,179	₩ 311,990	₩ 69,189	₩ 10,253	₩ 3,242
Kookmin Bank Hong Kong Ltd.	533,542	405,755	127,787	16,869	6,282
Kookmin Bank Cambodia PLC.	94,835	74,666	20,169	6,391	2,859
Kookmin Bank (China) Ltd.	1,143,619	753,289	390,330	34,691	(16,168)
Personal pension trust and 10 others	3,492,556	3,399,885	92,671	134,793	2,021

Changes in non-controlling interest

The Group acquired additional equity interests in Kookmin Bank Cambodia PLC. in June 2013 for ₩ 1,463 million, with the carrying amount of the non-controlling interest amounting to ₩1,495 million. The Group derecognized non-controlling interests and recorded an increase in equity attributable to shareholders of the parent company of ₩ 32 million. As of December 31, 2014, the Group has 100% ownership.

Nature of the risks associated with interests in consolidated structured entities

Terms of contractual arrangements that provide financial support to a consolidated structured entity

- The Bank provides the capital commitment of ₩ 258,000 million to KB Wise Star Private Real Estate Feeder Fund 1st, of which ₩ 185,717 million has not been utilized. Based on the investment agreement, the Bank is subject to increase its investment upon the request of the asset management company or the additional agreement among investors.

- The Bank provides the guarantees of payment of principal or principal and fixed rate of return, in case the operating results of the trusts are less than the guaranteed principal or principal and a fixed rate of return.

Changes in subsidiaries

KB Star Office Private Real Estate Investment Trust No.2, Heungkuk Multi Private Securities H-19 and 100 other private equity funds were newly consolidated during the year ended December 31, 2014. KB Covered Bond First Securitization Specialty Co., Ltd. and three other SPCs, and KB Evergreen Private Securities 82 and 91 other private equity funds were excluded from the consolidation due to their liquidation.

39. Unconsolidated Structured Entity

As of December 31, 2014, the nature, purpose and activities of the unconsolidated structured entities and how the structured entities are financed, are as follows:

Nature	Purpose	Activities	Methods of Financing
Asset-backed securitization	Early cash generation through transfer of securitization assets Fees earned as services to SPC, such as providing lines of credit and ABCP purchase commitments	Fulfillment of Asset-backed securitization plan Purchase and collection securitization assets Issuance and repayment of ABS and ABCP	Issuance of ABS and ABCP based on securitization assets
Project Financing	Granting PF loans to SOC and real property Granting loans to ships/aircrafts SPC	Construction of SOC and real property Building ships/ Construction and purchase of aircrafts	Loan commitments through Credit Line, providing lines of credit and investment agreements
Investment funds	Investment in beneficiary certificates Investment in PEF and partnerships	Management of fund assets Payment of fund fees and allocation of fund profits	Sales of beneficiary certificate instruments Investment of managing partners and limited partners

As of December 31, 2014, the size of the unconsolidated structured entities and the risks associated with its interests in unconsolidated structured entities are as follows:

(In millions of Korean won)

	2014				
	Asset-backed securitization	Project Financing	Investment funds	Others	Total
Total assets of the unconsolidated structured entities	₩ 9,953,552	₩ 19,901,366	₩ 6,072,832	₩ 5,923,270	₩ 41,851,020
Carrying amount on financial statements					
Assets					
Loans	192,619	2,315,744	-	252,195	2,760,558
Financial investments	564,156	13,778	912,042	17,000	1,506,976
Investments in associates	-	-	387,510	-	387,510
Other assets	2	-	-	-	2
	₩ 756,777	₩ 2,329,522	₩ 1,299,552	₩ 269,195	₩ 4,655,046
Liabilities					
Deposits	₩ 300,015	₩ 500,538	₩ 15,834	₩ 32,986	₩ 849,373
Maximum exposure to loss[1]	₩ 4,719,103	₩ 4,581,520	₩ 3,597,876	₩ 491,313	₩ 13,389,812

Methods of determining the maximum exposure to loss	Providing lines of credit and purchase commitments	Loan commitments / capital commitments / purchase commitments and Acceptances and guarantees	Capital commitments	Loan commitments	

(In millions of Korean won)

	2013				
	Asset-backed securitization	**Project Financing**	**Investment funds**	**Others**	**Total**
Total assets of the unconsolidated structured entities	₩ 11,030,382	₩ 24,570,257	₩ 4,385,796	₩ 3,502,834	₩ 43,489,269
Carrying amount on financial statements					
Assets					
Loans	314,380	2,477,166	-	291,599	3,083,145
Financial investments	873,909	213,882	710,800	-	1,798,591
Investments in associates	-	-	392,389	-	392,389
	₩ 1,188,289	₩ 2,691,048	₩ 1,103,189	₩ 291,599	₩ 5,274,125
Liabilities					
Deposits	₩ 306,931	₩ 487,818	₩ 21,459	₩ 5,473	₩ 821,681
Other liabilities	-	96	-	-	96
	₩ 306,931	₩ 487,914	₩ 21,459	₩ 5,473	₩ 821,777
Maximum exposure to loss[1]	₩ 3,903,764	₩ 5,116,533	₩ 2,670,626	₩ 386,000	₩ 12,076,923
Methods of determining the maximum exposure to loss	Providing lines of credit and purchase commitments	Loan commitments / capital commitments / purchase commitments and Acceptances and guarantees	Capital commitments	Loan commitments	

[1] Maximum exposure to loss includes the asset amounts, after deducting loss (provision for assets, impairment losses and others), recognized in the consolidated financial statements of the Group.

40. Finance and Operating Leases

40.1 Finance lease

The future minimum lease payments as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014		2013	
Net carrying amount of finance lease assets	₩	44,138	₩	16,955
Minimum lease payment				
Within 1 year	₩	11,902	₩	1,927
1-5 years		1,637		-
	₩	13,539	₩	1,927
Present value of minimum lease payment				
Within 1 year	₩	11,632	₩	1,873
1-5 years		1,609		-
	₩	13,241	₩	1,873

40.2 Operating lease

40.2.1 The Group as operating lessee

The future minimum lease payments arising from the non-cancellable lease contracts as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014		2013	
Minimum lease payment				
Within 1 year	₩	232,436	₩	116,681
1-5 years		107,806		97,021
Over 5 years		90,191		62
	₩	34,439	₩	213,764
Minimum sublease payment		(703)		(735)

The lease payments reflected in profit or loss for the years ended December 31, 2014 and 2013, are as follows:

(in millions of Korean won)	2014		2013	
Lease payment reflected in profit or loss				
Minimum lease payment	₩	190,745	₩	198,216
Sublease payment		191,285		(497)
	₩	(540)	₩	197,719

40.2.2 The Group as operating lessor

The future minimum lease receipts arising from the non-cancellable lease contracts as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	**2014**	**2013**
Minimum lease receipts		
Within 1 year	₩ 9,445	₩ 9,181
1-5 years	15,636	22,348
	₩ 25,081	₩ 31,529

41. Related Party Transactions

Profit and loss arising from transactions with related parties for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

		2014	2013
Parent			
KB Financial Group Inc.	Fee and commission income	273	1,225
	Other non-operating income	1,400	1,459
	Interest expense	1,961	3,159
Parent's subsidiaries			
KB Investment Co., Ltd.	Other non-operating income	-	1
	Interest expense	766	372
KB Data System Co., Ltd.	Fee and commission income	1	2
	Other non-operating income	49	50
	Interest expense	345	411
	General and administrative expenses	13,189	13,945
KB Real Estate Trust Co., Ltd.	Fee and commission income	4	22
	Other non-operating income	43	39
	Interest expense	533	325
	Fee and commission expense	766	895
KB Life Insurance Co., Ltd.	Fee and commission income	15,118	19,496
	Other non-operating income	119	180
	Interest expense	229	8
KB Credit Information Co., Ltd.	Fee and commission income	4	4
	Other non-operating income	409	514
	Interest expense	313	372
	Fee and commission expense	14,829	16,460
KB Asset Management Co., Ltd.	Fee and commission income	472	374
	Other non-operating income	2	-
	Interest expense	1,724	774
	Fee and commission expense	786	531
KB Investment and Securities Co., Ltd.	Interest income	245	296
	Fee and commission income	3,353	3,570
	Other non-operating income	664	645
	Reversal of credit losses	1	-
	Interest expense	3,712	4,473
	Fee and commission expense	703	932
	Loss on financial assets/ liabilities at fair value through profit or loss	2	-
	Provision for credit losses	1	2
KB Kookmin Card Co., Ltd.	Interest income	2,912	2,912
	Fee and commission income	222,644	214,199
	Gains on financial assets/ liabilities at fair value	20	44

	through profit or loss		
	Other non-operating income	1,556	1,107
	Interest expense	7,753	4,161
	Fee and commission expense	338	187
	Provision for credit losses	-	359
	General and administrative expenses	180	43
KB Savings Bank Co., Ltd.	Fee and commission income	105	226
	Other non-operating income	7	1
	Interest expense	-	3,551
KB Capital Co., Ltd.	Fee and commission income	129	-
	Gains on financial assets/ liabilities at fair value through profit or loss	6	-
	Other non-operating income	49	-
	Interest expense	1	-
KB Mezzanine Private Securities Fund	Fee and commission income	758	798
Hanbando BTL Private Special Asset Fund	Fee and commission income	195	199
Associates			
KB08-1 Venture Investment Partnership [1]	Interest expense	-	131
KB12-1 Venture Investment Partnership	Interest expense	134	218
Korea Credit Bureau Co., Ltd.	Fee and commission income	3	3
	Interest expense	66	139
UAMCO., Ltd.	Interest income	-	31
	Fee and commission income	14	-
	Interest expense	12	-
	Other operating expense	-	7,626
United PF 1st Recovery Private Equity Fund	Interest income	-	91
	Reversal of credit losses	-	83
Pyungjeon Industries Co., Ltd. [1]	Reversal of credit losses	-	1,055
Kores Co., Ltd. [1]	Interest income	-	386
	Reversal of credit losses	-	36
Incheon Bridge Co., Ltd.	Interest income	13,226	14,592
	Reversal of credit losses	-	2
	Provision for credit losses	2	-
	Interest expense	543	909
Future Planning KB Start-up Creation Fund	Interest expense	19	39
Ssangyong Engineering & Construction Co., Ltd. [1]	Interest income	-	2,007
	Reversal of credit losses	-	7,550
Sunoo, Inc. [1]	Interest expense	-	1
Daiyang Metal Co., Ltd. [1]	Interest income	-	3
KB Star Office Private Real Estate Investment Trust No. [1]	Interest expense	50	75
Subsidiary of Parent's subsidiary			
KB09-5 Venture Investment Partnership	Interest expense	12	-
Associates of Parent's subsidiaries			
Semiland Co., Ltd. [1]	Interest income	8	14
	Reversal for credit losses	4	-
KB Global Star Game & Apps SPAC [1]	Interest expense	-	10
Sehwa Electronics Co., Ltd. [1]	Gains on financial assets/ liabilities at fair value	-	35

	through profit or loss		
	Fee and commission expense	-	7
Serit Platform Co., Ltd. [1]	Interest income	-	58
	Fee and commission income	-	17
	Provision for credit losses	-	74
DSplant Co., Ltd. [1]	Interest income	-	121
	Fee and commission income	-	4
	Reversal of credit losses	-	2
	Interest expense	-	2
	Loss on financial assets/ liabilities at fair value through profit or loss	-	26
KB IC 3rd Recovery Private Equity Fund	Interest expense	38	91
KB No.2 Special Purpose Acquisition Company[1]	Interest expense	1	-
KB No.3 Special Purpose Acquisition Company	Interest expense	6	-
KB No.4 Special Purpose Acquisition Company	Interest expense	9	-
KB No.5 Special Purpose Acquisition Company	Interest expense	4	-
KB No.6 Special Purpose Acquisition Company	Interest expense	4	-
Other			
Retirement pension	Fee and commission income	448	386
	Interest expense	788	1,971

[1] Not considered to be the Group's related party as at December 31, 2014.

The details of receivables and payables, and related allowances for loan losses arising from the related party transactions as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

		2014	2013
Parent			
KB Financial Group Inc.	Other assets	465	2
	Deposits	30,739	77,298
	Other liabilities	224,763	180,329
Parent's subsidiaries			
KB Investment Co., Ltd.	Deposits	37,219	11,052
	Other liabilities	198	36
KB Data System Co., Ltd.	Other assets	1,037	4,670
	Deposits	19,790	15,275
	Other liabilities	1,214	401
KB Real Estate Trust Co., Ltd.	Deposits	96,087	15,190
	Other liabilities	651	378
KB Life Insurance Co., Ltd.	Other assets	1,342	1,696
	Deposits	57	585
	Debts	30,000	5,000
	Other liabilities	41	389
KB Credit Information Co., Ltd.	Deposits	6,766	10,796
	Other liabilities	6,193	7,942
KB Asset Management Co., Ltd.	Other assets	127	56
	Deposits	69,453	60,341
	Other liabilities	439	582
KB Investment and Securities Co., Ltd.	Cash and due from financial institutions	945	834
	Gross amounts of loans and receivables	34,997	32,995
	Allowances	15	13
	Other assets	327	707
	Deposits	105,449	356,989
	Other liabilities	8,993	5,775
	Provisions	4	5
KB Kookmin Card Co., Ltd.	Other assets	27,382	25,495
	Deposits	454,205	264,717
	Other liabilities	36,546	37,157
	Provisions	416	416
KB Savings Bank Co., Ltd.	Other assets	14	9
KB Capital Co., Ltd.	Other assets	5	-
	Deposits	534	-
KB Mezzanine Private Securities Fund	Other assets	167	199
Hanbando BTL Private Special Asset Fund	Other assets	49	50
Associates			
KB08-1 Venture Investment Partnership [1]	Deposits	-	5,212
	Other liabilities	-	2
KB12-1 Venture Investment Partnership	Deposits	9,767	3,072
	Other liabilities	10	4
Korea Credit Bureau Co., Ltd.	Deposits	24,715	20,200
	Other liabilities	17	64

UAMCO., Ltd.	Deposits	1,654	5
	Provisions	-	192
United PF 1st Recovery Private Equity Fund	Provisions	-	82
Kores Co., Ltd. [1]	Gross amounts of loans and receivables	-	7,854
	Allowances	-	3,836
	Other liabilities	-	2
Incheon Bridge Co., Ltd.	Gross amounts of loans and receivables	247,870	249,362
	Allowances	302	300
	Other assets	1,144	1,343
	Deposits	35,421	30,991
	Other liabilities	249	240
JSC Bank CenterCredit	Cash and due from financial institutions	178	353
Future Planning KB Start-up Creation Fund	Deposits	-	5,033
	Other liabilities	-	6
Ssangyong Engineering & Construction Co., Ltd. [1]	Gross amounts of loans and receivables	-	47,104
	Allowances	-	38,784
	Deposits	-	61
	Other liabilities	-	14
Terra Corporation	Deposits	1	1
KB Star Office Private Real Estate Investment Trust No.1	Deposits	6,067	8,142
	Other liabilities	-	31

Associates of Parent's subsidiaries			
Semiland Co., Ltd.[1]	Gross amounts of loans and receivables	-	19
	Deposits	-	1
	Provisions	-	3
KB IC 3rd Recovery Private Equity Fund	Deposits	1,400	1,400
	Other liabilities	24	25
KB Glenwood Private Equity Fund	Deposits	-	1
KB No.3 Special Purpose Acquisition Company	Deposits	832	-
	Other liabilities	6	-
KB No.4 Special Purpose Acquisition Company	Deposits	2,500	-
	Other liabilities	1	-
KB No.5 Special Purpose Acquisition Company	Deposits	2,389	-
	Other liabilities	1	-
KB No.6 Special Purpose Acquisition Company	Deposits	4,406	-
	Other liabilities	3	-
Key management	Gross amounts of loans and receivables	2,325	4,578
	Allowances	-	1
	Other assets	3	6
	Deposits	18,378	6,932
	Other liabilities	171	111
	Provisions	-	2
Other			
Retirement pension	Other assets	191	166
	Deposits	41,412	48,840
	Other liabilities	246	908

[1] Deemed not to be related as of December 31, 2014; therefore, the 2014 balances are not presented.

In accordance with Korean IFRS 1024, the Group includes parent, parent's subsidiaries, associates, associates of parent's subsidiaries, key management (including family members), and post-employment benefit plans of the Group and entities regarded as its related parties in the scope of its related parties. Additionally, the Group discloses balances (receivables and payables) and other amounts arising from the related party transactions in the notes to the consolidated financial statements. Refer to Note 13 for details on investments in associates.

Key management includes the directors of the parent company and the executive directors (vice-presidents and above) of the Bank and companies where the directors and /or their close family members have control or joint control.

Significant loan transactions with related parties for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014[1]				
	Beginning	**Loans**	**Repayments**	**Other**	**Ending**
Parent's subsidiary					
KB Investment and Securities Co., Ltd.	₩ 32,995	₩ 2,002	₩ -	₩ -	₩ 34,997
Associate					
Incheon Bridge Co., Ltd.	249,362	12,360	13,852	-	247,870

(In millions of Korean won)	2013[1]				
	Beginning	**Loans**	**Repayments**	**Other**	**Ending**
Parent's subsidiary					
KB Investment and Securities Co., Ltd.	₩ -	₩ 32,995	₩ -	₩ -	₩ 32,995
Associates					
United PF 1st Recovery Private Equity Fund	2,805	1,913	4,718	-	-
UAMCO., Ltd.	-	47,181	47,181	-	-
Kores Co., Ltd.[2]	7,854	900	900	-	7,854
Incheon Bridge Co., Ltd.	263,080	8,777	22,495	-	249,362
Ssangyong Engineering & Construction Co., Ltd.[2]	46,275	36,843	36,014	-	47,104
Associate of Parent's subsidiary					
Semiland Co., Ltd.[2]	-	86	67	-	19

[1]Transactions and balances arising from operating activities between related parties, such as settlements, are excluded.
[2] Not considered to be the Group's related party as at December 31, 2014.

The settlement transactions and deposits arising from operating activities with related parties are excluded and there are no other borrowing transactions.

Unused commitments to related parties as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

		2014	2013
KB Investment and Securities Co., Ltd.	Loan commitment in won	₩ 12,503	₩ 14,505
KB Kookmin Card Co., Ltd.[1]	Loan commitment in won	520,000	520,000
	Other commitments in won	1,000,000	1,000,000
KB Mezzanine Private Securities Fund	Commitments on purchase of security investment	18,359	18,359
KB Mezzanine Private Security Investment Trust No.2	Commitments on purchase of security investment	70,312	-
Hanbando BTL Private Special Asset Fund	Commitments on purchase of security investment	15,931	15,931

KB Hope Sharing BTL Private Special Asset	Commitments on purchase of security investment	48,045	51,172
Balhae Infrastructure Fund	Commitments on purchase of security investment	21,744	21,744
UAMCO., Ltd.	Loan commitment in won	-	127,800
	Commitments on purchase of security investment	89,950	89,950
KB12-1 Venture Investment Partnership	Commitments on purchase of security investment	11,200	16,800
KoFC KBIC Frontier Champ 2010-5(PEF)	Commitments on purchase of security investment	1,290	1,320
United PF 1st Recovery Private Equity Fund	Loan commitment in won	-	54,600
	Commitments on purchase of security investment	49,383	49,383
Incheon Bridge Co., Ltd.	Loan commitment in won	33,163	42,088
KoFC POSCO HANHWA KB shared growth Private Equity Fund	Commitments on purchase of security investment	19,000	28,780
Future Planning KB Start-up Creation Fund	Commitments on purchase of security investment	16,000	16,000
KB GwS Private Equity Trust and others	Loan commitment	372	757
	Commitments on purchase of security investment	876	876

Unused commitments received from related party entities as at December 31, 2014 and 2013, are as follows:

(In millions of Korean won)		2014	2013
Parent's subsidiaries			
KB Investment Co., Ltd.	Loss sharing agreements	₩ 5,917	₩ 10,056
KB Real Estate Trust Co., Ltd.	Commitments on purchase of security investment	4,319	5,119
KB Life Insurance Co., Ltd.	Commitments on purchase of security investment	21,595	25,595
KB Investment and Securities Co., Ltd.	Commitments on purchase of security investment	4,319	5,119
KB Kookmin Card Co., Ltd.	Loan commitment in won	79,164	84,789
Associate			
Ssangyong Engineering & Construction Co., Ltd.[1]	Guarantee in won	-	293,500

[1] Deemed not to be related as of December 31, 2014; therefore, the 2014 balances are not presented.

Compensation to key management for the years ended December 31, 2014 and 2013, consists of :

(In millions of Korean won)	2014			
	Short-term employee benefits	**Post-employment benefit**	**Share-based payments**	**Total**
Registered directors (executive)	₩ 1,405	₩ 63	₩ 1,162	₩ 2,630
Registered directors (non-executive)	457	-	-	457
Non-registered directors	4,860	296	3,685	8,841
	₩ 6,722	₩ 359	₩ 4,847	₩ 11,928

(In millions of Korean won)	2013			
	Short-term employee benefits	**Post-employment benefit**	**Share-based payments**	**Total**
Registered directors (executive)	₩ 1,487	₩ 103	₩ 449	₩ 2,039
Registered directors (non-executive)	364	-	-	364
Non-registered directors	4,324	918	3,722	8,964
	₩ 6,175	₩ 1,021	₩ 4,171	₩ 11,367

Significant transactions occurring between the Group and related parties include the establishment of deposit accounts, issuance of general purpose loans, loans on business transactions and trade receivables, and providing foreign currency remittances and related services. Other significant transactions include the grant of credit due to acceptance of banker's usance that the Bank issues and overdraft credit accounts arising from net settlement agreement between the Bank and KB Kookmin Card Co., Ltd.

Collateral offered to related parties as of December 31, 2014 and 2013, follows:

(In millions of Korean won)		2014		2013	
	Assets pledged	Carrying amount	Collateralized amount	Carrying amount	Collateralized amount
Parent's subsidiaries					
KB Investment and Securities Co., Ltd.	Securities	₩ 54,084	₩ 54,000	₩ 59,076	₩ 59,000
KB Life Insurance Co., Ltd.	Securities	16,326	15,000	-	-
	Building / Land	114,609	39,000	114,609	19,500

Collateral received from related parties as of December 31, 2014 and 2013, follows:

(In millions of Korean won)		2014	2013
Parent's subsidiaries			
KB Investment and Securities Co., Ltd.	Time deposits	₩ 52,440	₩ 52,440
KB Kookmin Card Co., Ltd.	Time deposits	22,000	30,000
Associates			
Kores Co., Ltd.[1]	Row house	-	24
	Apartment	-	24
	Factory / Forest land	-	15,000
Incheon Bridge Co., Ltd.	Fund management account for Standby loan commitment	65,000	65,000
Key management	Time deposits and others	257	207
	Real estate	3,583	7,381

[1] Deemed not to be related as of September 30, 2014; therefore, the 2014 balances are not presented.

As of December 31, 2014, Incheon Bridge Co., Ltd, a related party, provides fund management account, civil engineering completed risk insurance, shares and management rights as unsubordinated collaterals in respect to collateralized amount for ₩ 816,400 million to a financial syndicate consisting of the Bank and four other institutions, and as subordinated collaterals in respect to collateralized amount for ₩ 201,100 million to subordinated debt holders consisting of the Bank and two other institutions.

The Bank and KB Kookmin Card Co., Ltd. are contingently liable for the payables of the Bank before the spin-off date.

42. Approval of Issuance of the Financial Statements

The issuance of the Group's consolidated financial statements as of and for the year ended December 31, 2014, was approved by the Board of Directors on February 4, 2015.

Independent Auditor's Report

To the Shareholders and Board of Directors of
Kookmin Bank

We have audited the accompanying consolidated statements of financial position of Kookmin Bank and its subsidiaries (collectively the "Group") as of December 31, 2013 and 2012, and January 1, 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012, expressed in Korean won. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of the Group as of December 31, 2013 and 2012, and January 1, 2012, and their financial performance and cash flows for the years ended December 31, 2013 and 2012, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS").

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those who are informed about Korean auditing standards and their application in practice.

/s/ Samil PricewaterhouseCoopers

Seoul, Korea
March 7, 2014

This report is effective as of March 7, 2014, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Kookmin Bank and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2013 and 2012, and January 1, 2012

(In millions of Korean won)	Notes	December 31, 2013	December 31, 2012	January 1, 2012
Assets				
Cash and due from financial institutions	4,6,7,36	₩ 13,730,250	₩ 10,028,910	₩ 8,674,668
Financial assets at fair value through profit or loss	4,6,12	7,069,875	6,497,757	6,792,629
Derivative financial assets	4,6,9	1,718,882	1,996,241	2,240,790
Loans	4,6,10,11	203,123,755	199,414,818	199,935,162
Financial investments	4,6,8,12	30,086,604	32,190,095	31,650,116
Investments in associates	13	741,987	922,956	795,127
Property and equipment	14	2,903,425	2,937,752	3,000,326
Investment property	14	201,005	92,204	90,911
Intangible assets	15	224,584	264,818	309,070
Deferred income tax assets	16,32	443	447	-
Assets held for sale	18	20,927	5,269	9,931
Other assets	4,6,17	5,437,205	6,695,586	5,978,982
Total assets		₩ 265,258,942	₩ 261,046,853	₩ 259,477,712
Liabilities				
Financial liabilities at fair value through profit or loss	4,6	₩ 40,067	₩ 41,979	₩ 58,744
Derivative financial liabilities	4,6,9	1,766,034	2,040,713	1,853,800
Deposits	4,6,19	200,967,688	197,232,967	193,869,815
Debts	4,6,20	13,569,923	14,631,518	14,696,799
Debentures	4,6,21	16,212,758	15,949,496	18,992,472
Provisions	22	539,737	537,351	618,615
Net defined benefit liabilities	23	51,525	73,061	115,451
Current income tax liabilities	32	1,333	7,131	10,083
Deferred income tax liabilities	16,32	120,364	195,350	298,239
Other liabilities	4,6,24,30	11,372,199	10,319,729	9,830,004
Total liabilities		244,641,628	241,029,295	240,344,022
Equity	25			
Capital stock		2,021,896	2,021,896	2,021,896
Capital surplus		5,219,704	5,219,672	4,285,807
Accumulated other comprehensive income	34	447,619	384,154	274,343
Retained earnings	25,33	12,928,095	12,390,499	12,543,570
(Provision of regulatory reserve for credit losses				
Dec. 31, 2013 : ₩1,590,347 million				
Dec. 31, 2012 : ₩1,529,643 million				
Jan. 1, 2012 : -)				
(Amounts estimated to be appropriated				
Dec. 31, 2013 : ₩100,632 million				
Dec. 31, 2012 : ₩60,704 million				
Jan. 1, 2012 : ₩1,529,643 million)				
Equity attributable to shareholders of the parent company		20,617,314	20,016,221	19,125,616
Non-controlling interest equity		-	1,337	8,074
Total equity		20,617,314	20,017,558	19,133,690
Total liabilities and equity		₩ 265,258,942	₩ 261,046,853	₩ 259,477,712

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries
Consolidated Statements of Comprehensive Income
Years ended December 31, 2013 and 2012

(In millions of Korean won)	Notes	2013	2012
Interest income		₩ 10,595,380	₩ 12,495,044
Interest expense		(5,435,140)	(6,715,569)
Net interest income	26	5,160,240	5,779,475
Fee and commission income		1,281,650	1,437,488
Fee and commission expense		(176,906)	(184,076)
Net fee and commission income	27	1,104,744	1,253,412
Net gains on financial assets/liabilities at fair value through profit or loss	28	690,501	740,500
Net other operating expenses	29	(1,055,386)	(1,250,165)
General and administrative expenses	14,15,23,30	(3,396,788)	(3,276,988)
Operating profit before provision for credit losses		2,503,311	3,246,234
Provision for credit losses	11,17,22	(1,065,189)	(1,294,030)
Operating profit		1,438,122	1,952,204
Share of loss of associates	13	(202,880)	(5,712)
Net other non-operating expense	31	(23,631)	(64,015)
Net non-operating loss		(226,511)	(69,727)
Profit before income tax expense		1,211,611	1,882,477
Income tax expense	32	(391,892)	(442,354)
Profit for the year		₩ 819,719	₩ 1,440,123
(Adjustment in profit of reserve for credit losses Dec. 31, 2013 : ₩719,087 million Dec. 31, 2012 : ₩1,379,419 million)	25		
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liabilities		41,545	(29,263)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(2,298)	(25,649)
Valuation gains on financial investments		33,990	208,121
Share of other comprehensive income of associates		(9,698)	(43,451)
Other comprehensive income for the year, net of tax	34	63,539	109,758
Total comprehensive income for the year		₩ 883,258	₩ 1,549,881
Profit attributable to:			
Shareholders of the parent company		819,635	1,439,754
Non-controlling interests		84	369
		₩ 819,719	₩ 1,440,123
Total comprehensive income for the year attributable to:			
Shareholders of the parent company		883,100	1,549,605
Non-controlling interests		158	276
		₩ 883,258	₩ 1,549,881

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries

Consolidated Statements of Changes in Equity

Years Ended December 31, 2013 and 2012

(In millions of Korean won)	Capital Stock	Capital Surplus	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Non-controlling interests	Total Equity
Balance at January 1, 2012	₩ 2,021,896	₩ 4,285,807	₩ 290,710	₩ 12,461,918	₩ 8,074	₩ 19,068,405
Changes in accounting policy	-	-	(16,367)	81,652	-	65,285
Restated balance	2,021,896	4,285,807	274,343	12,543,570	8,074	19,133,690
Comprehensive income for the year						
Profit for the year	-	-	-	1,439,754	369	1,440,123
Currency translation differences	-	-	(25,556)	-	(93)	(25,649)
Gains on valuation of financial investments	-	-	208,121	-	-	208,121
Losses on valuation of investments accounted for using the equity method	-	-	(43,451)	-	-	(43,451)
Remeasurements of net defined benefit liabilities	-	-	(29,263)	-	-	(29,263)
Total comprehensive income for the year	-	-	109,851	1,439,754	276	1,549,881
Transactions with shareholders						
Dividends	-	-	-	(657,925)	-	(657,925)
Loss on capital reduction	-	934,900	-	(934,900)	-	-
Changes in interest in subsidiaries	-	(1,035)	(40)	-	(7,013)	(8,088)
Total transactions with shareholders	-	933,865	(40)	(1,592,825)	(7,013)	(666,013)
Balance at December 31, 2012	₩ 2,021,896	₩ 5,219,672	₩ 384,154	₩ 12,390,499	₩ 1,337	₩ 20,017,558
Balance at January 1, 2013	₩ 2,021,896	₩ 5,219,672	₩ 384,154	₩ 12,390,499	₩ 1,337	₩ 20,017,558
Comprehensive income for the year						
Profit for the year	-	-	-	819,635	84	819,719
Currency translation differences	-	-	(2,372)	-	74	(2,298)
Gains on valuation of financial investments	-	-	33,990	-	-	33,990
Losses on valuation of investments accounted for using the equity method	-	-	(9,698)	-	-	(9,698)
Remeasurements of net defined benefit liabilities	-	-	41,545	-	-	41,545
Total comprehensive income for the year	-	-	63,465	819,635	158	883,258
Transactions with shareholders						
Dividends	-	-	-	(282,039)	-	(282,039)
Changes in interest in subsidiaries	-	32	-	-	(1,495)	(1,463)
Total transactions with shareholders	-	32	-	(282,039)	(1,495)	(283,502)
Balance at December 31, 2013	₩ 2,021,896	₩ 5,219,704	₩ 447,619	₩ 12,928,095	₩ -	₩ 20,617,314

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2013 and 2012

(In millions of Korean won)	Notes	2013	2012
Cash flows from operating activities			
Profit for the year		₩ 819,719	₩ 1,440,123
Adjustment for non-cash items			
Net gains on financial assets/liabilities at fair value through profit or loss		(111,249)	(221,967)
Losses on derivative financial investments for hedging purposes		49,047	14,654
Adjustment of fair value of derivative financial instruments		699	42
Provision for credit losses		1,065,189	1,294,030
Net losses on financial investments		35,649	186,013
Share of loss of associates		202,880	5,712
Depreciation and amortization expense		240,248	271,429
Other net losses on property and equipment/intangible assets		9,632	1,793
Share-based payment		14,616	8,578
Post-employment benefits		154,404	158,571
Net interest income		226,958	231,160
Gains on foreign currency translation		(23,252)	(149,197)
Other incomes		(61,113)	(6,856)
		1,803,708	1,793,962
Changes in operating assets and liabilities			
Financial assets at fair value through profit or loss		(598,944)	324,631
Derivative financial instrument		83,266	247,055
Loans		(5,275,067)	(1,037,904)
Deferred income tax assets		(1,657)	(447)
Other assets		(4,342,729)	769,753
Financial liabilities at fair value through profit or loss		(2,181)	(16,935)
Deposits		3,823,705	3,408,746
Deferred income tax liabilities		(85,320)	(159,986)
Other liabilities		(607,898)	(4,714)
		(7,006,825)	3,530,199
Net cash generated from (used in) operating activities		(4,383,398)	6,764,284
Cash flows from investing activities			
Disposal of financial investments		22,594,195	22,095,023
Acquisition of financial investments		(20,373,262)	(22,637,069)
Decrease in investments in associates		26,845	24,557
Acquisition of investments in associates		(30,810)	(176,246)
Disposal of property and equipment		911	8,321
Acquisition of property and equipment		(129,933)	(126,517)
Acquisition of investment property		(114,609)	-
Disposal of intangible assets		2,981	1,358
Acquisition of intangible assets		(45,974)	(53,917)
Others		1,492,487	(860,747)
Net cash provided by (used in) investing activities		3,422,831	(1,725,237)
Cash flows from financing activities			
Net cash flows from derivative financial instrument for hedging purposes		7,987	48,924
Net decrease in debts		(1,065,853)	(3,956)
Increase in debentures		3,884,548	5,917,068
Decrease in debentures		(3,479,606)	(8,820,000)
Payment of dividends		(282,039)	(657,925)
Changes in interest in subsidiaries		(1,463)	(8,048)
Net increase in other payables from trust accounts		414,279	456,449
Others		828,916	(54,099)
Net cash provided by (used in) financing activities		306,769	(3,121,587)
Exchange gains(losses) on cash and cash equivalents		41,428	(13,541)
Net increase(decrease) in cash and cash equivalents		(612,370)	1,903,919
Cash and cash equivalents at the beginning of the year	36	6,445,010	4,541,091
Cash and cash equivalents at the end of year	36	₩ 5,832,640	₩ 6,445,010

The accompanying notes are an integral part of these consolidated financial statements.

1. The Company

Kookmin Bank (the "Bank") was incorporated in 1963 under the Citizens National Bank Act to provide banking services to the general public and to small and medium-sized enterprises. Pursuant to the Repeal Act of the Citizens National Bank Act, effective January 5, 1995, the Bank's status changed to a financial institution which operates under the Banking Act and Commercial Act.

The Bank merged with Korea Long Term Credit Bank on December 31, 1998, and with its subsidiaries, Daegu, Busan, Jeonnam Kookmin Mutual Savings & Finance Co., Ltd., on August 22, 1999. Also, pursuant to the directive from the Financial Services Commission related to the Structural Improvement of the Financial Industry Act, the Bank acquired certain assets, including performing loans, and assumed most of the liabilities of Daedong Bank on June 29, 1998. Also, the Bank completed the merger with Housing and Commercial Bank ("H&CB") on October 31, 2001, and merged with Kookmin Credit Card Co., Ltd., a majority-owned subsidiary, on September 30, 2003. Meanwhile, the Bank spun off its credit card business segment on February 28, 2011, and KB Kookmin Card Co., Ltd. became a subsidiary of KB Financial Group Inc.

The Bank listed its shares on the Stock Market Division of the Korea Exchange ("KRX," formerly Korea Stock Exchange) in September 1994. As a result of the merger with H&CB, the shareholders of the former Kookmin Bank and H&CB received new common shares of the Bank which were relisted on the KRX on November 9, 2001. In addition, H&CB listed its American Depositary Shares ("ADS") on the New York Stock Exchange ("NYSE") on October 3, 2000, prior to the merger. Following the merger with H&CB, the Bank listed its ADS on the NYSE on November 1, 2001. The Bank became a wholly owned subsidiary of KB Financial Group Inc. through a comprehensive stock transfer on September 29, 2008. Subsequently, the Bank's shares and its ADS, each listed on the KRX and the NYSE, were delisted on October 10, 2008 and September 26, 2008, respectively. As of December 31, 2013, the Bank's paid-in capital is ₩2,021,896 million.

The Bank engages in the banking business in accordance with the Banking Act, trust business in accordance with the Financial Investment Services and Capital Markets Act, and other relevant businesses. As of December 31, 2013, the Bank operates 1,207 domestic branches and offices, and five overseas branches (excluding four subsidiaries and three offices).

2. Basis of Preparation

2.1 Application of K-IFRS

The consolidated financial statements of the Bank and its subsidiaries (“The Group”) have been prepared in accordance with Korean-IFRS ("K-IFRS"). K-IFRS are the standards and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.4.

New standards, amendments and interpretations issued but not effective for the year beginning on January 1, 2013, and not early adopted by the Group are as follows:

Amendment to K-IFRS 1032, *Financial Instruments: Presentation*

According to Amendment to K-IFRS 1032, *Financial Instruments: Presentation*, provides that the right to offset must not be contingent on a future event and must be legally enforceable in all of circumstances; and if an entity can settle amounts in a manner such that outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion. This amendment is effective for annual periods beginning on or after January 1, 2014, and the Group is assessing the impact of application of this amendment on its consolidated financial statements.

Amendment to K-IFRS 1039, *Financial Instruments: Recognition and Measurement*

Amendment to K-IFRS 1039, *Financial Instruments: Recognition and Measurement,* allows the continuation of hedge accounting for a derivative that has been designated as a hedging instrument in a circumstance in which that derivative is novated to a central counterparty (CCP) as a consequence of laws or regulations. This amendment is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Group is assessing the impact of application of this amendment on its consolidated financial statements.

Amendment to K-IFRS 1110, *Consolidated Financial Statements*

Amendment to K-IFRS 1110, *Consolidated Financial Statements*, provides that, if a parent company qualifies as an investment entity, it is required to measure its investments in subsidiaries at fair value through profit or loss instead of consolidating these subsidiaries in its consolidated financial statements. The amendment does not apply for a parent of an investment entity if the parent itself is not an investment entity. This amendment is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The application of this amendment does not have an impact on its consolidated financial statements of the Group.

Enactment of K-IFRS 2121, *Levies*

K-IFRS 2121, *Levies*, is applied to a liability to pay a levy imposed by a government in accordance with the legislation. The interpretation requires that the liability to pay a levy is recognized when the activity that triggers the payment of the levy occurs, as identified by the legislation (the obligating event). This interpretation is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Group is assessing the impact of application of this interpretation on its consolidated financial statements.

New standards, amendments and interpretations adopted by the Group for the financial year beginning on January 1, 2013, are as follows:

Amendment to K-IFRS 1001*, Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*

K-IFRS 1001, *Presentation of Financial Statements,* was amended to require other comprehensive income items to be classified into items that might be reclassified to profit or loss in subsequent periods and items that would not be reclassified subsequently. The Group applies the presentation of items of other comprehensive income in accordance with the enactment retrospectively and restated statement of comprehensive income for the year ended December 31, 2012. There is no effect on the Group's total comprehensive income for the retrospective application of change in accounting policy.

Amendment to K-IFRS 1019, *Employee Benefits*

According to the amendment to K-IFRS 1019, *Employee Benefits*, the use of a ‘corridor’ approach is no longer permitted, and therefore all actuarial gains and losses incurred are immediately recognized in other comprehensive income. All past service costs incurred from changes in pension plan are immediately recognized, and interest costs and expected returns on plan assets that used to be separately calculated are now changed to calculating net interest expense (income) by applying discount rate used in measuring defined benefit obligation in net defined benefit liabilities (assets). The Group applies the accounting policy retrospectively in accordance with the amended standards. The comparative consolidated statements of financial position and statements of comprehensive income are restated by reflecting adjustments resulting from the retrospective application.

The effect of these changes in accounting policy to financial position as of December 31, 2013 and 2012, and January 1, 2012, and to comprehensive income for the years ended December 31, 2013 and 2012, are as follows:

Effect on Consolidated Statements of Financial Position

(In millions of Korean won)	**December 31, 2013**	**December 31, 2012**	**January 1, 2012**
Increase(decrease) in defined benefit liabilities	₩ 9,103	₩ 9,821	₩ -
Increase(decrease) in deferred income tax liabilities	(2,203)	(2,377)	-
Increase(decrease) in accumulated other comprehensive income	(4,085)	(45,630)	(16,367)
Increase(decrease) in retained earnings	(2,815)	38,186	16,367

Effect on Consolidated Statements of Comprehensive Income

(In millions of Korean won)	**2013**	**2012**
Decrease(increase) in general and administrative expenses	₩ (54,091)	₩ 28,786
Decrease(increase) in income tax	13,090	(6,967)
Increase(decrease) in other comprehensive income	41,545	(29,263)

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. An entity shall recognize a liability and expense for termination benefits at the earlier of the following dates: when the entity can no longer withdraw the offer of those benefits and when the entity recognizes costs for a restructuring that is within the scope of K-IFRS 1037 and involves the payment of termination benefits. Termination benefits are measured by considering the number of employees expected to accept the offer in the case of a voluntary early retirement. Termination benefits over 12 months after the reporting period are discounted to present value. The Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

Enactment of K-IFRS 1110, *Consolidated Financial Statements*

K-IFRS 1110 supersedes K-IFRS 1027, *Consolidated and Separate Financial Statements* and K-IFRS 2012, *Consolidation: Special Purpose Entities.*

K-IFRS 1110, *Consolidated Financial Statements,* builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in the consolidated financial statements of the parent company. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

In accordance with transitional provision of K-IFRS 1110, the financial statements for earlier comparative periods are restated, to ensure conformity with the conclusion of K-IFRS 1110, unless it is impracticable to do so. At the date of initial application, a reporting entity that has no change in consolidation is not required to make adjustments to the previous accounting policy.

As a result of reviewing the impact of the enactment of K-IFRS 1110, the Group decided to consolidate nine trusts, including personal pension trust, and four structured entities, including KH First Co., Ltd. into the consolidated financial statements.

In accordance with K-IFRS 1110, the Group consolidated nine trusts, including a personal pension trust, because the Group has power as a trustee, exposure to variable returns as the Group guarantees repayment of principal if the trust property is less than the principal, and the ability to use power to affect its amount of variable returns. In addition, the Group consolidated four structured entities, including KH First Co., Ltd., because the Group directly provides lines of credit to the structured entities following the insolvency of securitization assets and has power as a credit provider, exposure to variable returns and the ability to use power to affect its amount of variable returns.

i. New subsidiaries included as a result of the adoption of K-IFRS 1110

Name of subsidiaries	Ownership(%)	Location	Industry
Personal pension and 8 other trusts	-	Korea	Trust
KH First Co., Ltd.	-	Korea	Asset-backed securitization and others
Samho Kyungwon Co., Ltd.	-	Korea	Asset-backed securitization and others
Taejon Samho The First Co., Ltd.	-	Korea	Asset-backed securitization and others
Prince DCM Co., Ltd.	-	Korea	Asset-backed securitization and others

ii. Effect on the consolidated financial statements by the adoption of K-IFRS 1110:

- Consolidated Statements of Financial Position

(In millions of Korean won)	Dec. 31, 2012		
	Before	**Adjustment**	**After**
Assets			
Cash and due from financial institutions	₩ 10,028,910	₩ -	₩ 10,028,910
Financial assets at fair value through profit or loss	3,494,954	3,002,803	6,497,757
Derivative financial assets	1,997,736	(1,495)	1,996,241
Loans	199,146,776	268,042	199,414,818
Financial investments	32,190,095	-	32,190,095
Investments in associates	922,956	-	922,956
Property and equipment	2,937,752	-	2,937,752
Investment property	92,204	-	92,204
Intangible assets	264,818	-	264,818
Deferred income tax assets	447	-	447
Assets held for sale	5,269	-	5,269
Other assets	6,666,780	28,806	6,695,586
Total assets	₩ 257,748,697	₩ 3,298,156	₩ 261,046,853
Liabilities			
Financial liabilities at fair value through profit or loss	₩ 41,979	₩ -	₩ 41,979
Derivative financial liabilities	2,040,713	-	2,040,713
Deposits	194,290,041	2,942,926	197,232,967
Debts	14,631,518	-	14,631,518
Debentures	15,848,596	100,900	15,949,496
Provisions	537,351	-	537,351
Net defined benefit liabilities	73,061	-	73,061
Current income tax liabilities	7,131	-	7,131
Deferred income tax liabilities	173,813	21,537	195,350
Other liabilities	10,154,383	165,346	10,319,729
Total Liabilities	237,798,586	3,230,709	241,029,295
Equity			
Equity attributable to shareholders of the parent company	19,948,774	67,447	20,016,221
Non-controlling interest equity	1,337	-	1,337
Total equity	19,950,111	67,447	20,017,558
Total Liabilities and equity	₩ 257,748,697	₩ 3,298,156	₩ 261,046,853

(In millions of Korean won)	Jan. 1, 2012		
	Before	**Adjustment**	**After**
Assets			
Cash and due from financial institutions	₩ 8,674,668	₩ -	₩ 8,674,668
Financial assets at fair value through profit or loss	4,201,556	2,591,073	6,792,629
Derivative financial assets	2,242,405	(1,615)	2,240,790
Loans	199,583,769	351,393	199,935,162
Financial investments	31,650,116	-	31,650,116
Investments in associates	795,127	-	795,127
Property and equipment	3,000,326	-	3,000,326
Investment property	90,911	-	90,911
Intangible assets	309,070	-	309,070
Assets held for sale	9,931	-	9,931
Other assets	5,954,381	24,601	5,978,982
Total assets	₩ 256,512,260	₩ 2,965,452	₩ 259,477,712
Liabilities			
Financial liabilities at fair value through profit or loss	₩ 58,744	₩ -	₩ 58,744
Derivative financial liabilities	1,853,800	-	1,853,800
Deposits	190,948,850	2,920,965	193,869,815
Debts	14,696,799	-	14,696,799
Debentures	18,891,472	101,000	18,992,472
Provisions	618,615	-	618,615
Net defined benefit liabilities	115,451	-	115,451
Current income tax liabilities	10,083	-	10,083
Deferred income tax liabilities	277,393	20,846	298,239
Other liabilities	9,972,648	(142,644)	9,830,004
Total Liabilities	237,443,855	2,900,167	240,344,022
Equity			
Equity attributable to shareholders of the parent company	19,060,331	65,285	19,125,616
Non-controlling interest equity	8,074	-	8,074
Total equity	19,068,405	65,285	19,133,690
Total Liabilities and equity	₩ 256,512,260	₩ 2,965,452	₩ 259,477,712

- Consolidated Statement of Comprehensive Income

(In millions of Korean won)	2012		
	Before	**Adjustment**	**After**
Interest income	₩ 12,478,432	₩ 16,612	₩ 12,495,044
Interest expense	(6,583,034)	(132,535)	(6,715,569)
Net interest income	5,895,398	(115,923)	5,779,475
Fee and commission income	1,457,700	(20,212)	1,437,488
Fee and commission expense	(183,704)	(372)	(184,076)
Net fee and commission income	1,273,996	(20,584)	1,253,412
Net gains on financial assets/liabilities at fair value through profit and loss	596,746	143,754	740,500
Net other operating expenses	(1,244,914)	(5,251)	(1,250,165)
General and administrative expenses	(3,276,928)	(60)	(3,276,988)
Operating profit before provision for credit losses	3,244,298	1,936	3,246,234
Provision for credit losses	(1,294,714)	684	(1,294,030)
Operating profit	1,949,584	2,620	1,952,204
Share of loss of associates	(5,712)	-	(5,712)
Net other non-operating expense	(64,246)	231	(64,015)
Net non-operating loss	(69,958)	231	(69,727)
Profit before income tax expense	1,879,626	2,851	1,882,477
Income tax expense	(441,665)	(689)	(442,354)
Profit for the year	₩ 1,437,961	₩ 2,162	₩ 1,440,123
Other comprehensive income for the year, net of tax	139,021	(29,263)	109,758
Total comprehensive income for the year	₩ 1,576,982	₩ (27,101)	₩ 1,549,881
Profit attributable to:			
shareholders of the parent company	1,437,592	2,162	1,439,754
Non-controlling interests	369	-	369
Total comprehensive income for the year attributable to:			
shareholders of the parent company	1,576,706	(27,101)	1,549,605
Non-controlling interests	276	-	276

- Consolidated Statement of Cash Flows

(In millions of Korean won)	2012		
	Before	**Adjustment**	**After**
Cash flows from operating activities			
Profit for the year	1,437,961	2,162	1,440,123
Adjustment for non-cash items	1,818,980	(25,018)	1,793,962
Net gains on financial assets/liabilities at fair value through profit or loss	(197,633)	(24,334)	(221,967)
Losses on derivative financial investments for hedging purposes	14,654	-	14,654
Adjustment of fair value of derivative financial instruments	42	-	42
Provision for credit loss	1,294,714	(684)	1,294,030
Net losses on financial investments	186,013	-	186,013
Share of loss of associates	5,712	-	5,712
Depreciation and amortization expense	271,429	-	271,429
Other net losses on property and equipment/intangible assets	1,793	-	1,793
Share-based payment	8,578	-	8,578
Post-employment benefits	158,571	-	158,571
Net interest income	231,160	-	231,160
Gains on foreign currency translation	(149,197)	-	(149,197)
Other incomes	(6,856)	-	(6,856)
Changes in operating assets and liabilities	3,766,855	(236,656)	3,530,199
Financial assets at fair value through profit or loss	712,145	(387,514)	324,631
Derivative financial instrument	247,055	-	247,055
Loans	(1,121,938)	84,034	(1,037,904)
Deferred income tax assets	(447)	-	(447)
Other assets	773,959	(4,206)	769,753
Financial liabilities at fair value through profit or loss	(16,935)	-	(16,935)
Deposits	3,386,785	21,961	3,408,746
Deferred income tax liabilities	(167,642)	7,656	(159,986)
Other liabilities	(46,127)	41,413	(4,714)
Net cash generated from operating activities	7,023,796	(259,512)	6,764,284
Cash flows from investing activities			
Disposal of financial investments	22,095,023	-	22,095,023
Acquisition of financial investments	(22,637,069)	-	(22,637,069)
Decrease in investments in associates	24,557	-	24,557
Acquisition of investments in associates	(176,246)	-	(176,246)
Disposal of property and equipment	8,321	-	8,321
Acquisition of property and equipment	(126,517)	-	(126,517)
Disposal of intangible assets	1,358	-	1,358
Acquisition of intangible assets	(53,917)	-	(53,917)
Others	(860,747)	-	(860,747)
Net cash used in investing activities	(1,725,237)	-	(1,725,237)

Cash flows from financing activities			
Net cash flows from derivative financial instrument for hedging purposes	48,924	-	48,924
Net decrease in debts	(3,956)	-	(3,956)
Increase in debentures	5,917,068	-	5,917,068
Decrease in debentures	(8,819,900)	(100)	(8,820,000)
Payment of dividends	(657,925)	-	(657,925)
Changes in interest in subsidiaries	(8,048)	-	(8,048)
Net increase in due to trust account	196,837	259,612	456,449
Others	(54,099)	-	(54,099)
Net cash used in financing activities	(3,381,099)	259,512	(3,121,587)
Exchange gains on cash and cash equivalents	(13,541)	-	(13,541)
Net increase in cash and cash equivalents	1,903,919	-	1,903,919
Cash and cash equivalents at the beginning of the year	4,541,091	-	4,541,091
Cash and cash equivalents at the end of the year	6,445,010	-	6,445,010

Enactment of K-IFRS 1111, *Joint Arrangements*

K-IFRS 1111, *Joint Arrangements*, aims to reflect the substance of joint arrangements by focusing on the contractual rights and obligations that each party to the arrangement has rather than its legal form. Joint arrangements are classified as either joint operations or joint ventures. A joint operation is when joint operators have rights to the assets and obligations for the liabilities, and account for the assets, liabilities, revenues and expenses, while parties to the joint venture have rights to the net assets of the arrangement. The adoption of K-IFRS 1111 does not have a material impact on the consolidated financial statements of the Group.

Enactment of K-IFRS 1112, *Disclosures of Interests in Other Entities*

K-IFRS 1112*, Disclosures of Interests in Other Entities*, provides the disclosure requirements for a subsidiary, an associate, a joint arrangement or an unconsolidated structured entity.

Enactment of K-IFRS 1113, *Fair value measurement*

K-IFRS 1113 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for all fair value measurements under K-IFRS. K-IFRS 1113 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within K-IFRS. K-IFRS 1113 has been effective prospectively for annual periods beginning on or after January 1, 2013. The adoption of K-IFRS 1113 does not have a material impact on the consolidated financial statements of the Group.

2.2 Measurement Basis

The consolidated financial statements have been prepared under the historical cost convention unless otherwise specified.

2.3 Functional and Presentation Currency

Items included in the financial statements of each entity of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Korean won, which is the parent company's functional and presentation currency. Refer to Notes 3.2.1 and 3.2.2.

2.4 Significant Estimates

The preparation of consolidated financial statements requires the application of accounting policies, certain critical accounting estimates and assumptions that may have a significant impact on the assets (liabilities) and incomes (expenses). Management's estimates of outcomes may differ from actual outcomes if management's estimates and assumptions based on management's best judgment at the reporting date are different from the actual environment.

Estimates and assumptions are continually evaluated and any change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only. Alternatively if the change in accounting estimate affects both the period of change and future periods, that change is recognized in the profit or loss of all those periods.

Uncertainty in estimates and assumptions with significant risk that may result in material adjustment to the consolidated financial statements are as follows:

2.4.1 Deferred income taxes

The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

2.4.2 Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available is determined by using valuation techniques. Financial instruments, which are not actively traded in the market and those with less transparent market prices, will have less objective fair values and require broad judgment on liquidity, concentration, uncertainty in market factors and assumptions in price determination and other risks.

As described in the significant accounting policies in Note 3.3, 'Recognition and Measurement of Financial Instruments', diverse valuation techniques are used to determine the fair value of financial instruments, from generally accepted market valuation models to internally developed valuation models that incorporate various types of assumptions and variables.

2.4.3 Provisions for credit losses (allowances for loan losses, provisions for acceptances and guarantees, and unused loan commitments)

The Group determines and recognizes allowances for losses on loans through impairment testing and recognizes provisions for guarantees, and unused loan commitments. The accuracy of provisions for credit losses is determined by the methodology and assumptions used for estimating expected cash flows of the borrower for individually assessed allowances of loans, collectively assessed allowances for groups of loans, guarantees and unused loan commitments.

2.4.4 Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions (Note 23).

2.4.5 Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations (Note 15).

3. Significant Accounting Policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

3.1 Consolidation

3.1.1 Subsidiaries

Subsidiaries are companies that are controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effects of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date when control is transferred to the Group and de-consolidated from the date when control is lost.

If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to make the subsidiary's accounting policies conform to those of the Group when the subsidiary's financial statements are used by the Group in preparing the consolidated financial statements.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests, if any. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in

the non-controlling interests having a deficit balance.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

3.1.2 Associates

Associates are entities over which the Group has significant influence in the financial and operating policy decisions. If the Group holds 20% or more of the voting power of the investee, it is presumed that the Group has significant influence.

Under the equity method, investments in associates are initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the investee and changes in the investee's equity after the date of acquisition. The Group's share of the profit or loss of the investee is recognized in the Group's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Profit and losses resulting from 'upstream' and 'downstream' transactions between the Group and associates are eliminated to the extent at the Group's interest in associates.

If associates use accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to make the associate's accounting policies conform to those of the Group when the associate's financial statements are used by the Group in applying equity method.

After the carrying amount of the investment is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

The Group determines at each reporting date whether there is any objective evidence that the investments in the associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates and its carrying value and recognizes the amount as 'share of profit or loss of associates' in the statements of comprehensive income.

3.1.3 Structured entity

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. When the Group decides whether it has power to the structured entities in which the Group has interests, it considers factors such as the purpose, the form, the practical ability to direct the relevant activities of a structured entity, the nature of its relationship with a structured entity and the amount of exposure to variable returns.

3.1.4 Trusts and funds

The Group provides management services for trust assets, collective investment and other funds. These trusts and funds are not consolidated in the Group's consolidated financial statements, except for trusts and funds over which the Group has control.

3.1.5 Intra-group transactions

All intra-group balances and transactions, and any unrealized gains arising on intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

3.2 Foreign Currency

3.2.1 Foreign currency transactions and balances

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period foreign currency monetary items are translated using the closing rate which is the spot exchange rate at the end of the reporting period. Non-monetary items that are measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined and non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous consolidated financial statements are recognized in profit or loss in the period in which they arise. When gains or losses on a non-monetary item are recognized in other comprehensive income, any exchange component of those gains or losses are also recognized in other comprehensive income. Conversely, when gains or losses on a non-monetary item are recognized in profit or loss, any exchange component of those gains or losses are also recognized in profit or loss.

3.2.2 Foreign Operations

The financial performance and financial position of all foreign operations, whose functional currencies differ from the Group's presentation currency, are translated into the Group's presentation currency using the following procedures:

Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period. Income and expenses in the statement of comprehensive income presented are translated at average exchange rates for the period. All resulting exchange differences are recognized in other comprehensive income.

Any goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and are translated into the presentation currency at the closing rate.

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss (as a reclassification adjustment) when the gains or losses on disposal are recognized. On the partial disposal of a subsidiary that includes a foreign operation, the Group re-attributes the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation, the Group reclassifies to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income.

,

3.3 Recognition and Measurement of Financial Instruments

3.3.1 Initial recognition

The Group recognizes a financial asset or a financial liability in its statement of financial position when, the Group becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets (a purchase or sale of a financial asset under a contract whose terms require delivery of the financial instruments within the time frame established generally by market regulation or practice) is recognized and derecognized using trade date accounting.

The Group classifies financial assets as financial assets at fair value through profit or loss, held-to-maturity financial assets, available-for-sale financial assets, or loans and receivables. The Group classifies financial liabilities as financial liabilities at fair value through profit or loss, or other financial liabilities. The classification depends on the nature and holding purpose of the financial instrument at initial recognition in the consolidated financial statements.

At initial recognition, a financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value of a financial instrument on initial recognition is normally the transaction price (that is, the fair value of the consideration given or received) in an arm's length transaction.

3.3.2 Subsequent measurement

After initial recognition, financial instruments are measured at amortized cost or fair value based on classification at initial recognition.

Amortized cost

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition and adjusted to reflect principal repayments, cumulative amortization using the effective interest method and any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Fair value

Fair values, which the Group primarily uses for the measurement of financial instruments, are the published price quotations based on market prices or dealer price quotations of financial instruments traded in an active market where available. These are the best evidence of fair value. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity in the same industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the market for a financial instrument is not active, fair value is determined either by using a valuation technique or independent third-party valuation service. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, referencing to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

The Group uses valuation models that are commonly used by market participants and customized for the Group to determine fair values of common over-the-counter (OTC) derivatives such as options, interest rate swaps and currency swaps which are based on the inputs observable in markets. For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally recognized as standard within the industry, or a value measured by an independent external valuation institution as the fair values if all or some of the inputs to the valuation models are not market observable and therefore it is necessary to estimate fair value based on certain assumptions.

The Group's Fair Value Evaluation Committee, which consists of the risk management department, trading department and accounting department, reviews the appropriateness of internally developed valuation models, and approves the selection and changing of the external

valuation institution and other considerations related to fair value measurement. The review results on the fair valuation models are reported to the Market Risk Management subcommittee by the Fair Value Evaluation Committee on a regular basis.

If the valuation technique does not reflect all factors which market participants would consider in setting a price, the fair value is adjusted to reflect those factors. These factors include counterparty credit risk, bid-ask spread, liquidity risk and others.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the Group calibrates the valuation technique and tests it for validity using prices from observable current market transactions of the same instrument or based on other relevant observable market data.

3.3.3 Derecognition

Derecognition is the removal of a previously recognized financial asset or financial liability from the statement of financial position. The Group derecognizes a financial asset or a financial liability when, and only when:

Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or the financial assets have been transferred and substantially all the risks and rewards of ownership of the financial assets are also transferred, or all the risks and rewards of ownership of the financial assets are neither substantially transferred nor retained and the Group has not retained control. If the Group neither transfers nor disposes of substantially all the risks and rewards of ownership of the financial assets, the Group continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

If the Group transfers the contractual rights to receive the cash flows of the financial asset, but retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognize the transferred asset in its entirely and recognize a financial liability for the consideration received.

Derecognition of financial liabilities

Financial liabilities are derecognized from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

3.3.4 Offsetting

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.4 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, foreign currency, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.5 Non-derivative Financial Assets

3.5.1 Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Group as at fair value through profit or loss upon initial recognition.

A non-derivative financial asset is classified as held for trading if either:

- It is acquired for the purpose of selling in the near term, or
- It is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The Group may designate certain financial assets, other than held for trading, upon initial recognition as at fair value through profit or loss when one of the following conditions is met:

- It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.
- A group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel.
- A contract contains one or more embedded derivatives; the Group may designate the entire hybrid (combined) contract as a financial asset at fair value through profit or loss if allowed by K-IFRS 1039, *Financial Instruments: Recognition and measurement*.

After initial recognition, a financial asset at fair value through profit or loss is measured at fair value and gains or losses arising from a change in the fair value are recognized in profit or loss. Interest income, dividend income, and gains or losses from sale and repayment from financial assets at fair value through profit or loss are recognized in the statement of comprehensive income as net gains on financial instruments at fair value through profit or loss.

3.5.2 Financial Investments

Available-for-sale and held-to-maturity financial assets are presented as financial investments.

Available-for-sale financial assets

Profit or loss of financial assets classified as available for sale, except for impairment loss and foreign exchange gains and losses resulting from changes in amortized cost of debt securities, is recognized as other comprehensive income, and cumulative profit or loss is reclassified from equity to current profit or loss at the derecognition of the financial asset, and it is recognized as part of other operating profit or loss in the statement of comprehensive income.

However, interest revenue measured using the effective interest method is recognized in current profit or loss, and dividends of financial assets classified as available-for-sale are recognized when the right to receive payment is established.

Available-for-sale financial assets denominated in foreign currencies are translated at the closing rate. For available-for-sale debt securities denominated in foreign currency, exchange differences resulting from changes in amortized cost are recognized in profit or loss as part of other operating income and expenses. For available-for-sale equity securities denominated in foreign currency, the entire change in fair value including any exchange component is recognized in other comprehensive income.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method after initial recognition and interest income is recognized using the effective interest method.

3.5.3 Loans and receivables

Non-derivative financial assets which meet the following conditions are classified as loans and receivables:

- Those with fixed or determinable payments.
- Those that are not quoted in an active market.
- Those that the Group does not intend to sell immediately or in the near term.
- Those that the Group, upon initial recognition, does not designate as available-for-sale or as at fair value through profit or loss.

After initial recognition, these are subsequently measured at amortized cost using the effective interest method.

If the financial asset is purchased under an agreement to resale the asset at a fixed price or at a price that provides a lender's return on the purchase price, the consideration paid is recognized as loans and receivables.

3.6 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets except for financial assets at fair value through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. However, losses expected as a result of future events, no matter how likely, are not recognized.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about 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 becomes probable that the borrower will declare bankruptcy or undergo financial reorganization.
-The disappearance of an active market for that financial asset because of financial difficulties.
-Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio.

In addition to the types of events in the preceding paragraphs, objective evidence of impairment for an investment in an equity instrument classified as an available-for-sale financial asset includes a significant or prolonged decline in the fair value below its cost. The Group considers the decline in the fair value of over 30% against the original cost as a "significant decline". A decline is considered as prolonged if the period, in which the fair value of the financial asset has been below its original cost at initial recognition, is same as or more than six months.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured and recognized in profit or loss as either provisions for credit loss or other operating income and expenses.

3.6.1 Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant (individual assessment of impairment), and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (collective assessment of impairment).

Individual assessment of impairment

Individual assessment of impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. This process normally encompasses management's best estimate, such as operating cash flow of the borrower and net realizable value of any collateral held.

Collective assessment of impairment

A methodology based on historical loss experience is used to estimate inherent incurred loss on groups of assets for collective assessment of impairment. Such methodology incorporates factors such as type of collateral, product and borrowers, credit rating, loss emergence period, recovery period and applies probability of default on a group of assets and loss given default by type of recovery method. Also, consistent assumptions are applied to form a formula-based model in estimating inherent loss and to determine factors on the basis of historical loss experience and current condition. The methodology and assumptions used for collective assessment of impairment are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment loss on loans reduces the carrying amount of the asset through use of an allowance account, and when a loan becomes uncollectable, it is written off against the related allowance account. If, in a subsequent period, the amount of the impairment loss decreases and is objectively related to the subsequent event after recognition of impairment, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

3.6.2 Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss (the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) that had been recognized in other comprehensive income is reclassified from equity to profit or loss as part of other operating income and expenses.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, a portion of the impairment loss is reversed up to but not

exceeding the previously recorded impairment loss, with the amount of the reversal recognized in profit or loss as part of other operating income and expenses in the statement of comprehensive income. However, impairment losses recognized in profit or loss for an available-for-sale equity instrument classified as available for sale are not reversed through profit or loss.

3.6.3 Held-to-maturity financial assets

If there is objective evidence that an impairment loss on held-to-maturity financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognized in profit or loss as part of other operating income and expenses. The impairment loss on held-to-maturity financial assets is directly deducted from the carrying amount.

In the case of a financial asset classified as held to maturity, if, in a subsequent period, the amount of the impairment loss decreases and it is objectively related to an event occurring after the impairment is recognized, a portion of the previously recognized impairment loss is reversed up to but not exceeding the extent of amortized cost at the date of recovery. The amount of reversal is recognized in profit or loss as part of other operating income and expenses in the statement of comprehensive income.

3.7 Derivative Financial Instruments

The Group enters into numerous derivative financial instrument contracts such as currency forwards, interest rate swaps, currency swaps and others for trading purposes or to manage its exposures to fluctuations in interest rates and currency exchange, amongst others. These derivative financial instruments are presented as derivative financial instruments within the consolidated financial statements irrespective of transaction purpose and subsequent measurement requirement.

The Group designates certain derivatives as hedging instruments to hedge the risk of changes in fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge).

At the inception of the hedge, there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk.

3.7.1 Derivative financial instruments held for trading

All derivative financial instruments, except for derivatives that are designated and qualify for hedge accounting, are measured at fair value. Gains or losses arising from a change in fair value are recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss.

3.7.2 Fair value hedges

If derivatives qualify for a fair value hedge, the change in fair value of the hedging instrument and the change in fair value of the hedged item attributable to the hedged risk are recognized in profit or loss as part of other operating income and expenses. Fair value hedge accounting is discontinued prospectively if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Once fair value hedge accounting is discontinued, the adjustment to the carrying amount of a hedged item is fully amortized to profit or loss by the maturity of the financial instrument using the effective interest method.

3.7.3 Embedded derivatives

An embedded derivative is separated from the host contract and accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss. Gains or losses arising from a change in the fair value of an embedded derivative separated from the host contract are recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss.

3.7.4 Day one gain and loss

If the Group uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of the financial instrument, there may be a difference between the transaction price and the amount determined using that valuation technique. In these circumstances, the difference is deferred and not recognized in profit or loss, and is amortized by using the straight-line method over the life of the financial instrument. If the fair value of the financial instrument is subsequently determined using observable market inputs, the remaining deferred amount is recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss or other operating income and expenses.

3.8 Property and Equipment

3.8.1 Recognition and measurement

All property and equipment that qualify for recognition as an asset are measured at cost and subsequently carried at cost less any accumulated depreciation and any accumulated impairment losses.

The cost of property and equipment includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent expenditures are capitalized only when they prolong the useful life or enhance values of the assets but the costs of the day-to-day servicing of the assets such as repair and maintenance costs are recognized in profit or loss as incurred. When a part of an item of an asset has a different useful life from that of the entire asset, it is recognized as a separate asset.

3.8.2 Depreciation

Land is not depreciated whereas other property and equipment are depreciated using the method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group. The depreciable amount of an asset is determined after deducting its residual value. As for leased assets, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation methods and estimated useful lives of the assets are as follows:

Property and equipment	Depreciation method	Estimated useful lives
Buildings and structures	Straight-line	40 years
Leasehold improvements	Declining-balance	4 years
Equipment and vehicles	Declining-balance	4 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least at each financial year end and, if expectations differ from previous estimates or if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the changes are accounted for as a change in an accounting estimate.

3.9 Investment properties

3.9.1 Recognition and Measurement

Properties held to earn rentals or for capital appreciation or both are classified as investment properties. Investment properties are measured initially at their cost and subsequently the cost model is used.

3.9.2 Depreciation

Land is not depreciated, whereas other investment properties are depreciated using the method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group. The depreciable amount of an asset is determined after deducting its residual value.

The depreciation method and estimated useful lives of the assets are as follows:

Property and equipment	Depreciation method	Estimated useful lives
Buildings	Straight-line	40 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least at each financial year end and, if expectations differ from previous estimates or if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the changes are accounted for as a change in an accounting estimate.

3.10 Intangible assets

Intangible assets are measured initially at cost and subsequently carried at their cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets, except for goodwill and membership rights, are amortized using the straight-line method with no residual value over their estimated useful economic life since the asset is available for use.

Intangible assets	Amortization method	Estimated useful lives
Industrial property rights	Straight-line	5~10 years
Software	Straight-line	4 years
Others	Straight-line	4~30 years

The amortization year and the amortization method for intangible assets with a finite useful life are reviewed at least at each financial year end. Where an intangible asset is not being amortized because its useful life is considered to be indefinite, the Group carries out a review in each accounting period to confirm whether or not events and circumstances still support the assumption of an indefinite useful life. If they do not, the change from the indefinite to finite useful life is accounted for as a change in an accounting estimate.

3.10.1 Goodwill

Recognition and measurement

Goodwill acquired from business combinations before January 1, 2010 is stated at its carrying amount which was recognized under the Group's previous accounting policy, prior to the transition to K-IFRS.

Goodwill acquired from business combinations after January 1, 2010, is initially measured as the excess of the aggregate of the consideration transferred, fair value of non-controlling interest and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the business acquired, the difference is recognized in profit or loss.

For each business combination, the Group decides whether the non-controlling interest in the acquiree is initially measured at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets at the acquisition date.

Acquisition-related costs incurred to effect a business combination are charged to expenses in the periods in which the costs are incurred and the services are received, except for the costs to issue debt or equity securities.

Additional acquisitions of non-controlling interest

Additional acquisitions of non-controlling interests are accounted for as equity transactions. Therefore, no additional goodwill is recognized.

Subsequent measurement

Goodwill is not amortized and is stated at cost less accumulated impairment losses. However, goodwill that forms part of the carrying amount of an investment in associates is not separately recognized and an impairment loss recognized is not allocated to any asset, including goodwill, which forms part of the carrying amount of the investment in the associates.

3.10.2 Subsequent expenditure

Subsequent expenditure is capitalized only when it enhances values of the assets. Internally generated intangible assets, such as goodwill and trade name, are not recognized as assets but expensed as incurred.

3.11 Leases

3.11.1 Finance lease

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. At the commencement of the lease term, the Group recognizes finance leases as assets and liabilities in its statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs of the lessee are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Group adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the

asset; otherwise, the asset is fully depreciated over the shorter of the lease term and its useful life.

3.11.2 Operating lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Leases in the financial statements of lessees

Lease payments under an operating lease (net of any incentives received from the lessor) are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the asset's benefit.

Leases in the financial statements of lessors

Lease income from operating leases are recognized in income on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred by the lessors in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

3.12 Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that a non-financial asset, except for (i) deferred income tax assets, (ii) assets arising from employee benefits and (iii) non-current assets (or group of assets to be sold) classified as held for sale, may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. However, irrespective of whether there is any indication of impairment, the Group tests (i) goodwill acquired in a business combination, (ii) intangible assets with an indefinite useful life and (iii) intangible assets not yet available for use for impairment annually by comparing their carrying amount with their recoverable amount.

The recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit that are discounted by a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss and

recognized immediately in profit or loss. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

An impairment loss recognized for goodwill is not reversed in a subsequent period. The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset, other than goodwill, may no longer exist or may have decreased, and an impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

3.13 Non-current assets held for sale

A non-current asset or disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. A non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell which is measured in accordance with the applicable K-IFRS, immediately before the initial classification of the asset (or disposal group) as held for sale.

A non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale is not depreciated (or amortized).

Impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. Gains are recognized for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized.

3.14 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. After initial recognition, financial liabilities at fair value through profit or loss are measured at fair value and gains or losses arising from changes in the fair value, and gains or losses from sale and repayment of financial liabilities at fair value through profit or loss are recognized as net gains on financial instruments at fair value through profit or loss in the statement of comprehensive income.

3.15 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of provisions, and where the effect of the time value of money is material, the amount of provisions are the present value of the expenditures expected to be required to settle the obligation.

Provisions on confirmed and unconfirmed acceptances and guarantees, unfunded commitments of credit cards and unused credit lines of consumer and corporate loans are recognized using a valuation model that applies the credit conversion factor, probability of default, and loss given default.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provisions are reversed.

If the Group has a contract that is onerous, the present obligation under the contract is recognized and measured as provisions. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the minimum net cost to exit from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

3.16 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer (the Group) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognized at fair value. After initial recognition, financial guarantee contracts are measured at the higher of:

– The amount determined in accordance with K-IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets, and*
– The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with K-IFRS 1018, *Revenue.*

3.17 Equity instrument issued by the Group

An equity instrument is any contract or agreement that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted, net of tax, from the equity.

3.18 Revenue recognition

3.18.1 Interest income and expense

Interest income and expense are recognized 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 (or groups of financial assets or financial liabilities) 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 receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Group uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Interest on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.18.2 Fee and commission income

The Group recognizes financial service fees in accordance with the accounting standard of the financial instrument related to the fees earned.

Fees that are an integral part of the effective interest of a financial instrument

Such fees are generally treated as adjustments of effective interest. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction and origination fees received on issuing financial liabilities measured at amortized cost. However, fees relating to the creation or acquisition of a financial instrument at fair value through profit or loss are recognized as revenue immediately.

Fees earned as services are provided

Such fees are recognized as revenue as the services are provided. The fees include fees charged for servicing a financial instrument and charged for managing investments.

Fees that are earned on the execution of a significant act

Such fees are recognized as revenue when the significant act has been completed.

Commission on the allotment of shares to a client is recognized as revenue when the shares have been allotted and placement fees for arranging a loan between a borrower and an investor is recognized as revenue when the loan has been arranged.

A syndication fee received by the Group that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants) is compensation for the service of syndication. Such a fee is recognized as revenue when the syndication has been completed.

3.18.3 Dividend income

Dividend income is recognized in profit or loss when the right to receive payment is established. Dividend income from financial assets at fair value through profit or loss and financial investment is recognized in profit or loss as part of net gains on financial assets at fair value through profit or loss and other operating income and expenses, respectively.

3.19 Employee compensation and benefits

3.19.1 Post-employment benefits:

Defined benefit plans

All post-employment benefits, other than defined contribution plans, are classified as defined benefit plans. The amount recognized as a net defined benefit liability is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period.

The present value of the defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit method. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. Actuarial gains and losses including experience adjustments and the effects of changes in actuarial assumptions are recognized in other comprehensive income(loss).

When the total of the present value of the defined benefit obligation minus the fair value of plan assets results in an asset, it is recognized to the extent of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Past service cost is the change in the present value of the defined benefit obligation, which arises when the Group introduces a defined benefit plan or changes the benefits of an existing defined benefit plan. Such past service cost is immediately recognized as an expense for the year.

Defined contribution plans

The contributions are recognized as employee benefit expense when they are due.

3.19.2 Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service. The undiscounted amount of short-term employee benefits expected to be paid in exchange for that service is recognized as a liability (accrued expense), after deducting any amount already paid.

The expected cost of profit-sharing and bonus payments are recognized as liabilities when the Group has a present legal or constructive obligation to make such payments as a result of past events rendered by employees and a reliable estimate of the obligation can be made.

3.19.3 Share-based payment

The Group operates share-based payment arrangements granting awards to directors and employees of the Group. The Group has a choice of whether to settle the awards in cash or by issuing equity instruments of the parent company at the date of settlement.

For a share-based payment transaction in which the terms of the arrangement provide the Group with the choice of whether to settle in cash or by issuing equity instruments, the Group determines that it has a present obligation to settle in cash because the Group has a past practice and a stated policy of settling in cash. Therefore, the Group accounts for the transaction in accordance with the requirements of cash-settled share-based payment transactions.

The Group measures the services acquired and the liability incurred at fair value. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

3.19.4 Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. An entity shall recognize a liability and expense for termination benefits at the earlier of the following dates: when the entity can no longer withdraw the offer of those benefits and when the entity recognizes costs for a restructuring that is within the scope of K-IFRS 1037 and involves the payment of termination benefits. Termination benefits are measured by considering the number of employees expected to accept the offer in the case of a voluntary

early retirement. Termination benefits over 12 months after the reporting period are discounted to present value.

3.20 Income tax expenses

Income tax expense (tax income) comprises current tax expense (current tax income) and deferred income tax expense (deferred income tax income). Current and deferred income tax are recognized as income or expense and included in profit or loss for the year, except to the extent that the tax arises from (a) a transaction or an event which is recognized, in the same or a different period outside profit or loss, either in other comprehensive income or directly in equity and (b) a business combination.

3.20.1 Current income tax

Current income tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. A difference between the taxable profit and accounting profit may arise when income or expense is included in accounting profit in one period, but is included in taxable profit in a different period. Differences may also arise if there is revenue that is exempt from taxation, or expense that is not deductible in determining taxable profit (tax loss). Current income tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The Group offsets current income tax assets and current income tax liabilities if, and only if, the Group (a) has a legally enforceable right to set off the recognized amounts and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.20.2 Deferred income tax

Deferred income tax is recognized, using the asset-liability method, on temporary differences arising between the tax based amount of assets and liabilities and their carrying amount in the consolidated financial statements. Deferred income tax liabilities are recognized for all taxable temporary differences and deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, and associates, except for deferred income tax liabilities for which the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period. The Group reduces the carrying amount of a deferred income tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred income tax liabilities and deferred income tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Group offsets deferred income tax assets and deferred income tax liabilities when the Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity; or different taxable entities which intend either to settle current income tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered.

3.20.3 Uncertain tax positions

Uncertain tax positions arise from tax treatments applied by the Group which may be challenged by the tax authorities due to the complexity of the transaction or different interpretation of the tax laws, a claim for rectification brought by the Group, or an appeal for a refund claimed from the tax authorities related to additional assessments. The Group recognizes its uncertain tax positions in the consolidated financial statements based on the guidance in K-IFRS 1037. A liability related to an uncertain tax position is recognized as the best estimate of expenditure if the uncertain tax position is probable of resulting in additional payment to the tax authorities. Meanwhile, assets related to uncertain tax positions, caused by a claim for rectification or an appeal for refund claimed from the tax authorities related to additional assessments, are treated as contingent assets under K-IFRS 1037. Therefore, tax expenses are recognized in the financial statements when the uncertain tax position is probable of resulting in additional payment to the tax authorities while tax benefits are recognized only when the tax refund is virtually certain.

The Group classifies interest and penalties related to uncertain tax positions as a component of income tax expense.

3.21 Transactions with the trust accounts

Under the Financial Investment Services and Capital Markets Act, the Group recognizes trust accounts ("the trust accounts") as separate. The borrowings from trust accounts represent transfer of funds in trust accounts into banking accounts. Such borrowings from trust accounts are recorded as receivables from the banking accounts in the trust accounts and as borrowings from trust accounts in the banking accounts. The Group's banking accounts earn trust fees from the trust accounts for its management of trust assets and operations. The reserves for future profits and losses are set up in the trust accounts for profits and losses related to those trust funds with a guarantee of the principal or of the principal and a certain minimum rate of return in accordance with the relevant laws and regulations applicable to trust operations. The reserves are used to provide for the losses on such trust funds and, if the losses incurred are in excess of the reserves for future losses, the excess losses are compensation paid as a loss on trust management in other operating expenses and the trust accounts recognize the corresponding compensation as compensation from banking accounts.

3.22 Operating segments

Operating segments are components of the Group where separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Segment information includes items which are directly attributable and reasonably allocated to the segment.

4. Financial risk management

4.1 Summary

4.1.1 Overview of Financial Risk Management Policy

The financial risks that the Group is exposed to are credit risk, market risk, liquidity risk, operational risk and others.

The note regarding financial risk management provides information about the risks that the Group is exposed to, including the objectives, policies and processes for managing the risks, the methods used to measure the risks, and capital adequacy. Additional quantitative information is disclosed throughout the consolidated financial statements.

The Group's risk management system focuses on increasing transparency, developing the risk management environment, preventing transmission of risk to other related subsidiaries, and the preemptive response to risk due to rapid changes in the financial environment to support the Group's long-term strategy and business decisions efficiently. Credit risk, market risk, liquidity risk, and operational risk have been recognized as the Group's key risks. These risks are measured in Economic Capital or Value at Risk (VaR) and are managed using a statistical method.

4.1.2 Risk Management Organization

Risk Management Committee

The Risk Management Committee establishes risk management strategies in accordance with the directives of the Board of Directors and determines the Group's target risk appetite, approves significant risk matters and reviews the level of risks that the Group is exposed to and the appropriateness of the Group's risk management operations as an ultimate decision-making authority.

Risk Management Council

The Risk Management Council is a consultative group which reviews and makes decisions on matters delegated by the Risk Management Committee and discusses the detailed issues relating to the Group's risk management.

Risk Management Group

The Risk Management Group is responsible for monitoring and managing the Group's economic capital limit and managing specific policies, procedures and work processes relating to the Group's risk management.

4.2 Credit Risk

4.2.1 Overview of Credit Risk

Credit risk is the risk of possible losses in an asset portfolio in the event of a counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. For risk management reporting purposes, the individual borrower's default risk, country risk, specific risks and other credit risk exposure components are considered as a whole.

4.2.2 Credit Risk Management

The Group measures expected losses and economic capital on assets that are subject to credit risk management whether on- or off-balance items and uses expected losses and economic capital as a management indicator. The Group manages credit risk by allocating credit risk economic capital limits.

In addition, the Group controls the credit concentration risk exposure by applying and managing total exposure limits to prevent an excessive risk concentration to each industry and borrower.

The Group has organized a credit risk management team that focuses on credit risk management in accordance with the Group's credit risk management policy. The Group's loan analysis department which is independent from the sales department is responsible for loan policy, loan limit, loan review, credit evaluation, restructuring and subsequent events. Kookmin Bank's risk management group is also responsible for planning risk management policy, applying limits of credit lines, measuring the credit risk economic capital, adjusting credit limits, reviewing credit and verifying credit evaluation models.

4.2.3 Maximum exposure to credit risk

The Group's maximum exposures of financial instruments, excluding equity securities, to credit risk without consideration of collateral values as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Financial assets		
Due from financial institutions	₩ 11,032,528	₩ 7,179,428
Financial assets at fair value through profit or loss		
Financial assets held for trading[1]	6,912,897	6,212,813
Derivatives	1,718,882	1,996,241
Loans	203,123,755	199,414,818
Financial investments		
Available-for-sale financial assets	16,431,786	18,850,247
Held-to-maturity financial assets	11,011,518	10,952,294
Other financial assets	5,162,649	6,403,102
	₩ 255,394,015	₩ 251,008,943
Off- balance items		
Acceptances and guarantees contracts	₩ 9,804,675	₩ 9,418,264
Financial guarantee contracts	3,097,372	1,509,269
Commitments	59,359,752	58,195,304
	72,261,799	69,122,837
	₩ 327,655,814	₩ 320,131,780

[1]The amounts of ₩ 40,252 million and ₩ 39,839 million as of December 31, 2013 and 2012, respectively, related to financial instruments indexed to the price of gold are included.

4.2.4 Credit risk of loans

The Group maintains an allowance for loan losses associated with credit risk on loans to manage its credit risk.

The Group recognizes an impairment loss on loans carried at amortized cost when there is any objective indication of impairment. Under K-IFRS, an impairment loss is based on losses incurred at the end of the reporting year. Therefore, the Group does not recognize expected losses as a result of future events. The Group measures inherent incurred losses on loans and presents them in the consolidated financial statements through the use of an allowance account which is offset against the related loans.

Loans are categorized as follows:

(In millions of Korean won)

Loans	2013					
	Retail		Corporate		Total	
	Amount	%	Amount	%	Amount	%
Neither past due nor impaired	₩ 101,595,876	97.29	₩ 97,889,878	96.84	₩ 199,485,754	97.06
Past due but not impaired	1,890,536	1.81	529,237	0.52	2,419,773	1.18
Impaired	944,275	0.90	2,664,212	2.64	3,608,487	1.76
	104,430,687	100.00	101,083,327	100.00	205,514,014	100.00
Allowances[1]	(572,286)	0.55	(1,817,973)	1.80	(2,390,259)	1.16
Carrying amount	₩ 103,858,401		₩ 99,265,354		₩ 203,123,755	

(In millions of Korean won)

Loans	2012					
	Retail		Corporate		Total	
	Amount	%	Amount	%	Amount	%
Neither past due nor impaired	₩ 99,092,437	97.26	₩ 97,809,766	97.42	₩ 196,902,203	97.34
Past due but not impaired	1,617,335	1.59	466,852	0.46	2,084,187	1.03
Impaired	1,170,352	1.15	2,127,768	2.12	3,298,120	1.63
	101,880,124	100.00	100,404,386	100.00	202,284,510	100.00
Allowances[1]	(680,535)	0.67	(2,189,157)	2.18	(2,869,692)	1.42
Carrying amount	₩ 101,199,589		₩ 98,215,229		₩ 199,414,818	

[1] Collectively assessed allowances for loans are included as they are not impaired individually.

Credit quality of loans that are neither past due nor impaired are as follows:

(In millions of Korean won)

	2013		
	Retail	**Corporate**	**Total**
Grade 1	₩ 87,397,741	₩ 40,079,476	₩ 127,477,217
Grade 2	12,116,588	43,441,095	55,557,683
Grade 3	1,195,457	11,933,816	13,129,273
Grade 4	630,547	2,174,914	2,805,461
Grade 5	255,543	260,577	516,120
	₩ 101,595,876	₩ 97,889,878	₩ 199,485,754

(In millions of Korean won)

	2012		
	Retail	**Corporate**	**Total**
Grade 1	₩ 82,471,898	₩ 38,026,576	₩ 120,498,474
Grade 2	13,792,220	40,796,564	54,588,784
Grade 3	1,669,202	15,324,968	16,994,170
Grade 4	761,801	3,398,883	4,160,684
Grade 5	397,316	262,775	660,091
	₩ 99,092,437	₩ 97,809,766	₩ 196,902,203

Credit quality of loans graded according to internal credit ratings are as follows:

	Retail	**Corporate**
Grade 1	1 to 5 grade	AAA to BBB+
Grade 2	6 to 8 grade	BBB to BB
Grade 3	9 to 10 grade	BB- to B
Grade 4	11 grade	B- to CCC
Grade 5	12 grade or under	CC or under

Loans that are past due but not impaired are as follows:

(In millions of Korean won)

	2013			
	1 ~ 29 days	**30 ~ 59 days**	**60 ~ 89 days**	**Total**
Retail	₩ 1,726,992	₩ 108,070	₩ 55,474	₩ 1,890,536
Corporate	427,767	53,796	47,674	529,237
	₩ 2,154,759	₩ 161,866	₩ 103,148	₩ 2,419,773

(In millions of Korean won)

	2012			
	1 ~ 29 days	**30 ~ 59 days**	**60 ~ 89 days**	**Total**
Retail	₩ 1,343,172	₩ 196,514	₩ 77,649	₩ 1,617,335
Corporate	316,714	122,350	27,788	466,852
	₩ 1,659,886	₩ 318,864	₩ 105,437	₩ 2,084,187

Impaired loans are as follows:

(In millions of Korean won)

	2013		
	Retail	**Corporate**	**Total**
Loans	₩ 944,275	₩ 2,664,212	₩ 3,608,487
Allowances	(377,158)	(1,306,282)	(1,683,440)
Individual	-	(1,087,101)	(1,087,101)
Collective	(377,158)	(219,181)	(596,339)
	₩ 567,117	₩ 1,357,930	₩ 1,925,047

(In millions of Korean won)

	2012		
	Retail	**Corporate**	**Total**
Loans	₩ 1,170,352	₩ 2,127,768	₩ 3,298,120
Allowances	(449,161)	(943,337)	(1,392,498)
Individual	-	(714,182)	(714,182)
Collective	(449,161)	(229,155)	(678,316)
	₩ 721,191	₩ 1,184,431	₩ 1,905,622

A quantification of the extent to which collateral and other credit enhancements mitigate credit risk as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013				
	Impaired Loans		**Non-impaired Loans**		
	Individual	**Collective**	**Past due**	**Not past due**	**Total**
Guarantee	₩ 29,929	₩ 172,122	₩ 307,587	₩ 29,459,512	₩ 29,969,150
Deposits and savings	317	17,787	55,902	1,850,313	1,924,319
Property and equipment	8,901	1,758	799	1,110,056	1,121,514
Real estate	331,462	503,322	1,492,675	114,531,350	116,858,809
	₩ 370,609	₩ 694,989	₩ 1,856,963	₩ 146,951,231	₩149,873,792

(In millions of Korean won)

	2012				
	Impaired Loans		**Non-impaired Loans**		
	Individual	**Collective**	**Past due**	**Not past due**	**Total**
Guarantee	₩ 18,512	₩ 172,687	₩ 291,637	₩ 24,084,789	₩ 24,567,625
Deposits and savings	200	19,867	62,244	2,315,195	2,397,506
Property and equipment	1,776	4,309	655	1,036,838	1,043,578
Real estate	251,713	459,285	1,187,648	108,782,673	110,681,319
	₩ 272,201	₩ 656,148	₩ 1,542,184	₩ 136,219,495	₩138,690,028

4.2.5 Credit quality of securities

The financial assets at fair value through profit or loss and financial investments (debt securities) excluding equity securities, that are exposed to credit risk are as follows:

(In millions of Korean won)	**2013**	**2012**
Securities that are neither past due nor impaired	₩ 34,315,191	₩ 35,974,678
Impaired securities	758	838
	₩ 34,315,949	₩ 35,975,516

The credit quality of securities (debt securities) that are neither past due nor impaired as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013					
	Grade 1	**Grade 2**	**Grade 3**	**Grade 4**	**Grade 5**	**Total**
Financial assets held for trading	₩ 5,759,568	₩ 1,113,077	-	₩ -	₩ -	₩ 6,872,645
Available-for-sale financial assets	16,134,333	236,359	₩ 60,336	-	-	16,431,028
Held-to-maturity financial assets	11,011,518	-	-	-	-	11,011,518
	₩ 32,905,419	₩ 1,349,436	₩ 60,336	₩ -	₩ -	₩ 34,315,191

(In millions of Korean won)

	2012					
	Grade 1	**Grade 2**	**Grade 3**	**Grade 4**	**Grade 5**	**Total**
Financial assets held for trading	₩ 5,693,619	₩ 479,356	₩ -	₩ -	₩ -	₩ 6,172,975
Available-for-sale financial assets	18,329,072	446,680	73,657	-	-	18,849,409
Held-to-maturity financial assets	10,952,294	-	-	-	-	10,952,294
	₩ 34,974,985	₩ 926,036	₩ 73,657	₩ -	₩ -	₩ 35,974,678

The credit qualities of securities (debt securities) according to the credit ratings by external rating agencies are as follows:

Credit quality	Domestic			Foreign		
	KIS	KAP	NICE	S&P	Fitch-IBCA	Moody's
Grade 1	AA0 to AAA	AA0 to AAA	AA0 to AAA	A- to AAA	A- to AAA	A3 to Aaa
Grade 2	A- to AA-	A- to AA-	A- to AA-	BBB- to BBB+	BBB- to BBB+	Baa3 to Baa1
Grade 3	BBB0 to BBB+	BBB0 to BBB+	BBB0 to BBB+	BB to BB+	BB to BB+	Ba2 to Ba1
Grade 4	BB0 to BBB-	BB0 to BBB-	BB0 to BBB-	B+ to BB-	B+ to BB-	B1 to Ba3
Grade 5	BB- or under -	BB- or under	BB- or under	B or under	B or under	B2 or under

Debt securities' credit qualities denominated in Korean won are based on the lowest credit rating by the three domestic credit rating agencies above, and those denominated in foreign currencies are based on the lowest credit ratings by the three foreign credit rating agencies above.

4.2.6 Credit risk mitigation of derivative financial instruments

A quantification of the extent to which collateral mitigates credit risk of derivative financial instruments as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Deposits and savings, securities and others	₩ 271,380	₩ 216,906
	₩ 271,380	₩ 216,906

4.2.7 Credit risk concentration analysis

The details of the Group's loans by country as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013					
	Retail	**Corporate**	**Total**	**%**	**Allowances**	**Carrying amount**
Korea	₩ 104,332,072	₩ 99,282,038	₩ 203,614,110	99.08	₩(2,326,731)	₩ 201,287,379
China	227	583,176	583,403	0.28	(16,075)	567,328
Japan	5,708	475,242	480,950	0.23	(44,248)	436,702
U.S.	-	448,868	448,868	0.22	(653)	448,215
Europe	9	98,752	98,761	0.05	(287)	98,474
Others	92,671	195,251	287,922	0.14	(2,265)	285,657
Total	₩ 104,430,687	₩ 101,083,327	₩ 205,514,014	100.00	₩(2,390,259)	₩ 203,123,755

(In millions of Korean won)

	2012					
	Retail	**Corporate**	**Total**	**%**	**Allowances**	**Carrying amount**
Korea	₩ 101,808,151	₩ 98,551,863	₩ 200,360,014	99.05	₩(2,850,889)	₩ 197,509,125
China	319	429,781	430,100	0.21	(2,371)	427,729
Japan	7,944	885,606	893,550	0.44	(14,272)	879,278
U.S.	-	308,846	308,846	0.15	(477)	308,369
Europe	3	80,454	80,457	0.04	(287)	80,170
Others	63,707	147,836	211,543	0.11	(1,396)	210,147
Total	₩ 101,880,124	₩ 100,404,386	₩ 202,284,510	100.00	₩(2,869,692)	₩ 199,414,818

The details of the Group's corporate loans by industry as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013			
	Loans	%	Allowances	Carrying amount
Financial institutions	₩ 10,436,196	10.32	₩ (84,912)	₩ 10,351,284
Manufacturing	31,112,982	30.78	(605,527)	30,507,455
Service	38,213,720	37.80	(434,041)	37,779,679
Wholesale and retail	13,855,900	13.71	(192,569)	13,663,331
Construction	4,283,211	4.24	(474,580)	3,808,631
Public sector	654,998	0.65	(8,469)	646,529
Others	2,526,320	2.50	(17,875)	2,508,445
	₩ 101,083,327	100.00	₩ (1,817,973)	₩ 99,265,354

(In millions of Korean won)

	2012			
	Loans	%	Allowances	Carrying amount
Financial institutions	₩ 7,263,776	7.23	₩ (6,726)	₩ 7,257,050
Manufacturing	31,263,164	31.14	(917,568)	30,345,596
Service	38,606,446	38.46	(475,313)	38,131,133
Wholesale and retail	15,105,367	15.04	(228,687)	14,876,680
Construction	4,579,146	4.56	(501,210)	4,077,936
Public sector	520,422	0.52	(7,076)	513,346
Others	3,066,065	3.05	(52,577)	3,013,488
	₩ 100,404,386	100.00	₩ (2,189,157)	₩ 98,215,229

The details of the Group's retail loans by type as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013			
	Loans	%	Allowances	Carrying amount
Housing purpose	₩ 46,422,195	44.45	₩ (77,222)	₩ 46,344,973
General purpose	58,008,492	55.55	(495,064)	57,513,428
	₩ 104,430,687	100.00	₩ (572,286)	₩ 103,858,401

(in millions of Korean won)

	2012			
	Loans	%	Allowances	Carrying amount
Housing purpose	₩ 44,825,736	44.00	₩ (108,491)	₩ 44,717,245
General purpose	57,054,388	56.00	(572,044)	56,482,344
	₩ 101,880,124	100.00	₩ (680,535)	₩ 101,199,589

The details of the Group's securities (debt securities) and derivative financial instruments by industry as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	
	Amount	**%**
Financial assets held for trading		
Government and government funded institutions	₩ 2,649,342	38.55
Banking and Insurance	3,438,297	50.03
Others	785,006	11.42
	6,872,645	100.00
Derivative financial assets		
Government and government funded institutions	18,248	1.06
Banking and Insurance	1,589,627	92.48
Others	111,007	6.46
	1,718,882	100.00
Available-for-sale financial assets		
Government and government funded institutions	8,980,993	54.65
Banking and Insurance	6,394,560	38.92
Others	1,056,233	6.43
	16,431,786	100.00
Held-to-maturity financial assets		
Government and government funded institutions	9,146,802	83.06
Banking and Insurance	1,137,057	10.33
Others	727,659	6.61
	11,011,518	100.00
	₩ 36,034,831	

(In millions of Korean won)	2012	
	Amount	**%**
Financial assets held for trading		
Government and government funded institutions	₩ 1,891,918	30.65
Banking and Insurance	3,590,616	58.17
Others	690,441	11.18
	6,172,975	100.00
Derivative financial assets		
Government and government funded institutions	29,236	1.46
Banking and Insurance	1,839,494	92.15
Others	127,511	6.39
	1,996,241	100.00
Available-for-sale financial assets		
Government and government funded institutions	8,986,569	47.67
Banking and Insurance	8,258,173	43.81
Others	1,605,505	8.52
	18,850,247	100.00
Held-to-maturity financial assets		
Government and government funded institutions	8,696,173	79.40
Banking and Insurance	1,563,979	14.28
Others	692,142	6.32
	10,952,294	100.00
	₩ 37,971,757	

The details of the Group's securities (debt securities) and derivative financial instruments by country, as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	
	Amount	**%**
Financial assets held for trading		
Korea	₩ 6,856,355	99.76
India	3,194	0.05
Others	13,096	0.19
	6,872,645	100.00
Derivative financial assets		
Korea	526,203	30.61
United States	283,827	16.52
Others	908,852	52.87
	1,718,882	100.00
Available-for-sale financial assets		
Korea	16,407,240	99.85
Others	24,546	0.15
	16,431,786	100.00
Held-to-maturity financial assets		
Korea	11,011,518	100.00
	11,011,518	100.00
	₩ 36,034,831	

(In millions of Korean won)	2012	
	Amount	**%**
Financial assets held for trading		
Korea	₩ 6,172,975	100.00
	6,172,975	100.00
Derivative financial assets		
Korea	620,462	31.08
United States	364,486	18.26
Others	1,011,293	50.66
	1,996,241	100.00
Available-for-sale financial assets		
Korea	18,849,409	99.99
Others	838	0.01
	18,850,247	100.00
Held-to-maturity financial assets		
Korea	10,952,293	99.99
United States	1	0.01
	10,952,294	100.00
	₩ 37,971,757	

The counterparties to the financial assets under due from financial institutions and financial instruments indexed to the price of gold within financial assets held for trading and derivatives are in the banking and insurance industries and have high credit ratings.

4.3 Liquidity risk

4.3.1 Overview of liquidity risk

Liquidity risk is the risk of insolvency or loss due to a disparity between the inflow and outflow of funds, unexpected outflow of funds, and obtaining funds at a high price or disposing of securities at an unfavorable price due to lack of available funds. The Group manages its liquidity risk through analysis of the contractual maturity of all financial assets, liabilities and off-balance items such as commitments and financial guarantee contracts. The Group discloses them by maturity groups: On demand, up to one month, between over one month and three months, between over three months and 12 months, between over one year and five years, and over five years.

Cash flows disclosed for the maturity analysis are undiscounted contractual principal and interest to be received (paid) and, thus, differ from the amount in the consolidated financial statements which are based on the present value of expected cash flows in some cases. The amount of interest to be received or paid on floating rate assets and liabilities is measured on the assumption that the current interest rate would be the same through maturity.

4.3.2. Liquidity risk management and indicator

The liquidity risk is managed by ALM (‘Asset Liability Management’) and related guidelines which are applied to the risk management policies and procedures that addresses all the possible risks that arise from the overall business of the Group.

For the purpose of liquidity management, the liquidity ratio and accumulated liquidity gap ratio on all transactions affecting the in and outflows of funds and transactions of off balance items are measured, managed and reported to the Risk Management Council and Risk Management Committee on a regular basis.

The Group regularly reports the liquidity gap ratio, liquidity ratio, maturity gap ratio and the results of the stress testing related to liquidity risk to the Asset-Liability Management Committee (‘ALCO’) which establishes and monitors the liquidity risk management strategy.

4.3.3. Analysis of remaining contractual maturity of financial assets and liabilities

The remaining contractual maturity of financial assets and liabilities as of December 31, 2013 and 2012, is as follows:

(In millions of Korean won)

	2013						
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets							
Cash and due from financial institutions[1]	₩ 5,726,599	₩ 71,127	₩ 114,727	₩ 357,637	₩ -	₩ -	₩ 6,270,090
Financial assets held for trading[2]	7,069,875	-	-	-	-	-	7,069,875
Derivatives held for trading[2]	1,581,436	-	-	-	-	-	1,581,436
Derivatives held for hedging[3]	-	10,944	1,617	15,533	124,794	123,782	276,670
Loans	-	15,809,702	20,506,220	72,953,127	54,324,507	80,955,869	244,549,425
Available-for-sale financial assets[4]	2,341,974	522,162	1,470,780	4,475,576	10,305,903	1,341,860	20,458,255
Held-to-maturity financial assets	-	252,760	497,434	3,189,761	7,747,310	522,007	12,209,272
Other financial assets	-	3,572,795	2,798	1,334,108	-	-	4,909,701
	₩ 16,719,884	₩ 20,239,490	₩ 22,593,576	₩ 82,325,742	₩ 72,502,514	₩ 82,943,518	₩ 297,324,724
Financial liabilities							
Financial liabilities held for trading	₩ 40,067	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 40,067
Derivatives held for trading[2]	1,561,392	-	-	-	-	-	1,561,392
Derivatives held for hedging[3]	-	-	25,411	179,000	8,959	-	213,370
Deposits [5]	74,289,043	14,249,778	28,682,303	76,910,326	8,677,170	2,676,923	205,485,543
Debts	2,615	3,221,888	1,711,330	4,522,295	4,043,146	355,736	13,857,010
Debentures	17,917	605,205	1,594,452	6,652,434	5,987,039	4,596,871	19,453,918
Other financial liabilities	-	6,848,581	837	63,086	3,380	31,619	6,947,503
	₩ 75,911,034	₩ 24,925,452	₩ 32,014,333	₩ 88,327,141	₩ 18,719,694	₩ 7,661,149	₩ 247,558,803
Off- balance items							
Commitments[6]	₩ 59,359,752	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 59,359,752
Financial guarantee contracts[7]	3,097,372	-	-	-	-	-	3,097,372
	₩ 62,457,124	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 62,457,124

(In millions of Korean won)

	2012						
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets							
Cash and due from financial institutions[1]	₩ 6,028,728	₩ 383,115	₩ 57,953	₩ 120,605	₩ -	₩ -	₩ 6,590,401
Financial assets held for trading[2]	6,497,757	-	-	-	-	-	6,497,757
Derivatives held for trading[2]	1,813,174	-	-	-	-	-	1,813,174
Derivatives held for hedging[3]	-	6,645	929	18,600	125,511	163,808	315,493
Loans	-	15,742,834	22,141,373	73,099,157	55,975,345	77,536,683	244,495,392
Available-for-sale financial assets[4]	2,183,946	1,123,713	1,574,064	4,458,118	11,436,436	2,373,972	23,150,249
Held-to-maturity financial assets	-	141,664	352,449	2,318,566	7,768,812	1,766,746	12,348,237
Other financial assets	-	4,738,716	-	1,323,197	-	-	6,061,913
	₩ 16,523,605	₩ 22,136,687	₩ 24,126,768	₩ 81,338,243	₩ 75,306,104	₩ 81,841,209	₩ 301,272,616
Financial liabilities							
Financial liabilities held for trading	₩ 41,979	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 41,979
Derivatives held for trading[2]	1,847,483	-	-	-	-	-	1,847,483
Derivatives held for hedging[3]	-	26,041	3	(1,456)	189,613	2,396	216,597
Deposits [5]	67,410,935	16,500,523	29,476,299	79,193,784	8,485,825	1,876,078	202,943,444
Debts	5,978	3,649,073	2,353,462	5,390,307	2,879,125	661,869	14,939,814
Debentures	24,659	833,447	768,370	1,945,964	11,630,132	4,020,185	19,222,757
Other financial liabilities	-	5,467,637	876	65,314	1,427	-	5,535,254
	₩ 69,331,034	₩ 26,476,721	₩ 32,599,010	₩ 86,593,913	₩ 23,186,122	₩ 6,560,528	₩ 244,747,328
Off- balance items							
Commitments[6]	₩ 58,195,304	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 58,195,304
Financial guarantee contracts[7]	1,509,269	-	-	-	-	-	1,509,269
	₩ 59,704,573	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 59,704,573

[1] The amounts of ₩ 7,471,062 million and ₩ 3,442,507 million, which are restricted amount due from the financial institutions as of December 31, 2013 and 2012, respectively, are excluded.

[2] Financial instruments held for trading, and derivatives held for trading are not managed by contractual maturity because they are held for trading or redemption before maturity. Therefore, the carrying amounts are classified as the 'On demand' category.

[3] Cash flows of derivative instruments held for fair value hedging are shown at net amounts of cash inflows and outflows by remaining contractual maturity.

[4] Equity investments in financial assets classified as available-for-sale are generally included in the 'On demand' category as most are available for sale at anytime. However, in the case of equity investments which are restricted for sale, these are classified in the maturity section to which the end of the restriction period applies.

[5] Deposits that are contractually repayable on demand or on short notice are classified under the 'On demand' category.

[6] Unused lines of credit within commitments are included under the 'On demand' category as

payments can be required upon request.
[7] Financial guarantee contracts are included under the 'On demand' category as payments can be required upon request.

4.4 Market risk

4.4.1 Overview of market risk

Definition of market risk

Market risk is the risk of possible losses which arise from changes in market factors, such as interest rate, stock price, foreign exchange rate and other market factors that affect the fair value or future cash flows of financial instruments, such as securities and derivatives amongst others. The most significant risks associated with trading positions are interest rate risks, and other risks include stock price risks and currency risks. In addition, the Group is exposed to interest rate risks associated with non-trading positions. The Group classifies exposures to market risk into either trading or non-trading positions.

Market risk management group

The Group sets economic capital limits for market risk and interest rate risk and monitors the risks to manage the risk of trading and non-trading positions. The Group maintains risk management systems and procedures, such as trading policies and procedures, market risk management guidelines for trading positions and ALM risk management guidelines for non-trading positions in order to manage market risk efficiently. The procedures mentioned are implemented with approval from the Risk Management Committee and Risk Management Council.

The Group establishes market risk management policy, sets position limits, loss limits and VaR limits of each business group and approves newly developed derivative instruments through its Risk Management Council. The Risk Management Council has delegated the responsibility for market risk management of individual business departments to the Market Risk Management Committee which is chaired by the Chief Risk Officer (CRO). The Market Risk Management Committee sets position limits, loss limits, VaR limits, sensitivity limits and scenario loss limits for each division, at the level of each individual business department.

The ALCO determines operational standards of interest and commission, revises the Asset Liability Management (ALM) risk management guidelines, interest rate and commission guidelines and monitors the establishment and enforcement of ALM risk management policies. The interest rate risk limit is set based on future assets/liabilities position and interest rate volatility estimation reflects the annual work plan. The Financial Planning Department and Risk Management Department measures and monitors the interest risk status and limits on a regular basis. The status and limits of interest rate risks, such as interest rate gap, duration gap and sensitivity, are reported to the ALCO on a monthly basis and to the Risk Management Council on a quarterly basis. The responsibility for ALM control is delegated to the Risk Management Department to ensure adequacy of interest rate and liquidity risk management. The Risk Management Department monitors and reviews risk management procedures and tasks

conducted by the Financial Planning Department, and reports related information to management independently.

4.4.2 Trading Position

Definition of a trading position

Trading positions subject to market risk management are defined under the Trading Policy and Guideline, and the basic requirements are as follows:

- The trading position is not restricted for sale, is measured daily at fair value, and its significant inherent risks are able to be hedged in the market.
- The criteria for classification as a trading position are clearly defined in the Trading Policy and guideline, and separately managed by the trading department.
- The trading position is operated in accordance with the documented trading strategy and managed through position limits.
- The operating department or professional dealers have an authority to enforce a deal on the trading position within predetermined limits without pre-approval.
- The trading position is reported periodically to management for the purpose of the Group's risk management.

Observation method on market risk arising from trading positions

The Group calculates VaR to measure the market risk by using market risk management systems on the entire trading portfolio. Generally, the Group manages market risk on the trading portfolio. In addition, the Group controls and manages the risk of derivative trading based on the regulations and guidelines formulated by the Financial Supervisory Service.

Value at Risk (VaR)

i. Value at Risk (VaR)

The Group uses the value-at-risk methodology to measure the market risk of trading positions. There have been changes in market risk measurement techniques during the year ended December 31, 2012, and the detailed descriptions are below.

Previous method : The Group used a daily VaR, which is a statistically estimated maximum amount of loss that could occur in one day under normal distribution of financial variables. The Group calculated VaR using the equal-weighted average method based on historical changes in market rates, prices and volatilities over the previous 550 business days and measured VaR at a 99% single tail confidence level.

Current method : The Group now uses the 10-day VaR, which estimates the maximum amount of loss that could occur in ten days under an historical simulation model which is considered to be a full valuation method. The distributions of portfolio's value changes are estimated based on the data over the previous 250 business days, and ten-day VaR is calculated by subtracting net

present market value from the value measured at a 99% confident level of portfolio's value distribution results.

These changes in market risk measurement technique are intended to reflect the volatilities of the market more accurately. The current method immediately reflects the scenario of a day when the financial market shows dramatic moves, and the market risk of financial instruments with complex risk attributes can be measured more appropriately than under the previous methodology.

VaR is a commonly used market risk measurement technique. However, the method has some shortcomings. VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movements are, however, not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses may vary depending on the assumptions made at the time of the calculation. In addition, the time periods used for the model, generally one or ten days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate or overstate the potential loss.

The Group uses an internal model (VaR) to measure general risk, and a standard method to measure each individual risk. Also, general and individual risks in some positions included in the consolidated financial statements in adoption of K-IFRS, are measured using a standard method. Therefore, the market risk VaR may not reflect the market risk of each individual risk and some specific positions.

ii. Back Testing

Back testing is conducted on a daily basis to validate the adequacy of the market risk model. In back testing, the Group compares both the actual and hypothetical profit and loss with the VaR calculations.

iii. Stress Testing

Stress testing is carried out to analyze the impact of abnormal market situations on the trading and available-for-sale portfolio. It reflects changes in interest rates, stock prices, foreign exchange rates, implied volatilities of derivatives and other risk factors that have significant influence on the value of the portfolio. The Group mainly uses an historical scenario tool and also uses a hypothetical scenario tool for the analysis of abnormal market situations. Stress testing is performed at least once every quarter.

VaR at a 99% confidence level of interest rate, stock price and foreign exchange rate risk for trading positions with a ten-day holding period by a subsidiary as of December 31, 2013 and 2012, are as follows:

	2013			
(In millions of Korean won)	**Average**	**Minimum**	**Maximum**	**Ending**
Interest rate risk	₩ 16,270	₩ 7,428	₩ 24,979	₩ 16,967
Stock price risk	3,480	932	7,114	1,049
Foreign exchange rate risk	9,264	5,287	13,589	5,287
Deduction of diversification effect				(6,928)
Total VaR	₩ 17,316	₩ 10,868	₩ 22,249	₩ 16,375

	2012			
(In millions of Korean won)	**Average**[1]	**Minimum**[1]	**Maximum**[1]	**Ending**
Interest rate risk	₩ 20,173	₩ 8,379	₩ 29,329	₩ 8,379
Stock price risk	4,215	467	8,745	4,865
Foreign exchange rate risk	26,565	9,590	39,185	11,201
Deduction of diversification effect				(12,710)
Total VaR	₩ 20,685	₩ 10,637	₩ 28,717	₩ 11,735

[1] Measurement technique was changed during the year ended December 31, 2012, and the average, minimum and maximum amounts are based on the data from the beginning of May to the end of the year.

Meanwhile, the required equity capital using the standardized method related to the positions which are not measured by VaR as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	**2013**	**2012**
Interest rate risk	₩ 921	₩ 1,673
Stock price risk	2	4,567
Foreign exchange rate risk	9,214	9,081
	₩ 10,137	₩ 15,321

Details of risk factors

i. Interest rate risk

Trading position interest rate risk usually arises from debt securities denominated in Korean won. The Group's trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. The Group manages interest rate risk on trading positions using market value-based tools such as VaR and sensitivity analysis (Price Value of a Basis Point: PVBP).

ii. Stock price risk

Stock price risk only arises from trading securities denominated in Korean won as the Group does not have any trading exposure to shares denominated in foreign currencies. The trading securities portfolio in Korean won are composed of exchange-traded stocks and derivative instruments linked to stock with strict limits on diversification.

iii. Foreign exchange rate risk

Foreign exchange rate risk arises from holding assets and liabilities denominated in foreign currency. Net foreign currency exposure mostly occurs from the foreign assets and liabilities which are denominated in US dollars and Kazakhstan Tenge, and the remainder in Japanese Yen or Euro. The Group sets both loss limits and net foreign currency exposure limits and manages comprehensive net foreign exchange exposures which consider both trading and non-trading portfolios.

4.4.3 Non-trading position

Definition of non-trading position

The most critical market risk that arises in non-trading portfolios is interest rate risk. Interest rate risk occurs due to mismatches on maturities and interest rate change periods between interest sensitive assets and liabilities. The Group measures interest rate risk arising from assets and liabilities denominated in Korean won and foreign currencies including derivative financial instruments held for hedging. Most interest-bearing assets and interest-bearing liabilities are denominated in Korean won. Most foreign currency assets and liabilities are denominated in US Dollars and the remainder in Japanese Yen or Euro.

Observation method on market risk arising from non-trading position

The main objective of interest rate risk management is to generate stable net interest income and to protect asset values against interest rate fluctuations. The Group manages the risk through interest rate gap analysis on interest rate maturities between interest-bearing assets and interest-bearing liabilities and measuring interest rate VaR.

Disclosure of results from each observation method

i. Interest rate gap analysis

Interest rate gap analysis is based on the interest rates repricing dates for interest-bearing assets and interest-bearing liabilities. It measures expected changes in net interest income by calculating the difference in the amounts of interest-bearing assets and interest-bearing liabilities in each maturity bucket. The Group conducts interest gap analysis on assets denominated in Korean won and foreign currencies on a monthly basis. However, where there is no contractual maturity for a particular instrument, then a maturity date is set according to internal liquidity risk management guidelines, determined by ALM.

The results of the interest rate gap analysis as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013					
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
Interest-bearing assets in Korean won						
Loans	₩ 72,001,554	₩ 53,136,309	₩ 41,279,196	₩ 8,007,075	₩ 10,032,240	₩184,456,374
Securities	3,148,736	1,415,750	5,476,813	13,295,939	4,226,456	27,563,694
Others	8,785,149	37,387	76,853	305,322	38,543	9,243,254
	₩ 83,935,439	₩ 54,589,446	₩ 46,832,862	₩ 21,608,336	₩ 14,297,239	₩221,263,322
Interest-bearing liabilities in Korean won						
Deposits	₩ 78,495,667	₩ 35,611,776	₩ 49,147,277	₩ 18,658,789	₩ 14,277,083	₩196,190,592
Debts	4,660,240	-	-	-	30,000	4,690,240
Others	8,350,016	2,354,810	1,500,677	2,290,000	3,937,784	18,433,287
	₩ 91,505,923	₩ 37,966,586	₩ 50,647,954	₩ 20,948,789	₩ 18,244,867	₩219,314,119
Gap	₩ (7,570,484)	₩ 16,622,860	₩ (3,815,092)	₩ 659,547	₩ (3,947,628)	₩ 1,949,203
Accumulated gap	(7,570,484)	9,052,376	5,237,284	5,896,831	1,949,203	
Percentage (%)	(3.42)	4.09	2.37	2.67	0.88	
Interest-bearing assets in foreign currencies						
Loans	₩ 9,340,182	₩ 1,652,576	₩ 540,205	₩ 170,500	₩ 7,964	₩ 11,711,427
Securities	223,361	26,143	32,469	226,214	249,455	757,642
Others	549,362	210,005	34,825	-	-	794,192
	₩ 10,112,905	₩ 1,888,724	₩ 607,499	₩ 396,714	₩ 257,419	₩ 13,263,261
Interest-bearing liabilities in foreign currencies						
Deposits	₩ 2,403,901	₩ 1,519,366	₩ 786,493	₩ 128,579	₩ 45,210	₩ 4,883,549
Debts	4,285,418	850,920	613,773	24,707	79,147	5,853,965
Others	2,811,246	261,107	126,888	72,014	-	3,271,255
	₩ 9,500,565	₩ 2,631,393	₩ 1,527,154	₩ 225,300	₩ 124,357	₩ 14,008,769
Gap	₩ 612,340	₩ (742,669)	₩ (919,655)	₩ 171,414	₩ 133,062	₩ (745,508)
Accumulated gap	612,340	(130,329)	(1,049,984)	(878,570)	(745,508)	
Percentage (%)	4.62	(0.98)	(7.92)	(6.62)	(5.62)	

	2012					
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
Interest-bearing assets in Korean won						
Loans[1]	₩ 80,232,485	₩ 49,023,068	₩ 32,552,987	₩ 8,699,574	₩ 11,016,482	₩181,524,596
Securities	3,876,588	1,624,641	4,358,786	14,442,714	5,504,045	29,806,774
Others[1]	7,923,027	134,335	81,800	293,567	15,000	8,447,729
	₩ 92,032,100	₩ 50,782,044	₩ 36,993,573	₩ 23,435,855	₩ 16,535,527	₩219,779,099
Interest-bearing liabilities in Korean won						
Deposits	₩ 79,938,250	₩ 35,257,123	₩ 48,976,594	₩ 16,660,339	₩ 12,103,402	₩192,935,708
Debts	4,430,583	-	-	-	-	4,430,583
Others	8,006,574	103,593	710,348	5,524,398	3,857,784	18,202,697
	₩ 92,375,407	₩ 35,360,716	₩ 49,686,942	₩ 22,184,737	₩ 15,961,186	₩215,568,988
Gap	₩ (343,307)	₩ 15,421,328	₩(12,693,369)	₩ 1,251,118	₩ 574,341	₩ 4,210,111
Accumulated gap	(343,307)	15,078,021	2,384,652	3,635,770	4,210,111	
Percentage (%)	(0.16)	6.86	1.09	1.65	1.92	
Interest-bearing assets in foreign currencies						
Loans[2]	₩ 9,124,538	₩ 2,018,254	₩ 709,376	₩ 427,121	₩ 8,852	₩ 12,288,141
Securities	276,157	62,978	-	214,160	112,848	666,143
Others[2]	704,395	9,319	9,426	-	-	723,140
	₩ 10,105,090	₩ 2,090,551	₩ 718,802	₩ 641,281	₩ 121,700	₩ 13,677,424
Interest-bearing liabilities in foreign currencies						
Deposits	₩ 1,676,038	₩ 2,042,368	₩ 1,045,896	₩ 126,578	₩ -	₩ 4,890,880
Debts	4,794,840	1,228,792	588,842	47,806	117,821	6,778,101
Others	1,747,492	262,196	329,340	339,263	-	2,678,291
	₩ 8,218,370	₩ 3,533,356	₩ 1,964,078	₩ 513,647	₩ 117,821	₩ 14,347,272
Gap	₩ 1,886,720	₩ (1,442,805)	₩ (1,245,276)	₩ 127,634	₩ 3,879	₩ (669,848)
Accumulated gap	1,886,720	443,915	(801,361)	(673,727)	(669,848)	
Percentage (%)	13.79	3.25	(5.86)	(4.93)	(4.90)	

[1] Reclassified ₩ 63,771 million from "Other" to "Loans".

[2] Reclassified ₩ 6,095,814 million from "Other" to "Loans".

ii. Interest Rate VaR

Interest rate VaR is the maximum possible loss due to interest rate risk under a normal distribution at a 99.94% confidence level. The measurement results of risk as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	**2013**	**2012**
Interest Rate VaR	₩ 203,503	₩ 177,418

4.4.4 Financial assets and liabilities in foreign currencies

Financial assets and liabilities in foreign currencies as of December 31, 2013 and 2012, are as follows:

	2013						
(In millions of Korean won)	**USD**	**JPY**	**EUR**	**GBP**	**CNY**	**Others**	**Total**
Financial assets							
Cash and due from financial institutions	₩ 1,321,708	₩ 119,494	₩ 87,765	₩ 5,460	₩ 130,221	₩ 85,910	₩ 1,750,558
Financial assets held for trading	16,290	-	-	-	-	-	16,290
Derivatives held for trading	94,324	-	946	-	-	-	95,270
Derivatives held for hedging	16,094	-	-	-	-	-	16,094
Loans	10,061,930	1,235,187	381,414	51,677	456	190,828	11,921,492
Available-for-sale financial assets	773,501	10,052	-	-	-	1,504	785,057
Other financial assets	509,268	314,632	76,016	1,222	-	91,250	992,388
	₩12,793,115	₩1,679,365	₩ 546,141	₩ 58,359	₩ 130,677	₩ 369,492	₩ 15,577,149
Financial liabilities							
Derivatives held for trading	₩ 127,213	₩ -	₩ 1,333	₩ -	₩ -	₩ -	₩ 128,546
Deposits	3,914,992	511,583	150,714	15,789	10,905	279,566	4,883,549
Debts	5,830,466	574,307	318,748	4,382	100,464	174,898	7,003,265
Debentures	2,402,032	236,020	193,062	-	-	148,687	2,979,801
Other financial liabilities	1,474,842	59,820	150,815	51,568	913	42,242	1,780,200
	₩13,749,545	₩1,381,730	₩ 814,672	₩ 71,739	₩ 112,282	₩ 645,393	₩ 16,775,361
Off- balance sheet items	₩16,548,855	₩ 3,486	₩ 4,879	₩ 4,787	₩ 9,958	₩ 60,221	₩ 16,632,186

	2012						
(In millions of Korean won)	**USD**	**JPY**	**EUR**	**GBP**	**CNY**	**Others**	**Total**
Financial assets							
Cash and due from financial institutions	₩ 860,580	₩ 161,626	₩ 89,429	₩ 13,210	₩ 20,625	₩ 80,808	₩ 1,226,278
Derivatives held for trading	105,152	151	1,267	-	-	-	106,570
Derivatives held for hedging	21,794	-	-	-	-	-	21,794
Loans	9,185,177	2,185,242	528,812	139,134	883	169,483	12,208,731
Available-for-sale financial assets	628,668	21,313	17,315	-	-	1,504	668,800
Held-to-maturity financial assets	1	-	-	-	-	-	1
Other financial assets	524,816	51,020	100,883	1,388	-	109,451	787,558
	₩11,326,188	₩ 2,419,352	₩ 737,706	₩ 153,732	₩ 21,508	₩ 361,246	₩ 15,019,732
Financial liabilities							
Derivatives held for trading	₩ 180,315	₩ 177	₩ 1,753	₩ -	₩ -	₩ -	₩ 182,245
Deposits	3,763,207	610,226	210,838	16,912	2,793	288,219	4,892,195
Debts	5,033,696	1,765,338	513,294	32,745	48	189,897	7,535,018
Debentures	1,686,995	550,037	249,668	-	-	355,382	2,842,082
Other financial liabilities	1,187,733	59,927	26,234	109,670	39	30,135	1,413,738
	₩11,851,946	₩ 2,985,705	₩ 1,001,787	₩ 159,327	₩ 2,880	₩ 863,633	₩ 16,865,278
Off- balance items	₩15,778,684	₩ 4,537	₩ 5,566	₩ 4,760	₩ -	₩ 7,980	₩ 15,801,527

4.5 Operational Risk

4.5.1 Concept

The Group defines operational risk broadly to include all financial and non-financial risks that may arise from operating activities and could cause a negative effect on capital.

4.5.2 Risk management

The purpose of operational risk management is not only to comply with supervisory and regulatory requirements but also to promote a risk management culture, strengthen internal controls, innovate processes and provide timely feedback to management and employees. In addition, the Group established Business Continuity Plans (BCP) to ensure critical business functions can be maintained, or restored, in the event of material disruptions arising from internal or external events. It has constructed replacement facilities as well as has carried out exercise drills for head office and IT departments to test its BCPs.

4.6 Capital Adequacy

The Group complies with the capital adequacy standard established by the Financial Services Commission. The capital adequacy standard is based on Basel III published by Basel Committee on Banking Supervision in Bank of International Settlements in June 2011, and was implemented in Korea in December 2013. The Group is required to maintain a minimum Common Equity Tier 1 ratio of at least 3.5%, a minimum Tier 1 ratio of 4.5% and a minimum Total Regulatory Capital of 8.0% in December 2013.

The Group's equity capital is classified into three categories in accordance with Detailed Supervisory Regulations on Banking Business:

- Common Equity Tier 1 Capital: Common equity Tier 1 Capital represents the issued capital that takes the first and proportionately greatest share of any losses and represents the most subordinated claim in liquidation of the Group, and not repaid outside of liquidation. It includes common shares issued, capital surplus, retained earnings, non-controlling interests of consolidated subsidiaries, accumulated other comprehensive income, other capital surplus and others.

- Additional Tier 1 Capital: Additional Tier 1 Capital includes (i) perpetual instruments issued by the Group that meet the criteria for inclusion in Additional Tier 1 capital, and (ii) stock surplus resulting from the issue of instruments included in Additional Tier 1 capital and others.

- Tier 2 Capital: Tier 2 Capital represents the capital that takes the proportionate share of losses in the liquidation of the Group. Tier 2 Capital includes a fund raised by issuing subordinated debentures maturing in not less than 5 years that meet the criteria for inclusion in Tier 2 capital, and the allowance for loan losses which are accumulated for assets classified as normal or precautionary as a result of classification of asset soundness in accordance with Detailed Supervisory Regulations on Banking Business and others.

Risk-weighted asset means the assets weighted according to the inherent risks in the total assets and the possible losses resulting from the errors of internal process and external events which the Group should cover. The Group calculates risk-weighted asset by each risk (credit risk, market risk, and operational risk) based on Detailed Supervisory Regulations on Banking Business and uses it for its captial ratio calculation.

In addition to the capital ratio, the Group assesses its adequacy of capital by using the internal assessment and management policy of the capital adequacy. The assessment of the capital adequacy is conducted by comparing available capital (actual amount of available capital) and economic capital (amount of capital enough to cover all significant risks under target credit rate set by the Group). The Group monitors the soundness of finance and provides risk adjusted basis for performance review using the assessment of the capital adequacy. The economic capital is calculated by adding the stress testing results and other required items to the total economic capitals which are calculated for each risk.

The Risk Management Council of the Group determines the Group's risk appetite and allocates economic capital by risk type and business group. Each business group efficiently operates its capital within range of granted economic capital. The Risk Management Department of the Group monitors a management of the limit on economic capital and reports the results to management and the Risk Management Council. The Group maintains the adequacy of capital through proactive review and approval of the Risk Management Committee when the economic capital is expected to exceed the limits due to new business or business expansion. The Group and its subsidiaries complied with external capital adequacy requirements as of December 31, 2013 and 2012.

The details of the Group's capital adequacy calculation in line with Basel Ⅲ requirements as of December 31, 2013, is as follows:

(In millions of Korean won)		**2013**
Equity capital	₩	22,624,072
Tier I Capital		18,501,833
Common Equity Tier 1 Capital		18,501,833
Additional Tier 1 Capital		-
Tier II Capital		4,122,239
Risk-weighted assets:		146,742,788
Credit risk[1]		131,830,537
Market risk[2]		4,011,905
Operational risk[3]		10,900,346
Equity Capital (%):		15.42
Tier I Capital (%)		12.61
Common Equity Tier 1 Capital (%)		12.61

The details of the Bank's capital adequacy calculation in line with Basel II requirements as of December 31, 2012, is as follows:

(In millions of Korean won)		**2012**
Equity Capital:	₩	21,391,388
Tier I Capital		16,140,538
Tier II Capital		5,250,850
Risk-weighted assets:		148,544,243
Credit risk[1]		134,083,736
Market risk[2]		4,693,652
Operational risk[3]		9,766,855
Equity Capital (%):		14.40
Tier I Capital (%)		10.87
Tier II Capital (%)		3.53

[1] Credit risk-weighted assets are measured using the Internal Rating-Based Approach and Standardized Approach.
[2] Market risk-weighted assets are measured using the Internal Model-Based Approach and Standardized Approach.
[3] Operational risk-weighted assets are measured using the Advanced Measurement Approach.

5. Segment Information

5.1 Overall Segment Information and Business Segments

The Group is organized into Corporate Banking, Retail Banking and Other Activities. These business divisions are based on the nature of the products and services provided, the type or class of customer, and the Group's management organization.

- Corporate banking : The activities within this segment include providing credit, deposit products and other related financial services to large, small-and medium-sized enterprises and SOHOs.
- Retail banking : The activities within this segment include providing credit, deposit products and other related financial services to individuals and households.
- Other activities : The activities within this segment include trading activities in securities and derivatives, funding and other supporting activities.

Financial information by business segment for the year ended December 31, 2013, is as follows:

(millions of Korean won)	2013				
	Corporate Banking	Retail Banking	Others	Intra-group Adjustment	Total
Operating revenues from external customers	₩ 1,690,127	₩ 2,453,683	₩ 1,756,289	₩ -	₩ 5,900,099
Segment operating revenues(expenses)	46,588	(91,800)	85,759	(40,547)	-
	1,736,715	2,361,883	1,842,048	(40,547)	5,900,099
Net interest income	2,550,728	2,012,661	505,926	90,925	5,160,240
Interest income	4,390,623	4,785,526	1,428,056	(8,825)	10,595,380
Interest expense	(1,839,895)	(2,772,865)	(922,130)	99,750	(5,435,140)
Net fee and commission income	240,698	612,165	268,051	(16,170)	1,104,744
Fee and commission income	282,403	674,250	344,540	(19,543)	1,281,650
Fee and commission expense	(41,705)	(62,085)	(76,489)	3,373	(176,906)
Net gains(losses) on financial assets/ liabilities at fair value through profit or loss	184	(1,804)	691,698	423	690,501
Net other operating income(expenses)	(1,054,895)	(261,139)	376,373	(115,725)	(1,055,386)
General and administrative expenses	(821,503)	(1,739,768)	(835,545)	28	(3,396,788)
Operating profit before provision for credit losses	915,212	622,115	1,006,503	(40,519)	2,503,311
Provision(reversal) for credit losses	(706,464)	(358,150)	(4,241)	3,666	(1,065,189)
Operating profit	208,748	263,965	1,002,262	(36,853)	1,438,122
Share of profit of associates	-	-	(202,880)	-	(202,880)
Net other non-operating income(expense)	1,662	-	(8,978)	(16,315)	(23,631)
Segment profit before income tax expense	210,410	263,965	790,404	(53,168)	1,211,611
Income tax expenses	(53,195)	(86,283)	(268,391)	15,977	(391,892)
Profit for the period	157,215	177,682	522,013	(37,191)	819,719
Profit attributable to Shareholders of the parent entity	157,215	177,682	522,013	(37,275)	819,635
Profit attributable to Non-controlling interests	-	-	-	84	84
Total assets[1]	92,498,513	103,202,391	75,413,072	(5,855,034)	265,258,942
Total liabilities[1]	81,008,201	122,206,712	44,680,475	(3,253,760)	244,641,628

[1] Amount before intra-group transaction adjustment.

Financial information by business segment for the year ended December 31, 2012, is as follows:

(millions of Korean won)	2012				
	Corporate Banking	Retail Banking	Others	Intra-group Adjustment	Total[1]
Operating revenues from external customers	₩ 1,947,436	₩ 3,041,135	₩ 1,534,651	₩ -	₩ 6,523,222
Segment operating revenues(expenses)	7,317	(70,422)	50,791	12,314	-
	1,954,753	2,970,713	1,585,442	12,314	6,523,222
Net interest income	2,593,646	2,524,163	594,175	67,491	5,779,475
Interest income	5,190,403	5,681,723	1,633,104	(10,186)	12,495,044
Interest expense	(2,596,757)	(3,157,560)	(1,038,929)	77,677	(6,715,569)
Net fee and commission income	232,981	696,311	347,555	(23,435)	1,253,412
Fee and commission income	274,794	760,802	429,046	(27,154)	1,437,488
Fee and commission expense	(41,813)	(64,491)	(81,491)	3,719	(184,076)
Net gains(losses) on financial assets/ liabilities at fair value through profit or loss	(501)	(15,102)	800,168	(44,065)	740,500
Net other operating expenses	(871,373)	(234,659)	(156,456)	12,323	(1,250,165)
General and administrative expenses	(792,533)	(1,672,741)	(811,876)	162	(3,276,988)
Operating profit before provision for credit losses	1,162,220	1,297,972	773,566	12,476	3,246,234
Provision(reversal) for credit losses	(852,964)	(392,354)	(50,487)	1,775	(1,294,030)
Operating profit	309,256	905,618	723,079	14,251	1,952,204
Share of profit of associates	-	-	(84,620)	78,908	(5,712)
Net other non-operating income(expense)	5,522	-	(61,584)	(7,953)	(64,015)
Segment profit before income tax expense	314,778	905,618	576,875	85,206	1,882,477
Income tax expenses	(76,854)	(219,173)	(133,695)	(12,632)	(442,354)
Profit for the period	237,924	686,445	443,180	72,574	1,440,123
Profit attributable to Shareholders of the parent entity	237,924	686,445	443,180	72,205	1,439,754
Profit attributable to Non-controlling interests	-	-	-	369	369
Total assets[2]	93,143,686	100,591,642	72,591,759	(5,280,234)	261,046,853
Total liabilities[2]	84,489,904	115,521,270	43,927,707	(2,909,586)	241,029,295

[1] Operating revenues by business segment for the year ended December 31, 2012, were restated due to a retrospective application of the K-IFRS.
[2] Amount before intra-group transaction adjustment.

5.2 Services and Geographical Segments

5.2.1 Services information

Operating revenues from external customers by services for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Corporate banking service	₩ 1,690,127	₩ 1,947,436
Retail banking service	2,453,683	3,041,135
Other service	1,756,289	1,534,651
	₩ 5,900,099	₩ 6,523,222

5.2.2 Geographical information

Operating revenues from external customers for the years ended December 31, 2013 and 2012, and major non-current assets as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013		2012	
	Revenues from external customers	Major non-current assets	Revenues from external customers	Major non-current assets
Domestic	₩ 5,845,877	₩ 3,314,338	₩ 6,424,297	₩ 3,278,509
United States	12,730	21	11,438	35
New Zealand	8,581	20	8,268	35
China	32,190	10,488	30,800	11,349
Japan	(17,182)	1,722	30,810	2,653
Argentina	6	-	10	-
Vietnam	3,268	316	1,172	429
Cambodia	5,741	898	4,151	546
England	8,888	9	12,276	16
Intra-group adjustment	-	1,202	-	1,202
	₩ 5,900,099	₩ 3,329,014	₩ 6,523,222	₩ 3,294,774

6. Financial Assets and Financial Liabilities

6.1 Classification and Fair Value

Carrying amount and fair values of financial assets and liabilities as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and due from financial institutions	₩ 13,730,250	₩ 13,730,720	₩ 10,028,910	₩ 10,028,973
Financial assets held for trading	7,069,875	7,069,875	6,497,757	6,497,757
Debt securities	6,872,645	6,872,645	6,172,975	6,172,975
Equity securities	156,978	156,978	284,943	284,943
Others	40,252	40,252	39,839	39,839
Derivatives held for trading	1,581,436	1,581,436	1,813,174	1,813,174
Derivatives held for hedging	137,446	137,446	183,067	183,067
Loans	203,123,755	203,279,962	199,414,818	200,316,638
Available-for-sale financial assets	19,075,086	19,075,086	21,237,801	21,237,801
Debt securities	16,431,786	16,431,786	18,850,247	18,850,247
Equity securities	2,643,050	2,643,050	2,387,304	2,387,304
Others	250	250	250	250
Held-to-maturity financial assets	11,011,518	11,337,813	10,952,294	11,460,399
Other financial assets	5,162,649	5,162,649	6,403,102	6,403,102
	₩ 260,892,015	₩ 261,374,987	₩ 256,530,923	₩ 257,940,911
Financial liabilities				
Financial liabilities held for trading	₩ 40,067	₩ 40,067	₩ 41,979	₩ 41,979
Derivatives held for trading	1,561,392	1,561,392	1,847,483	1,847,483
Derivatives held for hedging	204,642	204,642	193,230	193,230
Deposits	200,967,688	201,212,062	197,232,967	197,666,159
Debts	13,569,923	13,568,598	14,631,518	14,655,519
Debentures	16,212,758	17,368,030	15,949,496	17,307,909
Other financial liabilities	10,865,130	10,865,162	9,780,194	9,780,289
	₩ 243,421,600	₩ 244,819,953	₩ 239,676,867	₩ 241,492,568

Fair value is the amount for which an asset could be exchanged, or a liability could be settled, between knowledgeable, willing parties in an arm's length transaction. For each class of financial assets and financial liabilities, the Group discloses the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount at the end of each reporting period. The best evidence of fair value of financial instruments is a quoted price in an active market.

Methods of determining fair value for financial instruments are as follows:

Cash and due from financial institutions	The carrying amounts of cash and demand due from financial institutions and payment due from financial institutions are reasonable approximation of fair values. These financial instruments do not have a fixed maturity and are receivable on demand. Fair value of ordinary due from financial institutions is measured using a DCF model.
Investment securities	The fair value of financial instruments that are quoted in active markets is determined using the quoted prices. Fair value is determined through the use of independent third-party pricing services where quoted prices are not available. Pricing services use one or more of the following valuation techniques including Discounted Cash Flow (DCF) Model, Imputed Market Value Model, Free Cash Flow to Equity Model, Comparable Company Analysis, Dividend Discount Model, Risk Adjusted Discount Rate Method, and Net Asset Value Method.
Loans	DCF Model is used to determine the fair value of loans. Fair value is determined by discounting the expected cash flows, which are contractual cash flows adjusted by the expected prepayment rate, at appropriate discount rate.
Derivatives	For exchange traded derivatives, quoted price in an active market is used to determine fair value and for OTC derivatives, fair value is determined using valuation techniques. The Group uses internally developed valuation models that are widely used by market participants to determine fair values of plain vanilla OTC derivatives including options, interest rate swaps, and currency swaps, based on observable market parameters. However, some complex financial instruments are valued using appropriate models developed from generally accepted market valuation models including the Finite Difference Method and the Monte Carlo Simulation or independent third-party valuation service.
Deposits	Carrying amount of demand deposits is regarded as representative of fair value because they do not have a fixed maturity and are payable on demand. Fair value of time deposits is determined using a DCF model. Fair value is determined by discounting the expected cash flows, which are contractual cash flows adjusted by the expected prepayment rate, at an appropriate discount rate.
Debts	Carrying amount of overdraft in foreign currency is regarded as representative of fair value because they do not have a fixed maturity and are payable on demand. Fair value of other debts is determined using a DCF model discounting contractual future cash flows at an appropriate discount rate.
Debentures	Fair value is determined by using the valuations of independent third-party pricing services, which are calculated using market inputs.
Other financial assets and other financial liabilities	The carrying amounts are reasonable approximation of fair values. These financial instruments are temporary accounts used for other various transactions and their maturities are relatively short or not defined. However, fair value of finance lease liabilities is measured using a DCF model.

Fair value hierarchy

The Group believes that valuation methods used for measuring the fair values of financial instruments are reasonable and that the fair values recognized in the statements of financial position are appropriate. However, the fair values of the financial instruments recognized in the statements of financial position may be different if other valuation methods or assumptions are used. Additionally, as there is a variety of valuation techniques and assumptions used in measuring fair value, it may be difficult to reasonably compare the fair value with that of other financial institutions.

The Group classifies and discloses fair value of the financial instruments into the following three-level hierarchy:

Level 1: The fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: The fair values are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: The fair values are based on unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

Fair value hierarchy of financial assets and liabilities measured at fair value in the statements of financial position

The fair value hierarchy of financial assets and liabilities measured at fair value in the statements of financial position as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Debt securities	₩ 2,827,007	₩ 4,045,638	₩ -	₩ 6,872,645
Equity securities	120,196	36,782	-	156,978
Others	40,252	-	-	40,252
	2,987,455	4,082,420	-	7,069,875
Derivatives held for trading	241	1,561,326	19,869	1,581,436
Derivatives held for hedging	-	136,994	452	137,446
Available-for-sale financial assets				
Debt securities	9,582,063	6,849,723	-	16,431,786
Equity securities[1]	1,080,684	699	1,561,667	2,643,050
Others	-	250	-	250
	10,662,747	6,850,672	1,561,667	19,075,086
	₩ 13,650,443	₩ 12,631,412	₩ 1,581,988	₩ 27,863,843
Financial liabilities				
Financial liabilities held for trading	₩ 40,067	₩ -	₩ -	₩ 40,067
Derivatives held for trading	-	1,536,869	24,523	1,561,392
Derivatives held for hedging	-	195,800	8,842	204,642
	₩ 40,067	₩ 1,732,669	₩ 33,365	₩ 1,806,101

(In millions of Korean won)	2012			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Debt securities	₩ 2,254,143	₩ 3,918,832	₩ -	₩ 6,172,975
Equity securities	218,205	66,738	-	284,943
Others	39,839	-	-	39,839
	2,512,187	3,985,570	-	6,497,757
Derivatives held for trading	-	1,786,325	26,849	1,813,174
Derivatives held for hedging	-	180,302	2,765	183,067
Available-for-sale financial assets				
Debt securities	10,021,815	8,828,432	-	18,850,247
Equity securities[1]	897,845	1,357	1,488,102	2,387,304
Others	-	250	-	250
	10,919,660	8,830,039	1,488,102	21,237,801
	₩ 13,431,847	₩ 14,782,236	₩ 1,517,716	₩ 29,731,799
Financial liabilities				
Financial liabilities held for trading	₩ 41,979	₩ -	₩ -	₩ 41,979
Derivatives held for trading	692	1,801,201	45,590	1,847,483
Derivatives held for hedging	-	183,930	9,300	193,230
	₩ 42,671	₩ 1,985,131	₩ 54,890	₩ 2,082,692

[1] The amounts of equity securities carried at cost in “Level 3” which do not have a quoted market price in an active market and cannot be measured reliably at fair value are ₩ 30,531 million and ₩ 44,709 million as of December 31, 2013 and 2012, respectively. These equity securities are carried at cost because it is practically difficult to quantify the intrinsic values of the equity securities issued by unlisted public and non-profit entities. In addition, due to significant fluctuations in estimated cash flows arising from entities being in its initial stages, which further results in varying and unpredictable probabilities, unlisted equity securities issued by project financing cannot be reliably and reasonably assessed. Therefore, these equity securities are carried at cost. The Group has no plan to sell these instruments in the near future.

Valuation techniques and the inputs used in the fair value measurement of financial assets and liabilities classified as level 2

Valuation techniques and inputs of financial assets and liabilities measured at fair value in the statement of financial position and classified as Level 2 as of December 31, 2013, are as follows:

(In millions of Korean won)	Fair value	Valuation techniques	Inputs
Financial assets			
Financial assets held for trading			
Debt securities	₩ 4,045,638	DCF model	Discount rate
Equity securities	36,782	DCF model	Discount rate
	₩ 4,082,420		
Derivatives held for trading	1,561,326	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate, stock price and others
Derivatives held for hedging	136,994	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate and others
Available-for-sale financial assets			
Debt securities	₩ 6,849,723	DCF model	Discount rate
Equity securities	699	DCF model	Discount rate
Others	250	DCF model	Discount rate
	6,850,672		
	₩ 12,631,412		
Financial liabilities			
Derivatives held for trading	₩ 1,536,869	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate, stock price and others
Derivatives held for hedging	195,800	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate and others
	₩ 1,732,669		

Fair value hierarchy of financial assets and liabilities whose fair value is disclosed

The fair value hierarchy of financial assets and liabilities whose fair value is disclosed as of December 31, 2013, are as follows:

(In millions of Korean won)	2013			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and due from financial institutions[1]	₩ 2,697,722	₩ 10,180,432	₩ 852,566	₩ 13,730,720
Loans	-	-	203,279,962	203,279,962
Held-to-maturity financial assets	3,492,584	7,845,229	-	11,337,813
Other financial assets[2]	-	-	5,162,649	5,162,649
	₩ 6,190,306	₩ 18,025,661	₩ 209,295,177	₩ 233,511,144
Financial liabilities				
Deposits[1]	₩ -	₩ 73,039,926	₩ 128,172,136	₩ 201,212,062
Debts[1]	-	156,349	13,412,249	13,568,598
Debentures	-	17,265,172	102,858	17,368,030
Other financial liabilities[2]	-	-	10,865,162	10,865,162
	₩ -	₩ 90,461,447	₩ 152,552,405	₩ 243,013,852

[1] The amounts included in level 2 are the carrying amounts which are reasonable approximation of the fair values.

[2] The ₩ 5,162,649 million of other financial assets and ₩ 10,863,257 million of other financial liabilities included in level 3 are the carrying amounts which are reasonable approximation of fair values.

Valuation techniques and inputs used in the fair value measurement

Valuation techniques and inputs of financial assets and liabilities which are disclosed by the carrying amounts because it is a reasonable approximation of fair value are not subject to be disclosed.

Valuation techniques and inputs of financial assets and liabilities whose fair values are disclosed and classified as Level 2 as of December 31, 2013, are as follows:

(In millions of Korean won)	Fair value	Valuation techniques	Inputs
Financial assets			
Held-to-maturity financial assets	₩ 7,845,229	DCF model	Discount rate
Financial liabilities			
Debentures	₩ 17,265,172	DCF model	Discount rate

Valuation techniques and inputs of financial assets and liabilities whose fair values are disclosed and classified as Level 3 as of December 31, 2013, are as follows:

(In millions of Korean won)	Fair value	Valuation techniques	Inputs
Financial assets			
Cash and due from financial institutions	₩ 852,566	DCF model	Credit spread, other spread
Loans	203,279,962	DCF model	Credit spread, other spread, prepayment rate
	₩ 204,132,528		
Financial liabilities			
Deposits	₩ 128,172,136	DCF model	Other spread, prepayment rate
Debts	13,412,249	DCF model	Other spread
Debentures	102,858	DCF model	Other spread, implied default probability
Other financial liabilities	1,905	DCF model	Other spread
	₩ 141,689,148		

6.2 Level 3 of the fair value hierarchy disclosure

6.2.1 Valuation policy and process of Level 3 fair value

The Group uses external, independent and qualified independent third-party valuation service in addition to internal valuation models to determine the fair value of the Group's assets at the end of every reporting period.

Where a reclassification between the levels of the fair value hierarchy occurs for a financial asset or liability, the Group’s policy is to recognize such transfers as having occurred at the beginning of the reporting period.

6.2.2 Changes in fair value (Level 3) measured using valuation technique based on unobservable in market

Changes in Level 3 of the fair value hierarchy for the year ended December 31, 2013, are as follows:

(In millions of Korean won)

	Financial investments	Net derivatives	
	Available-for-sale financial assets		
	Equity securities	Derivatives held for trading	Derivatives held for hedging
Beginning balance	₩ 1,488,102	₩ (18,741)	₩ (6,535)
Total gains or losses			
- Profit or loss	(9,087)	(14,026)	(1,229)
- Other comprehensive-income	53,280	-	-
Purchases	404,423	-	-
Sales	(81,887)	-	-
Issues	-	(107)	-
Settlements	-	28,220	(626)
Transfers into Level 3	441	-	-
Transfers out of Level 3	(293,605)	-	-
Ending balance	₩ 1,561,667	₩ (4,654)	₩ (8,390)

Changes in Level 3 of the fair value hierarchy for the year ended December 31, 2012, are as follows:

(In millions of Korean won)

	Financial assets at fair value through profit or loss	Financial investments	Net derivatives	
	Financial assets held for trading	Available-for-sale financial assets Equity securities	Derivatives held for trading	Derivatives held for hedging
Beginning balance	₩ 10,826	₩ 884,377	₩ (12,569)	₩ (9,610)
Total gains or losses				
- Profit or loss	-	(85,538)	(35,587)	15,935
- Other comprehensive-income	-	135,970	-	-
Purchases	-	61,653	25,746	-
Sales	(10,826)	(54,525)	-	-
Issues	-	-	(9,940)	-
Settlements	-	-	13,609	(12,860)
Transfers into Level 3	-	546,165	-	-
Ending balance	₩ -	₩ 1,488,102	₩ (18,741)	₩ (6,535)

In relation to changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the year, and total gains or losses for the year included in profit or loss for financial instruments held at the end of the reporting period in the statements of comprehensive income for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	**2013**	
	Net income from financial investments at fair value through profit or loss	**Other operating income**
Total gains or losses included in profit or loss for the year	₩ (14,026)	₩ (10,316)
Total gains or losses for the year included in profit or loss for financial instruments held at the end of the reporting year	(3,111)	(15,162)

(In millions of Korean won)	**2012**	
	Net income from financial investments at fair value through profit or loss	**Other operating income**
Total gains or losses included in profit or loss for the year	₩ (35,587)	₩ (69,603)
Total gains or losses for the year included in profit or loss for financial instruments held at the end of the reporting year	(16,935)	(79,470)

6.2.3 Sensitivity analysis of changes in unobservable inputs

Information about fair value measurements using unobservable inputs

(In millions of Korean won)

	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobserva-ble inputs (%)	Relationship of unobservable inputs to fair value
Financial assets						
Derivatives held for trading						
Derivatives held for trading (Stock and index)	₩ 13,379	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rates, volatility of the underlying asset, correlation of the underlying assets(rates of return on stocks), dividend yield	Volatility of the underlying asset Correlation of the underlying assets(rates of return on stocks)	10.9 ~ 45.64 11.43 ~ 79.26	Higher the volatility, higher the fair value fluctuation Higher the correlation, higher the fair value fluctuation
Derivatives held for trading (currency)	6,490	DCF model	Interest rate, exchange rate, loss rate from bankruptcy.	loss rate from bankruptcy.	88.24 ~ 94.12	Higher the loss rate, decrease the fair value
Derivatives held for hedging						
Interest	452	DCF model, Closed Form, FDM, Monte Carlo Simulation	Interest rates, correlation of the underlying assets(rates of return on interest rates), foreign exchange rate	Correlation of the underlying assets(rates of return on interest rates)	0.03	Higher the correlation, higher the fair value fluctuation
Available-for-sale						
Available-for-sale equity securities	1,561,667	DCF Model, Comparable Company Analysis, Risk Adjusted Discount Rate Method	Growth rate, discount rate, volatilities of real estate price, liquidation value , discount rate of cash flows from rent	Growth rate Discount rate Volatilities of real estate price Liquidation value Discount rate of cash flows from rent	0.00 2.86 ~ 17.69 0.74 0.00 6.84	Higher the growth rate, higher the fair value Lower the discount rate, higher the fair value Higher real estate price, higher the fair value Higher the liquidation value, higher the fair value Lower the discount rate of cash flows from rent, higher the fair value
	₩ 1,581,988					
Financial liabilities						
Derivatives held for trading						
Stock and index	₩ 24,523	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset, correlation of the underlying assets(rates of return on stocks), dividend yield	Volatility of the underlying asset Correlation of the underlying assets(rates of return on stocks)	15.24 ~ 45.64 17.29 ~ 79.26	Higher the volatility, higher the fair value fluctuation Higher the correlation, higher the fair value fluctuation
Derivatives held for hedging						
Interest	8,842	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rates, volatility of the underlying asset,	Volatility of the underlying asset	3.00~ 5.28	Higher the volatility, higher the fair value fluctuation
	₩ 33,365					

Sensitivity analysis of changes in unobservable inputs

Sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the amounts represent the most favorable or unfavorable. Amongst level 3 financial instruments subject to sensitivity analysis are interest rate-related derivatives and equity-related derivatives whose fair value changes are recognized in profit and loss as well as unlisted equity securities and private equity funds whose fair value changes are recognized in profit and loss or other comprehensive income and loss.

Sensitivity analyses by type of instrument as a result of varying input parameters value as of December 31, 2013, are as follows:

(In millions of Korean won)	Recognition in profit and loss (or other comprehensive income and loss)			
	Favorable changes		Unfavorable changes	
Financial assets				
Derivatives held for trading[1]	₩	1,070	₩	(1,082)
Derivatives held for hedging[1]		0		0
Available-for-sale financial assets[2]		299,581		(111,457)
	₩	300,651	₩	(112,539)
Financial liabilities				
Derivatives held for trading[1]	₩	1,561	₩	(1,451)
Derivatives held for hedging[1]		345		(333)
	₩	1,906	₩	(1,784)

Sensitivity analyses by type of instrument as a result of varying input parameters value as of December 31, 2012, are as follows:

(In millions of Korean won)	Recognition in profit and loss (or other comprehensive income and loss)			
	Favorable changes		Unfavorable changes	
Financial assets				
Derivatives held for trading[1]	₩	4,780	₩	(4,924)
Derivatives held for hedging[1]		197		(202)
Available-for-sale financial assets[2]		389,004		(157,990)
	₩	393,981	₩	(163,116)
Financial liabilities				
Derivatives held for trading[1]	₩	3,112	₩	(3,163)
Derivatives held for hedging[1]		176		(169)
	₩	3,288	₩	(3,332)

[1] For stock and index-related derivatives, the changes in fair value are calculated by shifting principal unobservable input parameters such as the correlation of rates of return on stocks and the volatility of the underlying asset by ± 10%. For foreign currency derivatives, the changes in fair value are calculated by shifting the unobservable input parameters, such as the loss given default ratio by ± 1%. For interest rate-related derivatives, the correlation of the interest rates or the volatility of the underlying asset is shifted by ± 10% to calculate the fair value changes.

[2] For equity securities, the changes in fair value are calculated by shifting principal unobservable input parameters such as correlation between growth rate (0~0.5%) and discount rate, or liquidation value (-1~1%) and discount rate. Sensitivity of fair values to unobservable parameters of private equity fund is practically impossible, but in the case of equity fund composed of real estates, the changes in fair value are calculated by shifting correlation between discount rate of cash flows from rent (-1~1%) and volatilities of real estate price (-1~1%).

6.2.4 Day one gain or loss

If the Group uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of financial instruments, there could be a difference between the transaction price and the amount determined using that valuation technique. In these circumstances, the fair value of financial instruments is recognized as the transaction price and the difference is deferred and not recognized in profit or loss, and is amortized by using the straight-line method over the life of the financial instrument. If the fair value of the financial instruments is subsequently determined using observable market inputs, the remaining deferred amount is recognized in profit or loss.

The aggregate difference yet to be recognized in profit or loss at the beginning and end of the year and a reconciliation of changes in the balance of this difference, are as follows:

(In millions of Korean won)	**2013**	**2012**
Balance at the beginning of the year (A)	₩ 5,998	₩ 2,057
New transactions (B)	34	20,485
Amounts recognized in profit or loss during the year (C= a+b)	(4,702)	(16,544)
a. Amortization	(275)	(4,529)
b. Settlement	(4,427)	(12,015)
Balance at the end of year (A+B+C)	₩ 1,330	₩ 5,998

6.3 Carrying amounts of financial instruments

Financial assets and liabilities are measured at fair value or amortized cost. Measurement policies for each class of financial assets and liabilities are disclosed in Note 3, 'Significant accounting policies'.

The carrying amounts of financial assets and liabilities by category as of December 31, 2013, are as follows:

(In millions of Korean won)

	Financial assets at fair value through profit or loss		Loans and receivables	Available-for-sale financial assets	Held-to-Maturity financial assets	Derivatives held for hedging	Total
	Held for trading						
Financial assets							
Cash and due from financial institutions	₩	-	₩ 13,730,250	₩ -	₩ -	₩ -	₩ 13,730,250
Financial assets at fair value through profit or loss		7,069,875	-	-	-	-	7,069,875
Derivatives		1,581,436	-	-	-	137,446	1,718,882
Loans		-	203,123,755	-	-	-	203,123,755
Financial investments		-	-	19,075,086	11,011,518	-	30,086,604
Other financial assets		-	5,162,649	-	-	-	5,162,649
	₩	8,651,311	₩ 222,016,654	₩ 19,075,086	₩11,011,518	₩ 137,446	₩260,892,015

(In millions of Korean won)

	Financial liabilities at fair value through profit or loss		Financial liability at amortized cost	Derivatives held for hedging	Total
	Held for trading				
Financial liabilities					
Financial liabilities at fair value through profit or loss	₩	40,067	₩ -	₩ -	₩ 40,067
Derivatives		1,561,392	-	204,642	1,766,034
Deposits		-	200,967,688	-	200,967,688
Debts		-	13,569,923	-	13,569,923
Debentures		-	16,212,758	-	16,212,758
Other financial liabilities		-	10,865,130	-	10,865,130
	₩	1,601,459	₩ 241,615,499	₩ 204,642	₩ 243,421,600

The carrying amounts of financial assets and liabilities by category as of December 31, 2012, are as follows:

(In millions of Korean won)

	Financial assets at fair value through profit or loss		Loans and receivables	Available-for-sale financial assets	Held-to-Maturity financial assets	Derivatives held for hedging	Total
	Held for trading						
Financial assets							
Cash and due from financial institutions	₩	-	₩ 10,028,910	₩ -	₩ -	₩ -	₩ 10,028,910
Financial assets at fair value through profit or loss		6,497,757	-	-	-	-	6,497,757
Derivatives		1,813,174	-	-	-	183,067	1,996,241
Loans		-	199,414,818	-	-	-	199,414,818
Financial investments		-	-	21,237,801	10,952,294	-	32,190,095
Other financial assets		-	6,403,102	-	-	-	6,403,102
	₩	8,310,931	₩ 215,846,830	₩ 21,237,801	₩10,952,294	₩ 183,067	₩256,530,923

(In millions of Korean won)

	Financial liabilities at fair value through profit or loss		Financial liability at amortized cost	Derivatives held for hedging	Total
	Held for trading				
Financial liabilities					
Financial liabilities at fair value through profit or loss	₩	41,979	₩ -	₩ -	₩ 41,979
Derivatives		1,847,483	-	193,230	2,040,713
Deposits		-	197,232,967	-	197,232,967
Debts		-	14,631,518	-	14,631,518
Debentures		-	15,949,496	-	15,949,496
Other financial liabilities		-	9,780,194	-	9,780,194
	₩	1,889,462	₩ 237,594,175	₩ 193,230	₩ 239,676,867

6.4 Transfer of financial assets

6.4.1 Transferred financial assets that are derecognized in their entirety

The Group transferred loans and other financial assets that are derecognized in their entirety to SPEs, while the maximum exposure to loss(carrying amount) from its continuing involvement in the derecognized financial assets as of December 31, 2013 and 2012, are as follows :

		2013		
	Type of continuing involvement	Classification of financial instruments	Carrying amount of continuing involvement in statement of financial position	Fair value of continuing involvement in statement of financial position
KR ABS Ltd.	Mezzanine / subordinated debt	Available-for-sale financial assets	₩ 11,434	₩ 11,434
KR 2nd Securitization Specialty Co., Ltd. [1]	Senior debt	Loans and receivables	26,065	26,227
	Subordinated debt	Available-for-sale financial assets	33,017	33,017
EAK ABS Ltd.[2]	Subordinated debt	Available-for-sale financial assets	35,020	35,020
AP 1st Securitization Specialty Co., Ltd. [3]	Senior debt	Loans and receivables	67,326	67,353
	Subordinated debt	Available-for-sale financial assets	16,669	16,669
Discovery 1st Securitization Specialty Co., Ltd. [4]	Senior debt	Loans and receivables	23,494	23,547
	Subordinated debt	Available-for-sale financial assets	21,454	21,454
			₩ 234,479	₩ 234,721

[1] Recognized net loss from transferring loans to the SPEs amounts to ₩ 24,589 million.
[2] Recognized net loss from transferring loans to the SPEs amounts to ₩ 2,480 million.
[3] Recognized net loss from transferring loans to the SPEs amounts to ₩ 18,556 million.
[4] Recognized net loss from transferring loans to the SPEs amounts to ₩ 37,975 million.

[5] In addition to the above, there were gains from the transfer of non-performing loans to the National Happiness Fund ('the Fund') amounting to ₩ 18,111 million as of December 31, 2013. According to the agreement with the Fund, where the recovered amounts exceed the consideration paid by the Fund for the non-performing loans, the excess amount is to be reimbursed to the Group.

(In millions of Korean won)

	2012		
	Type of continuing involvement	**Classification of financial instruments**	**Carrying amount of continuing involvement in statement of financial position**
KR ABS Ltd.[1]	Senior debt	Loans and receivables	₩ 21,288
	Mezzanine/subordinated debt	Available-for-sale financial assets	43,143
			₩ 64,431

[1] Recognized net loss from transferring loans to the SPEs amounts to ₩ 22,734 million.

6.4.2 Transferred financial assets that are not derecognized in their entirety

The Group securitized the loans and received the subordinated debts as part of consideration related to the securitization to provide credit enhancements to other senior debtors, and this transaction was recognized by the Group as collateralized debts. The liabilities and related securitized assets as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013		
	KB Mortgage Loan 1st Securitization Specialty Co., Ltd.	**KAMCO Value Recreation 3rd Securitization Specialty Co., Ltd.**	**KH First Co., Ltd.[1]**
Carrying amount of assets (underlying assets)	₩ 295,679	₩ 8,291	₩ 99,763
Carrying amount of related liabilities	193,062	1,958	100,900
For those liabilities that have recourse only to the transferred assets:			
Fair value of assets (underlying assets)	295,679	8,291	-
Fair value of related liabilities (Senior Debts)	192,972	1,958	-
Fair value net position	₩ 102,707	₩ 6,333	-

(In millions of Korean won)

	2012		
	KB Mortgage Loan 1st Securitization Specialty Co., Ltd.	**KAMCO Value Recreation 3rd Securitization Specialty Co., Ltd.**	**KH First Co., Ltd.[1]**
Carrying amount of assets (underlying assets)	₩ 361,668	₩ 9,247	₩ 99,763
Carrying amount of related liabilities	249,668	3,258	100,900
For those liabilities that have recourse only to the transferred assets:			
Fair value of assets (underlying assets)	361,668	9,247	-
Fair value of related liabilities (Senior Debts)	250,835	3,258	-
Fair value net position	₩ 110,833	₩ 5,989	-

[1] According to purchase agreements with third-party investors, the Group provides purchase commitments to third-party investors over the associated liabilities. Furthermore, as the third-party investors also have right of recourse to the asset-backed security, the Group did not disclose the fair value of the above liabilities.

6.4.3 Securities under repurchase agreements and loaned securities

The Group continues to recognize the financial assets related to repurchase agreements and securities lending transactions on the statements of financial position since those transactions are not qualified for derecognition even though the Group transfers the financial assets. A financial asset is sold under a reverse repurchase agreement to repurchase the same asset at a fixed price, or loaned under a securities lending agreement to be returned as the same asset. Thus, the Group retains substantially all the risks and rewards of ownership of the financial asset. The amounts of transferred assets and related liabilities as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	**2013**	
	Carrying amount of transferred asset	**Carrying amount of related liabilities**
Securities under repurchase agreements	₩ 416,634	₩ 382,779
Loaned securities	457,838	-
Government and public bonds	447,427	-
Stocks	10,411	-
	₩ 874,472	₩ 382,779

(In millions of Korean won)	**2012**	
	Carrying amount of transferred asset	**Carrying amount of related liabilities**
Securities under repurchase agreements	₩ 788,771	₩ 735,439
Loaned securities	259,485	-
Government and public bonds	228,912	-
Stocks	30,573	-
	₩ 1,048,256	₩ 735,439

6.5 Offsetting financial assets and financial liabilities

The Group enters into International Derivatives Swaps and Dealers Association ("ISDA") master netting agreements and other arrangements with the Group's derivative and spot exchange counterparties. Similar netting agreements are also entered into with the Group's reverse repurchase, securities and others. Pursuant to these agreements, in the event of default by one party, contracts are to be terminated and receivables and payables are to be offset. Further, as the law allows for the right to offset, domestic uncollected receivables balances and domestic accrued liabilities balances are shown in its net settlement balance in the statement of financial position.

The details of financial assets subject to offsetting, enforceable master netting arrangements or similar agreements as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013					
		Gross amounts of recognized financial liabilities offset 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		
	Gross amounts of recognized financial assets			Financial instruments	Cash collateral received	Net amount
Derivatives held for trading	₩ 1,578,868	₩ -	₩ 1,578,868	₩ (1,186,724)	₩ (1,850)	₩ 390,294
Derivatives held for hedging	137,446	-	137,446	(35,550)	-	101,896
Receivable spot exchange	2,256,532	-	2,256,532	(2,255,085)	-	1,447
Reverse repurchase, securities borrowing and similar agreements	4,173,200	-	4,173,200	(4,173,200)	-	-
Other financial instruments	16,095,694	(15,371,808)	723,886	-	-	723,886
	₩24,241,740	₩ (15,371,808)	₩ 8,869,932	₩ (7,650,559)	₩ (1,850)	₩ 1,217,523

(In millions of Korean won)

	2012					
		Gross amounts of recognized financial liabilities offset 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		
	Gross amounts of recognized financial assets			Financial instruments	Cash collateral received	Net amount
Derivatives held for trading	₩ 1,795,649	₩ -	₩ 1,795,649	₩ (1,361,522)	₩ (28,624)	₩ 405,503
Derivatives held for hedging	183,067	-	183,067	(32,272)	-	150,795
Receivable spot exchange	1,929,721	-	1,929,721	(1,929,438)	-	283
Reverse repurchase, securities borrowing and similar agreements[1]	3,635,071	-	3,635,071	(3,531,000)	(104,071)	-
Other financial instruments	17,677,819	(15,455,657)	2,222,162	-	-	2,222,162
	₩25,221,327	₩(15,455,657)	₩ 9,765,670	₩ (6,854,232)	₩ (132,695)	₩ 2,778,743

[1] Includes a portion of the securities loaned.

The details of financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013					
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the statement of financial position	Net amounts of financial liabilities 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 pledged	Net amount
Derivatives held for trading	₩ 1,559,374	₩ -	₩ 1,559,374	₩ (987,963)	₩ -	₩ 571,411
Derivatives held for hedging	204,642	-	204,642	(16,320)	-	188,322
Payable spot exchange	2,256,147	-	2,256,147	(2,255,085)	-	1,062
Repurchase, securities lending and similar agreements[1]	382,779	-	382,779	(382,779)	-	-
Other financial instruments	16,358,240	(15,371,808)	986,432	(946,800)	-	39,632
	₩ 20,761,182	₩ (15,371,808)	₩ 5,389,374	₩ (4,588,947)	₩ -	₩ 800,427

(In millions of Korean won)

	2012					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset 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 held for trading	₩ 1,842,686	₩ -	₩ 1,842,686	₩ (1,275,486)	₩ -	₩ 567,200
Derivatives held for hedging	193,229	-	193,229	(17,717)	-	175,512
Receivable spot exchange	1,929,931	-	1,929,931	(1,929,438)	-	493
Reverse repurchase, securities lending and similar agreements[1, 2]	737,539	-	737,539	(737,539)	-	-
Other financial instruments	15,606,748	(15,455,657)	151,091	(151,091)	-	-
	₩20,310,133	₩ (15,455,657)	₩ 4,854,476	₩ (4,111,271)	₩ -	₩ 743,205

[1] Includes repurchase agreements sold to customers.
[2] Includes a portion of securities sold.

7. Due from financial institutions

The details of due from financial institutions as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)		Financial Institutions	Interest rate(%)	2013	2012
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	0.00~2.77	₩ 6,709,634	₩ 3,095,038
	Due from banking institutions	Hana Bank and others	0.00~2.95	308,740	383,791
	Due from others	Samsung Securities Co., Ltd. and others	1.00	2,615,369	2,818,439
				9,633,743	6,297,268
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	0.00~0.15	855,388	385,792
	Time deposits in foreign currencies	China Citic Bank and others	0.15~3.87	528,419	448,349
	Due from others	Bank of Japan and others	-	14,978	48,019
				1,398,785	882,160
				₩ 11,032,528	₩ 7,179,428

Due from financial institutions, classified by type of financial institution as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013		
	In Korean won	In foreign currencies	Total
Bank of Korea	₩ 6,709,634	₩ 410,328	₩ 7,119,962
Other banking institutions	308,740	976,790	1,285,530
Other financial institutions	2,615,369	11,667	2,627,036
	₩ 9,633,743	₩ 1,398,785	₩ 11,032,528

(In millions of Korean won)	2012		
	In Korean won	In foreign currencies	Total
Bank of Korea	₩ 3,095,038	₩ 120,143	₩ 3,215,181
Other banking institutions	383,791	738,303	1,122,094
Other financial institutions	2,818,439	23,714	2,842,153
	₩ 6,297,268	₩ 882,160	₩ 7,179,428

Restricted due from financial institutions as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)

		Financial Institution	2013	2012	Reason for restriction
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	₩ 6,709,634	₩ 3,095,038	Bank of Korea Act
	Due from banking institutions	Hana Bank and others	261,000	206,700	Agreement for allocation of deposit
	Due from others	The Korea Exchange and others	1,703	1,881	Market entry deposit and others
			6,972,337	3,303,619	
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	482,296	128,812	Bank of Korea Act and others
	Time deposits in foreign currencies	Itau Unibanco S.A NY Branch	10,553	6,962	New York State Banking Law
	Due from others	Ong First Tradition Pte. and others	4,876	1,825	Derivatives margin account and others
			497,725	137,599	
			₩ 7,470,062	₩ 3,441,218	

8. Assets pledged as collaterals

The details of assets pledged as collaterals as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

		2013		
Assets pledged	**Pledgee**	**Carrying amount**	**Collateralized amount**	**Reason of pledge**
Financial assets held for trading	Korea Securities Depository and others	₩ 207,812	₩ 208,650	Repurchase agreements
	Samsung Futures Inc. and others	10,162	10,100	Derivatives transitions
		217,974	218,750	
Available-for-sale financial assets	Samsung Futures Inc. and others	3,254	3,166	Derivatives transitions
	Korea Securities Depository and others	3,577,052	3,572,000	Repurchase agreements
Held-to-maturity financial assets	Bank of Korea	617,250	610,000	Borrowings from Bank of Korea
	Bank of Korea	956,284	946,800	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	325,616	325,521	Derivatives transitions
	Others	258,615	258,500	Others
		5,734,817	5,712,821	
Mortgage loans	Others	846,000	843,127	Covered Bond
		₩ 6,802,045	₩ 6,777,864	

(In millions of Korean won)

		2012		
Assets pledged	**Pledgee**	**Carrying amount**	**Collateralized amount**	**Reason of pledge**
	Korea Securities Depository and others	₩ 38,584	₩ 39,200	Repurchase agreements
Financial assets held for trading	Korea Securities Depository and others	2,200	2,200	Securities lending transactions
	Samsung Futures Inc. and others	14,082	13,650	Derivatives transitions
		54,866	55,050	
Available-for-sale financial assets	Samsung Futures Inc. and others	3,447	3,213	Derivatives transitions
	Korea Securities Depository and others	3,602,681	3,602,000	Repurchase agreements
Held-to-maturity financial assets	Bank of Korea	965,072	960,000	Borrowings from Bank of Korea
	Bank of Korea	781,389	776,800	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	348,139	348,000	Derivatives transitions
	Others	1,229,856	1,208,500	Others
		6,927,137	6,895,300	
Mortgage loans	Others	1,058,470	1,054,834	Covered Bond
		₩ 8,043,920	₩ 8,008,397	

The fair value of collateral availble to sell or repledge, and collateral sold or repledged, regardless of debtor's default as of December 31, 2013 and 2012, is as follows:

(In millions of Korean won)

	2013	
	Fair value of collateral	**Fair value of collateral sold or repledged**
Securities	₩ 4,258,909	₩ -
	₩ 4,258,909	₩ -

(In millions of Korean won)

	2012	
	Fair value of collateral	**Fair value of collateral sold or repledged**
Securities	₩ 3,609,354	₩ -
	₩ 3,609,354	₩ -

9. Derivative financial instruments and hedge accounting

The Group's derivative operations focus on addressing the needs of the Group's corporate clients to hedge their risk exposure and to hedge the Group's risk exposure that results from such client contracts. The Group also engages in derivative trading activities to hedge the interest rate and foreign currency risk exposures that arise from the Group's own assets and liabilities. In addition, the Group engages in proprietary trading of derivatives within the Group's regulated open position limits.

The Group provides and trades a range of derivatives products, including:

- Interest rate swaps, relating to interest rate risks in Korean won.
- Cross-currency swaps, forwards and options relating to foreign exchange rate risks.
- Stock price index options linked with the KOSPI index.

In particular, the Group uses cross currency swaps, interest rate swaps and others to hedge the risk of changes in fair values due to changes in interest rates and foreign exchange rates of subordinated debts in Korean won, structured debts and financial debentures in foreign currencies.

The details of derivative financial instruments for trading as of December 31, 2013, are as follows:

(In millions of Korean won)	**Notional amount**	**Assets**	**Liabilities**
Interest rate			
Futures[1]	₩ 581,604	₩ -	₩ -
Swaps	141,111,150	581,343	638,451
Options	8,285,091	45,063	85,906
	149,977,845	626,406	724,357
Currency			
Forwards	₩ 22,923,249	₩ 241,804	₩ 289,368
Futures[1]	360,143	-	-
Swaps	17,414,405	693,115	503,663
Options	273,745	2,428	1,492
	40,971,542	937,347	794,523
Stock and index			
Futures[1]	₩ 59,381	₩ -	₩ -
Swaps	73,658	11,051	12,170
Options	1,110,131	6,278	29,965
	1,243,170	17,329	42,135
Others	60,000	354	377
	₩ 192,252,557	₩ 1,581,436	₩ 1,561,392

The details of derivative financial instruments for trading as of December 31, 2012, are as follows:

(In millions of Korean won)	**Notional amount**	**Assets**	**Liabilities**
Interest rate			
Futures[1]	₩ 596,003	₩ -	₩ -
Swaps	144,713,646	836,271	946,185
Options	10,715,347	79,942	78,149
	156,024,996	916,213	1,024,334
Currency			
Forwards	₩ 17,108,201	₩ 264,578	₩ 328,505
Futures[1]	488,223	-	-
Swaps	13,487,378	576,857	427,227
Options	334,912	3,215	2,638
	31,418,714	844,650	758,370
Stock and index			
Futures[1]	₩ 82,114	₩ -	₩ -
Swaps	127,500	9,390	7,005
Options	1,264,351	41,684	56,614
	1,473,965	51,074	63,619
Others	60,000	1,237	1,160
	₩ 188,977,675	₩ 1,813,174	₩ 1,847,483

[1] A gain or loss from daily mark-to-market futures is reflected in the margin accounts.

Fair value hedge

The details of derivatives designated as fair value hedging instruments as of December 31, 2013, are as follows:

(In millions of Korean won)	**Notional amount**	**Assets**	**Liabilities**
Interest rate			
Swaps	₩ 1,951,013	₩ 137,446	₩ -
Currency			
Swap	1,055,300	-	195,800
Other	140,000	-	8,842
	₩ 3,146,313	₩ 137,446	₩ 204,642

The details of derivatives designated as fair value hedging instruments as of December 31, 2012, are as follows:

(In millions of Korean won)	**Notional amount**	**Assets**	**Liabilities**
Interest rate			
Swaps	₩ 1,921,251	₩ 180,719	₩ 6,642
Currency			
Swap	1,071,100	-	183,930
Other	140,000	2,348	2,658
	₩ 3,132,351	₩ 183,067	₩ 193,230

Gains and losses from fair value hedging instruments and hedged items attributable to the hedged risk for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	**2013**	**2012**
Gains(losses) on hedging instruments	₩ (49,047)	₩ (14,654)
Gains(losses) on the hedged item attributable to the hedged risk	81,428	37,641
	₩32,381	₩ 22,987

10. Loans

Loans as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	**2013**	**2012**
Loans	₩ 205,050,752	₩ 201,862,895
Deferred loan origination fees and costs	463,262	421,615
Less: Allowances for loan losses	(2,390,259)	(2,869,692)
Carrying amount	₩ 203,123,755	₩ 199,414,818

Loans to banks as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	**2013**	**2012**
Loans	₩ 6,335,056	₩ 4,397,742
Less: Allowances for loan losses	(26)	(9)
Carrying amount	₩ 6,335,030	₩ 4,397,733

Loans to customers other than banks as of December 31, 2013 and 2012, consist of:

(In millions of Korean won)	2013		
	Retail	**Corporate**	**Total**
Loans in Korean won	₩ 104,332,073	₩ 83,440,778	₩ 187,772,851
Loans in foreign currencies	98,614	2,956,418	3,055,032
Domestic import usance bills	-	2,978,478	2,978,478
Off-shore funding loans	-	669,602	669,602
Call loans	-	674,399	674,399
Bills bought in Korean won	-	14,243	14,243
Bills bought in foreign currencies	-	1,588,065	1,588,065
Guarantee payments under payment guarantee	-	38,319	38,319
Reverse repurchase agreements	-	1,683,200	1,683,200
Privately placed bonds	-	704,769	704,769
	104,430,687	94,748,271	199,178,958
Proportion (%)	52.43	47.57	100.00
Allowances	(572,286)	(1,817,947)	(2,390,233)
	₩ 103,858,401	₩ 92,930,324	₩ 196,788,725

(In millions of Korean won)	2012		
	Retail	**Corporate**	**Total**
Loans in Korean won	₩ 101,808,150	₩ 82,604,718	₩ 184,412,868
Loans in foreign currencies	71,974	3,466,302	3,538,276
Domestic import usance bills	-	3,595,143	3,595,143
Off-shore funding loans	-	753,885	753,885
Call loans	-	1,155,724	1,155,724
Bills bought in Korean won	-	30,343	30,343
Bills bought in foreign currencies	-	2,522,110	2,522,110
Guarantee payments under payment guarantee	-	45,154	45,154
Reverse repurchase agreements	-	1,251,000	1,251,000
Privately placed bonds	-	582,265	582,265
	101,880,124	96,006,644	197,886,768
Proportion (%)	51.48	48.52	100.00
Allowances	(680,535)	(2,189,148)	(2,869,683)
	₩ 101,199,589	₩ 93,817,496	₩ 195,017,085

The changes in deferred loan origination fees and costs for the years ended December 31, 2013 and 2012, are as follows:

	2013				
(In millions of Korean won)	**Beginning**	**Increase**	**Decrease**	**Other**	**Ending**
Deferred loan origination costs					
Loans in Korean won	₩ 460,855	₩ 310,770	₩ 276,006	₩ -	₩ 495,619
Other origination costs	343	636	601	-	378
	461,198	311,406	276,607	-	495,997
Deferred loan origination fees					
Loans in Korean won	33,056	2,903	10,895	-	25,064
Other origination fees	6,527	3,872	2,709	(19)	7,671
	39,583	6,775	13,604	(19)	32,735
	₩ 421,615	₩ 304,631	₩ 263,003	₩ 19	₩ 463,262

	2012				
(In millions of Korean won)	**Beginning**	**Increase**	**Decrease**	**Other**	**Ending**
Deferred loan origination costs					
Loans in Korean won	₩ 448,123	₩ 272,085	₩ 259,353	₩ -	₩ 460,855
Other origination costs	201	429	287	-	343
	448,324	272,514	259,640	-	461,198
Deferred loan origination fees					
Loans in Korean won	43,021	8,741	18,706	-	33,056
Other origination fees	5,104	3,247	1,804	(20)	6,527
	48,125	11,988	20,510	(20)	39,583
	₩ 400,199	₩ 260,526	₩ 239,130	₩ 20	₩ 421,615

11. Allowances for Loan Losses

The changes in the allowances for loan losses for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013		
	Retail	**Corporate**	**Total**
Beginning	₩ 680,535	₩ 2,189,157	₩ 2,869,692
Written-off	(580,235)	(1,097,057)	(1,677,292)
Recoveries from written-off loans	126,572	146,575	273,147
Sale	(8,483)	(74,979)	(83,462)
Other changes	(7,310)	(52,232)	(59,542)
Provision[1]	361,207	706,509	1,067,716
Ending	₩ 572,286	₩ 1,817,973	₩ 2,390,259

(In millions of Korean won)

	2012		
	Retail	**Corporate**	**Total**
Beginning	₩ 635,512	₩ 2,429,641	₩ 3,065,153
Written-off	(451,570)	(1,193,535)	(1,645,105)
Recoveries from written-off loans	103,359	161,134	264,493
Sale	(6,082)	(96,951)	(103,033)
Other changes	3,228	(28,669)	(25,441)
Provision[1]	396,088	917,537	1,313,625
Ending	₩ 680,535	₩ 2,189,157	₩ 2,869,692

[1] Provision for credit losses in statements of comprehensive income also include provision(reversal) for unused commitments and guarantees (Note 22), provision(reversal) for financial guarantee contracts (Note 22), and provision(reversal) for other financial assets (Note 17).

The amounts of written-off loans, over which the Group still has a right to claim against the borrowers and guarantors, are ₩ 12,013,004 million and ₩ 11,327,831 million as of December 31, 2013 and 2012, respectively.

The coverage ratio of allowances for loan losses as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)		**2013**		**2012**
Loans	₩	205,514,014	₩	202,284,510
Allowances for loan losses		2,390,259		2,869,692
Ratio (%)		1.16		1.42

12. Financial assets at fair value through profit or loss and Financial Investments

The details of financial assets at fair value through profit or loss and financial investments as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)		2013		2012
Financial assets held for trading				
Debt securities:				
Government and public bonds	₩	1,760,325	₩	1,178,034
Financial bonds		3,156,497		3,505,128
Corporate bonds		1,469,800		1,291,310
Asset-backed securities		281,800		85,488
Others		204,223		113,015
Equity securities:				
Stocks		93,122		173,757
Beneficiary certificates		63,856		111,186
Others		40,252		39,839
Total financial assets at fair value through profit or loss	₩	7,069,875	₩	6,497,757
Available-for-sale financial assets				
Debt securities:				
Government and public bonds	₩	6,528,440	₩	5,894,080
Financial bonds		5,201,359		6,859,157
Corporate bonds		3,508,786		4,697,994
Asset-backed securities		1,193,201		1,399,016
Equity securities:				
Stocks		1,690,384		1,627,835
Equity investments		73,874		89,127
Beneficiary certificates		878,792		670,342
Others		250		250
		19,075,086		21,237,801
Held-to-maturity financial assets				
Debts securities:				
Government and public bonds		3,685,150		3,749,578
Financial bonds		770,283		1,285,684
Corporate bonds		6,189,311		5,638,737
Asset-backed securities		366,774		278,295
		11,011,518		10,952,294
Total financial investments	₩	30,086,604	₩	32,190,095

The impairment losses and the reversal of impairment losses in financial investment for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013		
	Impairment	**Reversal**	**Net**
Available-for-sale financial assets	₩ (155,194)	₩ -	₩ (155,194)
Held-to-maturity financial assets	(5)	-	(5)
	₩ (155,199)	₩ -	₩ (155,199)

(In millions of Korean won)

	2012		
	Impairment	**Reversal**	**Net**
Available-for-sale financial assets	₩ (262,751)	₩ -	₩ (262,751)
Held-to-maturity financial assets	(154)	-	(154)
	₩ (262,905)	₩ -	₩ (262,905)

13. Investments in associates

Investments in associates as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)

	2013					
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
Balhae Infrastructure Fund[1]	12.61	₩ 121,817	₩ 124,968	₩ 124,968	Investment finance	Korea
Korea Credit Bureau Co., Ltd.[1]	9.00	4,500	4,185	4,185	Credit information	Korea
UAMCO., Ltd.[1]	17.50	85,050	139,286	150,826	Other finance	Korea
JSC Bank CenterCredit						
Ordinary share[2]	29.56	954,104	51,989	68,110	Banking	Kazakhstan
Preference share[2]	93.15					
KB06-1 Venture Investment Partnership[3]	50.00	2,500	861	861	Investment finance	Korea
KB08-1 Venture Investment Partnership[3]	66.67	5,300	9,345	9,345	Investment finance	Korea
KB12-1 Venture Investment Partnership[3]	80.00	23,200	22,817	23,200	Investment finance	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	30.00	28,548	27,898	28,548	Investment finance	Korea
United PF 1st Recovery Private Equity Fund[1]	17.72	191,617	203,618	197,941	Other finance	Korea
CH Engineering Co., Ltd.	41.73	-	64	-	Architectural design and related service	Korea
Shinla Construction Co., Ltd.	20.17	-	-	-	Specialty construction	Korea
Kores Co., Ltd.[4]	10.39	634	1,925	1,505	Manufacture of automobile components	Korea
KB GwS Private Securities Investment Trust	20.93	89,124	99,044	97,788	Investment finance	Korea
Incheon Bridge Co., Ltd.[1]	14.99	24,677	(429)	-	Operation of highways and related facilities	Korea
KoFC POSCO HANHWA KB shared growth Private Equity Fund	20.00	11,220	9,296	10,329	Investment finance	Korea
KB Start-up Creation Fund[3]	80.00	4,000	4,030	4,030	Investment finance	Korea
Terra Corporation	24.06	-	20	4	Manufacture of fabricated and processed metal products	Korea
Ssangyong Engineering & Construction Co., Ltd.[4]	15.64	28,779	2,490	-	Office and commercial building construction	Korea
KB Star office Private real estate Investment Trust No.1	21.05	20,000	20,347	20,347	Investment finance	Korea
		₩ 1,595,070	₩ 721,754	₩ 741,987		

(in millions of Korean won)

	2012					
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
Balhae Infrastructure Fund[1]	12.61	₩ 121,817	₩ 125,004	₩ 125,004	Investment finance	Korea
Korea Credit Bureau Co., Ltd.[1]	9.00	4,500	3,790	3,790	Credit information	Korea
UAMCO., Ltd.[1]	17.50	85,050	120,916	139,760	Other finance	Korea
JSC Bank CenterCredit						
Ordinary share[2]	29.56	954,104	257,996	281,889	Banking	Kazakhstan
Preference share[2]	93.15					
KB06-1 Venture Investment Partnership[3]	50.00	3,500	1,920	1,920	Investment finance	Korea
KB08-1 Venture Investment Partnership[3]	66.67	13,000	19,565	19,565	Investment finance	Korea
KB12-1 Venture Investment Partnership[3]	80.00	12,000	11,939	12,000	Investment finance	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	30.00	19,290	17,257	19,186	Investment finance	Korea
United PF 1st Recovery Private Equity Fund[1]	17.72	191,617	201,182	195,425	Other finance	Korea
CH Engineering Co., Ltd.	41.73	-	107	-	Architectural design and related service	Korea
Evalley Co., Ltd.	46.24	-	-	-	Software advisory, development, and supply	Korea
Shinla Construction Co., Ltd.	20.17	-	-	-	Specialty construction	Korea
PyungJeon Industries Co.,LTD.[4]	15.65	-	-	-	Specialty construction	Korea
Kores Co., Ltd.[4]	16.01	634	1,384	1,384	Manufacture of automobile components	Korea
KB GwS Private Securities Investment Trust	20.93	89,124	97,364	96,109	Investment finance	Korea
Incheon Bridge Co., Ltd.[1]	14.99	24,677	1,630	1,630	Operation of Highways and Related facilities	Korea
KoFC POSCO HANHWA KB shared growth Private Equity Fund	20.00	5,000	4,485	4,983	Investment finance	Korea
KB Star office Private real estate Investment Trust No.1	21.05	20,000	20,311	20,311	Investment finance	Korea
		₩ 1,544,313	₩ 884,850	₩ 922,956		

[1] As of December 31, 2013 and 2012, the Group is represented in the governing bodies of its associates. Therefore, the Group has significant influence over the decision-making process relating to their financial and business policies.

[2] The fair value of ordinary shares of JSC Bank CenterCredit, reflecting the quoted market price as of December 31, 2013 and 2012, amounts to ₩ 57,476 million and ₩65,821 million, respectively. The Group determined that ordinary shares and convertible preference shares issued by JSC Bank CenterCredit are the same in economic substance except for voting rights, and therefore, the equity method of accounting is applied on the basis of single ownership ratio of 41.93%, calculated based on ordinary and convertible preference shares held by the Group against the total outstanding ordinary and convertible preference shares issued by JSC Bank

CenterCredit.

[3] As of December 31, 2013 and 2012, the Group is a partner in a limited partnership and does not have the right to control over these entities.

[4] Where the Group has acquired shares of entities through debt-for-equity swaps, the Group is represented in the creditor council. Therefore, the Group has significant influence over the decision-making process relating to their financial and business policies.

Summarized financial information on the main associates, the carrying amount of the Group's interest in the main associates and dividends received from the main associates are as follows:

(In millions of Korean won)

	2013[1]						
	Total assets	Total liabilities	Paid-in capital	Equity	Share of net asset amount	Unrealized gains and losses and others	Carrying amount
Balhae Infrastructure Fund	₩ 993,571	₩ 2,157	₩ 993,030	₩ 991,414	₩ 124,968	₩ -	₩ 124,968
Korea Credit Bureau Co., Ltd.	63,043	16,542	10,000	46,501	4,185	-	4,185
UAMCO., Ltd.	4,365,097	3,567,972	2,430	797,125	139,286	11,540	150,826
JSC Bank CenterCredit	7,083,662	6,903,416	546,794	180,246	51,989	16,121	68,110
KB06-1 Venture Investment Partnership	1,722	-	5,000	1,722	861	-	861
KB08-1 Venture Investment Partnership	14,024	6	7,950	14,018	9,345	-	9,345
KB12-1 Venture Investment Partnership	28,524	3	29,000	28,521	22,817	383	23,200
KoFC KBIC Frontier Champ 2010-5(PEF)	93,367	375	95,160	92,992	27,898	650	28,548
United PF 1st Recovery Private Equity Fund	1,159,220	10,092	1,081,400	1,149,128	203,618	(5,677)	197,941
CH Engineering Co., Ltd.[2]	917	763	158	154	64	(64)	-
Kores Co., Ltd.[3]	92,937	80,914	11,099	12,023	1,925	(420)	1,505
KB GwS Private Securities Investment Trust	473,946	738	425,814	473,208	99,044	(1,256)	97,788
Incheon Bridge Co., Ltd.	740,321	743,182	164,621	(2,861)	(429)	429	-
KoFC POSCO HANHWA KB shared growth Private Equity Fund	48,192	1,712	56,100	46,480	9,296	1,033	10,329
KB Start-up Creation Fund	5,038	1	5,000	5,037	4,030	-	4,030
Terra Corporation[3]	1,659	1,576	254	83	20	(16)	4
Ssangyong Engineering & Construction Co., Ltd.[3]	1,359,658	1,343,734	73,045	15,924	2,490	(2,490)	-
KB Star office Private real estate Investment Trust No.1	217,557	120,910	95,000	96,647	20,347	-	20,347
					₩ 721,754	₩ 20,233	₩ 741,987

(In millions of Korean won)

	2013				
	Operating revenues	Profit (Loss)	Other comprehensive income(loss)	Comprehensive income(loss)	Dividends
Balhae Infrastructure Fund	₩ 57,754	₩ 49,685	₩ -	₩ 49,685	₩ 6,299
Korea Credit Bureau Co., Ltd.	51,571	4,909	-	4,909	-
UAMCO., Ltd.	708,035	105,085	-	105,085	-
JSC Bank CenterCredit	532,768	(497,885)	(5,732)	(503,617)	3
KB06-1 Venture Investment Partnership	89	(151)	32	(119)	-
KB08-1 Venture Investment Partnership	2,707	266	455	721	3,000
KB12-1 Venture Investment Partnership	2,239	(163)	(239)	(402)	-
KoFC KBIC Frontier Champ 2010-5(PEF)	3,368	(2,454)	7,064	4,610	-
United PF 1st Recovery Private Equity Fund	152,315	13,769	-	13,769	-
CH Engineering Co., Ltd. [2]	681	(102)	-	(102)	-
Kores Co., Ltd. [3]	100,769	565	2,472	3,037	-
KB GwS Private Securities Investment Trust	76,201	41,247	-	41,247	6,960
Incheon Bridge Co., Ltd.	77,311	(13,533)	-	(13,533)	-
KoFC POSCO HANHWA KB shared growth Private Equity Fund	1,685	(8,803)	1,759	(7,044)	-
KB Start-up Creation Fund	39	37	-	37	-
Terra Corporation[3]	1,422	17	-	17	-
Ssangyong Engineering & Construction Co., Ltd. [3]	1,724,742	(314,105)	(8,615)	(322,720)	-
KB Star office Private real estate Investment Trust No.1	16,672	8,490	-	8,490	1,751

[1] The amounts included in the financial statements of the associates are adjusted to reflect adjustments made by the entity, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

[2] As the financial statements as of the end of December are not available, the Group applied the equity method by using the financial statements as of the end of November 2013 and adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

[3] As the financial statements as of the end of December are not available, the Group applied the equity method by using the financial statements as of the end of September 2013 and adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

(In millions of Korean won)

	2012[1]						
	Total assets	Total liabilities	Paid-in capital	Equity	Share of net asset amount	Unrealized gains and losses and others	Carrying amount
Balhae Infrastructure Fund	₩ 993,838	₩ 2,138	₩ 993,030	₩ 991,700	₩ 125,004	₩ -	₩ 125,004
Korea Credit Bureau Co., Ltd.	55,944	13,834	10,000	42,110	3,790	-	3,790
UAMCO., Ltd.	4,906,010	4,215,061	2,430	690,949	120,916	18,844	139,760
JSC Bank CenterCredit	7,824,619	7,142,759	546,794	681,860	257,996	23,893	281,889
KB06-1 Venture Investment Partnership	3,989	148	7,000	3,841	1,920	-	1,920
KB08-1 Venture Investment Partnership	29,882	535	19,500	29,347	19,565	-	19,565
KB12-1 Venture Investment Partnership	14,926	2	15,000	14,924	11,939	61	12,000
KoFC KBIC Frontier Champ 2010-5(PEF)	57,779	257	64,300	57,522	17,257	1,929	19,186
United PF 1st Recovery Private Equity Fund	1,153,268	17,886	1,081,400	1,135,382	201,182	(5,757)	195,425
CH Engineering Co., Ltd.[2]	1,088	833	158	255	107	(107)	-
Kores Co., Ltd.[3]	75,750	67,105	11,099	8,645	1,384	-	1,384
KB GwS Private Securities Investment Trust	465,690	503	425,814	465,187	97,364	(1,255)	96,109
Incheon Bridge Co., Ltd.	765,522	754,646	164,621	10,876	1,630	-	1,630
KoFC POSCO HANHWA KB shared growth Private Equity Fund	23,337	913	25,000	22,424	4,485	498	4,983
KB Star office Private real estate Investment Trust No.1	217,732	121,256	95,000	96,476	20,311	-	20,311
					₩ 884,850	₩ 38,106	₩ 922,956

[1] The amounts included in the financial statements of the associates are adjusted to reflect adjustments made by the entity, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

[2] As the financial statements as of the end of December are not available, the Group applied the equity method by using the financial statements as of the end of November 2012 and adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

[3] As the financial statements as of the end of December are not available, the Group applied the equity method by using the financial statements as of the end of September 2012 and adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

(In millions of Korean won)

	2012				
	Operating revenues	Profit (loss)	Other comprehensive income(loss)	Comprehensive income(loss)	Dividends
Balhae Infrastructure Fund	₩ 67,825	₩ 61,514	₩ -	₩ 61,514	₩ 7,747
Korea Credit Bureau Co., Ltd.	47,660	5,019	-	5,019	-
UAMCO., Ltd.	599,570	95,828	-	95,828	-
JSC Bank CenterCredit	269,586	(30,343)	(62,892)	(93,235)	3
KB06-1 Venture Investment Partnership	45	(759)	(260)	(1,019)	-
KB08-1 Venture Investment Partnership	6,678	5,245	(373)	4,872	-
KB12-1 Venture Investment Partnership	63	(76)	-	(76)	-
KoFC KBIC Frontier Champ 2010-5(PEF)	1,870	(6,635)	(124)	(6,759)	-
United PF 1st Recovery Private Equity Fund	98,873	48,040	-	48,040	-
CH Engineering Co., Ltd.[1]	714	(42)	-	(42)	-
Kores Co., Ltd.[2]	72,622	190	-	190	-
KB GwS Private Securities Investment Trust	39,881	39,373	-	39,373	-
Incheon Bridge Co., Ltd.	68,711	(29,451)	-	(29,451)	-
KoFC POSCO HANHWA KB shared growth Private Equity Fund	106	(1,900)	(676)	(2,576)	-
KB Star office Private real estate Investment Trust No.1	2,865	1,476	-	1,476	-

[1] As the financial statements as of the end of December are not available, the Group applied the equity method by using the financial statements as of the end of November 2012 and adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

[2] As the financial statements as of the end of December are not available, the Group applied the equity method by using the financial statements as of the end of September 2012 and adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

The changes in investments in associates for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013							
	Beginning	Acquisition and others	Disposal	Dividends	Gains (losses)	Other comprehen-sive income	Impairment losses	Ending
Balhae Infrastructure Fund	₩125,004	₩ -	₩ -	₩ (6,299)	₩6,263	₩ -	₩ -	₩124,968
Korea Credit Bureau Co., Ltd.	3,790	-	-	-	395	-	-	4,185
UAMCO., Ltd.	139,760	-	-	-	11,066	-	-	150,826
JSC Bank CenterCredit	281,889	-	-	(3)	(204,312)	(9,464)	-	68,110
KB06-1 Venture Investment Partnership	1,920	-	(1,000)	-	(75)	16	-	861
KB08-1 Venture Investment Partnership	19,565	-	(7,700)	(3,000)	176	304	-	9,345
KB12-1 Venture Investment Partnership	12,000	11,200	-	-	-	-	-	23,200
KoFC KBIC Frontier Champ 2010-5(PEF)	19,186	9,390	(132)	-	104	-	-	28,548
United PF 1st Recovery Private Equity Fund	195,425	-	-	-	2,516	-	-	197,941
Kores Co., Ltd.	1,384	-	-	-	91	450	(420)	1,505
KB GwS Private Securities Investment Trust	96,109	-	-	(6,960)	8,639	-	-	97,788
Incheon Bridge Co., Ltd.	1,630	-	-	-	(1,630)	-	-	-
KoFC POSCO HANHWA KB shared growth Private Equity Fund	4,983	6,220	-	-	(972)	98	-	10,329
KB Start-up Creation Fund	-	4,000	-	-	30	-	-	4,030
Terra Corporation	-	-	-	-	4	-	-	4
Ssangyong Engineering & Construction Co., Ltd. [1]	-	28,779	-	-	(8,200)	(1,176)	(19,403)	-
KB Star office Private real estate Investment Trust No.1	20,311	-	-	(1,751)	1,787	-	-	20,347
	₩922,956	₩59,589	₩ (8,832)	₩ (18,013)	₩ (184,118)	₩ (9,772)	₩ (19,823)	₩741,987

(In millions of Korean won)

	2012							
	Beginning	Acquisition and others	Disposal	Dividends	Gains (losses)	Other comprehen-sive income	Impairment losses	Ending
Balhae Infrastructure Fund	₩ 128,778	₩ 2,660	₩ (6,440)	₩ (7,747)	₩ 7,753	₩ -	₩ -	₩ 125,004
Korea Credit Bureau Co., Ltd.	3,766	-	-	-	354	(330)	-	3,790
UAMCO., Ltd.	109,531	-	-	-	30,229	-	-	139,760
JSC Bank CenterCredit [2]	365,059	-	-	(3)	(6,257)	(43,097)	(33,813)	281,889
KB06-1 Venture Investment Partnership	3,930	-	(1,500)	-	(380)	(130)	-	1,920
KB08-1 Venture Investment Partnership	23,316	-	(7,000)	-	3,497	(248)	-	19,565
KB12-1 Venture Investment Partnership	-	12,000	-	-	-	-	-	12,000
KoFC KBIC Frontier Champ 2010-5(PEF)	17,310	1,980	-	-	(104)	-	-	19,186
United PF 1st Recovery Private Equity Fund	143,437	43,617	(402)	-	8,773	-	-	195,425
Kores Co., Ltd.	-	634	-	-	273	477	-	1,384
KB GwS Private Securities Investment Trust	-	90,989	(1,865)	-	6,985	-	-	96,109
Incheon Bridge Co., Ltd.	-	24,677	-	-	(22,916)	(131)	-	1,630
KoFC POSCO HANHWA KB shared growth Private Equity Fund	-	5,000	-	-	(17)	-	-	4,983
KB Star office Private real estate Investment Trust No.1	-	20,000	-	-	311	-	-	20,311
	₩ 795,127	₩ 201,557	₩ (17,207)	₩ (7,750)	₩ 28,501	₩ (43,459)	₩ (33,813)	₩ 922,956

[1] Impairment recognized on reorganization proceedings filed on December 30, 2013.

[2] Soundness in the assets of Kazakhstan banks has been deteriorating due to depression of its domestic economy mainly driven by the global credit crunch. The Group recognized impairment loss in investment of JSC Bank CenterCredit because the Group judged the recovery of JSC Bank CenterCredit's financial soundness to have been delayed and assessed the economic condition in Kazakhstan as not recovering in the near future.

Accumulated unrecognized share of losses in investments in associates due to discontinuation of applying the equity method for the year ended December 31, 2013 and 2012, are as follows:

	2013		2012	
	Unrecognized loss	Accumulated unrecognized loss	Unrecognized loss	Accumulated unrecognized loss
Incheon Bridge Co., Ltd.	₩ 429	₩ 429	₩ -	₩ -
CH Engineering Co., Ltd.	43	94	51	51
Shinla Construction Co., Ltd.	41	100	59	59

14. Property and Equipment, and Investment Property

The details of property and equipment as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩ 1,914,966	₩ -	₩ -	₩ 1,914,966
Buildings	1,151,223	(328,701)	(2,117)	820,405
Leasehold improvements	545,936	(495,966)	-	49,970
Equipment and vehicles	1,437,687	(1,328,503)	-	109,184
Construction in-progress	-	-	-	-
Financial lease assets	66,641	(57,741)	-	8,900
	₩ 5,116,453	₩ (2,210,911)	₩ (2,117)	₩ 2,903,425

(In millions of Korean won)	2012			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩ 1,933,325	₩ -	₩ (581)	₩ 1,932,744
Buildings	1,143,131	(304,630)	(2,661)	835,840
Leasehold improvements	504,581	(454,954)	-	49,627
Equipment and vehicles	1,432,424	(1,323,543)	-	108,881
Construction in-progress	893	-	-	893
Financial lease assets	55,908	(46,141)	-	9,767
	₩ 5,070,262	₩ (2,129,268)	₩ (3,242)	₩ 2,937,752

The changes in property and equipment for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013						
	Beginning	**Acquisition**	**Transfers[1]**	**Disposal**	**Depreciation**	**Others**	**Ending**
Land	₩ 1,932,744	₩ 102	₩ (17,640)	₩ (167)	₩ -	₩ (73)	₩ 1,914,966
Buildings	835,840	776	11,386	(219)	(27,136)	(242)	820,405
Leasehold improvements	49,627	736	32,718	(22)	(42,307)	9,218	49,970
Equipment and vehicles	108,881	77,051	-	(234)	(76,553)	39	109,184
Construction in-progress	893	51,268	(52,161)	-	-	-	-
Financial lease assets	9,767	10,734	-	-	(11,601)	-	8,900
	₩ 2,937,752	₩ 140,667	₩ (25,697)	₩ (642)	₩ (157,597)	₩ 8,942	₩ 2,903,425

(In millions of Korean won)

	2012						
	Beginning	**Acquisition**	**Transfers[1]**	**Disposal**	**Depreciation**	**Others**	**Ending**
Land	₩ 1,941,159	₩ 40	₩ (6,505)	₩ (1,878)	₩ -	₩ (72)	₩ 1,932,744
Buildings	850,618	843	14,217	(2,667)	(26,927)	(244)	835,840
Leasehold improvements	52,045	2,409	31,537	(61)	(38,965)	2,662	49,627
Equipment and vehicles	145,369	61,427	-	(352)	(97,461)	(102)	108,881
Construction in-progress	1,074	49,646	(49,827)	-	-	-	893
Financial lease assets	10,061	12,152	-	-	(12,446)	-	9,767
	₩ 3,000,326	₩ 126,517	₩ (10,578)	₩ (4,958)	₩ (175,799)	₩ 2,244	₩ 2,937,752

[1] Including transfers from investment property and assets held for sale.

The changes in accumulated impairment losses of property and equipment for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

2013				
Beginning	**Impairment**	**Reversal**	**Others**	**Ending**
₩ (3,242)	₩ -	₩ -	₩ 1,125	₩ (2,117)

(In millions of Korean won)

2012				
Beginning	**Impairment**	**Reversal**	**Others**	**Ending**
₩ (3,242)	₩ -	₩ -	₩ -	₩ (3,242)

The details of investment property as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013		
	Acquisition cost	**Accumulated depreciation**	**Carrying amount**
Land	₩ 122,190	₩ -	₩ 122,190
Buildings	89,001	(10,186)	78,815
	₩ 211,191	₩ (10,186)	₩ 201,005

(In millions of Korean won)	2012		
	Acquisition cost	**Accumulated depreciation**	**Carrying amount**
Land	₩ 70,046	₩ -	₩ 70,046
Buildings	30,761	(8,603)	22,158
	₩ 100,807	₩ (8,603)	₩ 92,204

The valuation technique and input variables that are used to measure the fair value of investment property as of December 31, 2013, are as follows:

(In millions of Korean won)	2013		
	Fair Value	**Valuation technique**	**Inputs**
Land and Buildings	₩ 221,884	Cost model	- Price per square meter - Replacement cost

As of December 31, 2013 and 2012, fair values of the investment properties amount to ₩ 221,884 million and ₩ 87,130 million, respectively. The investment properties were measured by qualified independent appraisers with experience in valuing similar properties in the same area. In addition, per the fair value hierarchy on Note 6.1, the fair value hierarchy of all investment properties has been categorized and classified as Level 3.

Rental income from the above investment properties for the years ended December 31, 2013 and 2012, amounts to ₩ 5,016 million and ₩ 856 million, respectively.

The changes in investment property for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013				
	Beginning	Acquisitions	Transfers	Depreciation	Ending
Land	₩ 70,046	₩ 56,056	₩ (3,912)	₩ -	₩ 122,190
Buildings	22,158	58,553	(74)	(1,822)	78,815
	₩ 92,204	₩ 114,609	₩ (3,986)	₩ (1,822)	₩ 201,005

(In millions of Korean won)

	2012			
	Beginning	Transfers	Depreciation	Ending
Land	₩ 68,844	₩ 1,202	₩ -	₩ 70,046
Buildings	22,067	812	(721)	22,158
	₩ 90,911	₩ 2,014	₩ (721)	₩ 92,204

Property and equipment insured as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

		2013	2012	Insurance company
Type	Assets insured	Insurance coverage		
General property insurance	Buildings[1]	₩ 991,003	₩ 1,100,997	Samsung Fire & Marine Insurance Co., Ltd. and others
	Leasehold improvements	109,107	107,374	
	Equipment and vehicles and others	76,084	82,833	
		₩ 1,176,194	₩ 1,291,204	

[1] Buildings include office buildings, investment properties and assets held for sale.

15. Intangible Assets

The details of intangible assets as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Goodwill	₩ 66,490	₩ -	₩ -	₩ 66,490
Other intangible assets	696,380	(532,794)	(5,492)	158,094
	₩ 762,870	₩ (532,794)	₩ (5,492)	₩ 224,584

(In millions of Korean won)	2012			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Goodwill	₩ 66,490	₩ -	₩ -	₩ 66,490
Other intangible assets	655,786	(452,657)	(4,801)	198,328
	₩ 722,276	₩ (452,657)	₩ (4,801)	₩ 264,818

The details of goodwill as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013		2012	
	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount
Housing & Commercial Bank	₩ 65,288	₩ 65,288	₩ 65,288	₩ 65,288
KB Cambodia Bank	1,202	1,202	1,202	1,202
	₩ 66,490	₩ 66,490	₩ 66,490	₩ 66,490

There is no change in goodwill for the years ended December 31, 2013 and 2012.

The details of allocating goodwill to cash-generating units and related information for impairment testing as of December 31, 2013, are as follows:

(In millions of Korean won)

	Housing & Commercial Bank		KB Cambodia Bank	Total
	Retail Banking	Corporate Banking		
Carrying amounts	₩ 49,315	₩ 15,973	₩ 1,202	₩ 66,490
Recoverable amount exceeded carrying amount	40,254	2,814,955	21,506	2,876,715
Discount rate (%)	13.3	13.0	26.3	
Permanent growth rate (%)	3.0	3.0	3.4	

Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the combination for impairment testing, and cash-generating units consist of an operating segment or units which are not larger than an operating segment. The Group recognized the amount of ₩ 65,288 million related to goodwill acquired in the merger of Housing & Commercial Bank. Of those respective amounts, the amounts of ₩ 49,315 million and ₩ 15,973 million were allocated to the Retail Banking and Corporate Banking, respectively. Cash-generating units to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit.

The recoverable amount of a cash-generating unit is measured at the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. If it is difficult to measure the amount obtainable from the sale of the cash-generating unit, the Group measures the fair value less costs to sell by reflecting the characteristics of the measured cash-generating unit. If it is not possible to obtain the reliable information to measure the fair value less costs to sell, the Group uses the asset's value in use as its recoverable amount. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The projections of the future cash flows are based on the most recent financial budget approved by management and generally cover a period of five years. The future cash flows after projection period are estimated on the assumption that the future cash flows will increase by 3.0% for Retail Banking, Corporate Banking and 3.4% for KB Cambodia Bank every year. The key assumptions used for the estimation of the future cash flows are the market size and the Group's market share. The discount rate is a pre-tax rate that reflects assumptions regarding risk-free interest rate, market risk premium and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

The details of intangible assets, excluding goodwill, as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Industrial property rights	₩ 1,245	₩ (881)	₩ -	₩ 364
Software	539,293	(460,775)	-	78,518
Other intangible assets	126,391	(49,743)	(5,492)	71,156
Finance leases assets	29,451	(21,395)	-	8,056
	₩ 696,380	₩ (532,794)	₩ (5,492)	₩ 158,094

(In millions of Korean won)

	2012			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Industrial property rights	₩ 1,146	₩ (773)	₩ -	₩ 373
Software	518,902	(391,276)	-	127,626
Other intangible assets	112,325	(44,284)	(4,801)	63,240
Finance leases assets	23,413	(16,324)	-	7,089
	₩ 655,786	₩ (452,657)	₩ (4,801)	₩ 198,328

The changes in intangible assets, excluding goodwill, for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013					
	Beginning	**Acquisition**	**Disposal**	**Amortization**	**Others**	**Ending**
Industrial property rights	₩ 373	₩ 104	₩ -	₩ (111)	₩ (2)	₩ 364
Software	127,626	21,196	-	(69,499)	(805)	78,518
Other intangible assets[1]	63,240	24,674	(2,981)	(6,150)	(7,627)	71,156
Finance leases assets	7,089	6,036	-	(5,069)	-	8,056
	₩ 198,328	₩ 52,010	₩ (2,981)	₩ (80,829)	₩ (8,434)	₩ 158,094

(In millions of Korean won)

	2012					
	Beginning	**Acquisition**	**Disposal**	**Amortization**	**Others**	**Ending**
Industrial property rights	₩ 62	₩ 408	₩ -	₩ (82)	₩ (15)	₩ 373
Software	177,926	33,605	(2)	(83,903)	-	127,626
Other intangible assets[1]	56,176	15,551	(1,800)	(5,244)	(1,443)	63,240
Finance leases assets	8,416	4,353	-	(5,680)	-	7,089
	₩ 242,580	₩ 53,917	₩ (1,802)	₩ (94,909)	₩ (1,458)	₩ 198,328

[1] Membership rights of other intangible assets with indefinite useful lives recognized impairment losses because their recoverable amount is lower than their carrying amount.

The changes in accumulated impairment losses on intangible assets for the years ended December 31, 2013 and 2012, are as follows:

	2013				
(In millions of Korean won)	**Beginning**	**Impairment**	**Reversal**	**Others**	**Ending**
Accumulated impairment losses on intangible assets	₩ (4,801)	₩ (723)	₩ 24	₩ 8	₩ (5,492)

	2012				
(In millions of Korean won)	**Beginning**	**Impairment**	**Reversal**	**Others**	**Ending**
Accumulated impairment losses on intangible assets	₩ (3,489)	₩ (1,358)	₩ 2	₩ 44	₩ (4,801)

16. Deferred income tax assets and liabilities

The details of deferred income tax assets and liabilities as of December 31, 2013 and 2012, are as follows:

	2013		
(In millions of Korean won)	**Assets**	**Liabilities**	**Net amount**
Other provisions	₩ 78,295	₩ -	₩ 78,295
Impairment losses on property and equipment	2,873	-	2,873
Interest on equity index-linked deposits	340	-	340
Share-based payments	8,241	-	8,241
Provisions for guarantees	50,461	-	50,461
Gains(losses) from valuation on derivatives	-	(13,196)	(13,196)
Present value discount	195	-	195
Gains(losses) from fair value hedged	16,670	-	16,670
Accrued interest	-	(60,327)	(60,327)
Deferred loan origination fees and costs	-	(93,960)	(93,960)
Gains from revaluation	-	(273,806)	(273,806)
Investments in subsidiaries and associates	69,706	(59,923)	9,783
Others	417,242	(262,732)	154,510
	644,023	(763,944)	(119,921)
Offsetting of deferred income tax assets and liabilities	(643,580)	643,580	-
Total	₩ 443	₩ (120,364)	₩ (119,921)

	2012		
(In millions of Korean won)	**Assets**	**Liabilities**	**Net amount**
Other provisions	₩ 76,775	₩ -	₩ 76,775
Impairment losses on property and equipment	2,111	-	2,111
Interest on equity index-linked deposits	722	-	722
Share-based payments	6,044	-	6,044
Provisions for guarantees	50,396	-	50,396
Gains(losses) from valuation on derivatives	-	(36,789)	(36,789)
Present value discount	59	-	59
Gains(losses) from fair value hedged	30,802	-	30,802
Accrued interest	-	(63,382)	(63,382)
Deferred loan origination fees and costs	-	(84,215)	(84,215)
Gains from revaluation	-	(274,170)	(274,170)
Investments in subsidiaries and associates	46,859	(75,590)	(28,731)
Others	354,006	(228,531)	125,475
	567,774	(762,677)	(194,903)
Offsetting of deferred income tax assets and liabilities	(567,327)	567,327	-
Total	₩ 447	₩ (195,350)	₩ (194,903)

Unrecognized deferred income tax liabilities

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩ 118,749 million associated with investments in subsidiaries and associates as of December 31, 2013, due to the following reasons:

- The Group is able to control the timing of the reversal of the temporary difference.
- It is probable that the temporary difference will not be reversed in the foreseeable future.

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩ 65,288 million arising from the initial recognition of goodwill from the merger of Housing and Commercial Bank as of December 31, 2013.

Unrecognized deferred income tax assets

No deferred income tax assets have been recognized for the deductible temporary difference of ₩ 595,196 million associated with investment in subsidiaries and associates as of December 31, 2013, because it is not probable that the temporary differences will be reversed in the foreseeable future.

No deferred income tax assets have been recognized for deductible temporary differences of ₩ 250 million, ₩ 80,204 million and ₩ 13,376 million associated other provisions, loss on SPE repurchase and others, respectively, as of December 31, 2013, due to the uncertainty that these will be realized in the future.

The changes in cumulative temporary differences for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	**2013**			
	Beginning	**Decrease**	**Increase**	**Ending**
Deductible temporary differences				
Gains(losses) from fair value hedge	₩ 127,281	₩ 127,281	₩ 68,884	₩ 68,884
Other provisions	318,070	318,070	323,781	323,781
Impairment losses on property and equipment	8,723	8,723	11,873	11,873
Interest on equity index-linked deposits	2,985	2,985	1,407	1,407
Share-based payments	24,986	24,986	34,053	34,053
Provisions for guarantees	208,247	208,247	208,517	208,517
Present value discount	245	245	804	804
Loss on SPE repurchase	80,204	-	-	80,204
Investment in subsidiaries and associates	591,676	7,737	298,789	882,728
Others	1,469,644	698,775	966,591	1,737,460
	2,832,061	₩ 1,397,049	₩ 1,914,699	3,349,711
Unrecognized deferred income tax assets:				
Share-based payments	10			-
Other provisions	817			250
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	398,516			595,196
Others	6,870			13,376
	₩ 2,345,644			₩ 2,660,685
Tax rate (%)	24.2			24.2
Total deferred income tax assets from deductible temporary differences	₩ 567,774			₩ 644,023

(In millions of Korean won)	2013			
	Beginning	**Decrease**	**Increase**	**Ending**
Taxable temporary differences				
Accrued interest	₩ (261,908)	₩ (216,665)	₩ (204,043)	₩ (249,286)
Deferred loan origination costs fees and costs	(347,996)	(347,996)	(388,266)	(388,266)
Gains from valuation on derivatives	(152,020)	(152,020)	(54,531)	(54,531)
Goodwill from merger	(65,288)	-	-	(65,288)
Gains from revaluation	(1,132,933)	(1,504)	-	(1,131,429)
Investment in subsidiaries and associates	(395,186)	(80,596)	(50,834)	(365,424)
Others	(944,473)	(376,881)	(519,495)	(1,087,087)
	(3,299,804)	₩ (1,175,662)	₩ (1,217,169)	(3,341,311)
Unrecognized deferred income tax liabilities:				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(83,745)			(118,749)
	₩ (3,150,771)			₩ (3,157,274)
Tax rate (%)	24.2			24.2
Total deferred income tax liabilities from deductible temporary differences	₩ (762,677)			₩ (763,944)

(In millions of Korean won)	2012			
	Beginning	**Decrease**	**Increase**	**Ending**
Deductible temporary differences				
Gains(losses) from fair value hedge	₩ 109,596	₩ 109,596	₩ 127,281	₩ 127,281
Other provisions	294,862	294,862	318,070	318,070
Impairment losses on property and equipment	12,666	12,666	8,723	8,723
Interest on equity index-linked deposits	7,378	7,378	2,985	2,985
Share-based payments	19,138	19,138	24,986	24,986
Provisions for guarantees	310,950	310,950	208,247	208,247
Present value discount	303	303	245	245
Loss on SPE repurchase	80,204	-	-	80,204
Investment in subsidiaries and associates	443,215	4,930	153,391	591,676
Others	1,321,572	874,294	1,022,366	1,469,644
	2,599,884	₩ 1,634,117	₩ 1,866,294	2,832,061
Unrecognized deferred income tax assets:				
Share-based payments	2,546			10
Other provisions	365			817
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	339,405			398,516
Others	5,224			6,870
	₩ 2,172,140			₩ 2,345,644
Tax rate (%)	24.2			24.2
Total deferred income tax assets from deductible temporary differences	₩ 525,347			₩ 567,774

(In millions of Korean won)	2012			
	Beginning	**Decrease**	**Increase**	**Ending**
Taxable temporary differences				
Accrued interest	₩ (325,170)	₩ (284,430)	₩ (221,168)	₩ (261,908)
Deferred loan origination costs fees and costs	(400,199)	(400,199)	(347,996)	(347,996)
Gains from valuation on derivatives	(452,179)	(452,179)	(152,020)	(152,020)
Goodwill from merger	(65,288)	-	-	(65,288)
Gains from revaluation	(1,133,280)	(347)	-	(1,132,933)
Investment in subsidiaries and associates	(301,940)	(562)	(93,808)	(395,186)
Others	(844,539)	(71,019)	(170,953)	(944,473)
	(3,522,595)	₩ (1,208,736)	₩ (985,945)	(3,299,804)
Unrecognized deferred income tax liabilities:				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(53,291)			(83,745)
	₩ (3,404,016)			₩ (3,150,771)
Tax rate (%)	24.2			24.2
Total deferred income tax liabilities from deductible temporary differences	₩ (823,586)			₩ (762,677)

17. Other Assets

The details of other assets as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Other financial assets		
Other receivables	₩ 2,820,204	₩ 2,491,131
Accrued income	792,882	873,779
Guarantee deposits	1,334,257	1,317,176
Domestic exchange settlement debits	723,886	2,222,162
Others	19,089	23,964
Allowances for loan losses	(527,114)	(524,661)
Present value discount	(555)	(449)
	5,162,649	6,403,102
Other non-financial assets		
Other receivables	528	32,583
Prepaid expenses	221,160	196,262
Guarantee deposits	3,663	3,749
Others	65,351	67,710
Allowances on other assets	(16,146)	(7,820)
	274,556	292,484
	₩ 5,437,205	₩ 6,695,586

The changes in allowances for loan losses on other assets for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013		
	Other financial assets	Other non-financial assets	Total
Beginning	₩ 524,661	₩ 7,820	₩ 532,481
Written-off	(5,474)	(6,715)	(12,189)
Provision	7,927	15,041	22,968
Ending	₩ 527,114	₩ 16,146	₩ 543,260

(In millions of Korean won)	2012		
	Other financial assets	Other non-financial assets	Total
Beginning	₩ 288,080	₩ 7,981	₩ 296,061
Written-off	(30,044)	(4,188)	(34,232)
Provision	48,301	4,027	52,328
Others	218,324	-	218,324
Ending	₩ 524,661	₩ 7,820	₩ 532,481

18. Assets held for sale

Fair value measurement of assets held for sale

The details of assets held for sale as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013			
	Acquisition cost[1]	Accumulated impairment	Carrying amount	Fair value less costs to sell
Land	₩ 21,380	₩ (5,109)	₩ 16,271	₩ 16,271
Buildings	9,634	(4,978)	4,656	4,656
	₩ 31,014	₩ (10,087)	₩ 20,927	₩ 20,927

(In millions of Korean won)	2012			
	Acquisition cost[1]	Accumulated impairment	Carrying amount	Fair value less costs to sell
Land	₩ 5,287	₩ (2,613)	₩ 2,674	₩ 2,674
Buildings	5,741	(3,146)	2,595	2,595
	₩ 11,028	₩ (5,759)	₩ 5,269	₩ 5,269

[1] Acquisition cost of buildings held for sale is net of accumulated depreciation.

The valuation technique and input variables that are used to measure the fair value of assets held for sale as of December 31, 2013, are as follows:

(In millions of Korean won)

2013					
	Fair value	Valuation technique[1]	Unobservable inputs[2]	Range of unobservable inputs (%)	Effect of unobservable inputs on fair value
Land and buildings	₩ 20,927	Market comparison approach model	Adjustment index	-2.98~2.72	Fair value increases as the adjustment index rises
			Adjustment ratio	-20~0	Fair value decreases as the absolute value of adjustment ratio rises

[1] The Group adjusted the appraisal value by the adjustment ratio in the event the public sale is unsuccessful.

[2] Adjustment index is calculated using the real estate index or the producer price index, or land price volatility.

The fair values of assets held for sale were measured by qualified independent appraisers with experience in valuing similar properties in the same area. In addition, per the fair value hierarchy on Note 6.1, the fair value hierarchy of all investment properties has been categorized and classified as Level 3.

The changes in accumulated impairment losses of assets held for sale for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

2013				
Beginning	**Provision**	**Reversal**	**Others**	**Ending**
₩ (5,759)	₩ (9,044)	₩ -	₩ 4,716	₩ (10,087)

(In millions of Korean won)

2012				
Beginning	**Provision**	**Reversal**	**Others**	**Ending**
₩ (6,247)	₩ (5,708)	₩ -	₩ 6,196	₩ (5,759)

As of December 31, 2013, assets held for sale consist of ten real estates of closed offices and one real estate acquired through execution of security right, which the management of the Group was committed to a plan to sell, but not sold by December 31, 2013. As of December 31, 2013, three assets out of above assets held for sale are under negotiation for sale and the remaining eight assets are also being actively marketed.

19. Deposits

Deposits as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Deposits	₩ 200,967,688	₩ 197,232,970
Deferred financing costs	-	(3)
	₩ 200,967,688	₩ 197,232,967

The details of deposits as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Demand deposits in Korean won		
Checking deposits	₩ 322,389	₩ 267,223
Household checking deposits	467,229	434,814
Special deposits	2,705,704	3,093,286
Ordinary deposits	24,570,520	21,491,888
Public fund deposits	75,127	68,600
Treasury deposits	5,148	5,256
General savings deposits	28,077,274	24,668,545
Corporate savings deposits	10,813,213	10,557,698
Nonresident's deposit in Korean won	67,468	31,614
Nonresident's free deposit in Korean won	15,002	2,818
Other demand deposits	28,008	-
	67,147,082	60,621,742
Demand deposits in foreign currencies		
Checking deposits	251,072	98,478
Ordinary deposits	2,471,292	1,812,227
Special deposits	5,325	1,316
Others	52,765	-
	2,780,454	1,912,021
	69,927,536	62,533,763
Time deposits in Korean won		
Time deposits	108,144,843	114,399,836
Installment savings deposits	11,069,012	7,079,286
Good-sum formation savings	422,486	319
Nonresident's deposit in Korean won	151,853	222,586
Long-term savings deposits for workers	1,543	1,692
Nonresident's free deposit in Korean won	41,085	92,011
Long-term housing savings deposits	2,055,708	3,076,863
Long-term savings for households	190	206
Preferential savings deposits for workers	244	323
Mutual installment deposits	1,478,473	1,143,424
Mutual installment for housing	853,392	1,005,752
Others	3,093,949	2,944,666
	127,312,778	129,966,964
Time deposits in foreign currencies		
Time deposits	2,082,865	2,954,348
Installment savings deposits	4,035	2,131
Others	16,195	23,697
	2,103,095	2,980,176
	129,415,873	132,947,140
Certificates of deposits	1,624,279	1,752,067
Total deposits	₩ 200,967,688	₩ 197,232,970

20. Debts

The details of debts as of December 31, 2013 and 2012, consist of:

(In millions of Korean won)	2013	2012
Borrowings	₩ 10,541,705	₩ 11,208,470
Bonds sold under repurchase agreements and others	460,249	826,122
Call money	2,567,969	2,596,926
	₩ 13,569,923	₩ 14,631,518

The details of borrowings as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

		Lender	Annual interest rate (%)	2013	2012
Borrowings in Korean won	Borrowings from the Bank of Korea	Bank of Korea	0.50~1.00	₩ 557,998	₩ 781,787
	Borrowings from the government	KEMCO and others	0.00~5.00	626,593	626,059
	Borrowings from banking institutions	Industrial Bank of Korea	2.12~2.42	1,877	3,398
	Borrowings from non-banking financial institutions	Korea Development Bank	1.17~2.70	142,511	138,491
	Other borrowings	Korea Finance Corporation and others	0.00~5.30	3,361,261	2,880,848
				4,690,240	4,430,583
Borrowings in foreign currencies	Due to banks	Deutsche Bank Trust Company America and others	0.00~0.55	158,179	52,187
	Borrowings from banking institutions	Sumitomo Mitsui Banking Corp. and others	0.27~4.45	3,831,929	4,312,615
	Borrowings from other financial institutions	Korea Finance Corporation	1.01~1.38	3,166	5,195
	Other borrowings	JP Morgan Chase Bank N.A. and others	-	1,858,191	2,407,890
				5,851,465	6,777,887
				₩10,541,705	₩11,208,470

The details of bonds sold under repurchase agreements and others as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	Lenders	Annual interest rate (%)	2013	2012
Bonds sold under repurchase agreements	Individuals, groups, corporations	0.74~3.69	₩ 382,779	₩ 735,439
Bills sold	Counter sale	1.60~2.70	77,470	90,683
			₩ 460,249	₩ 826,122

The details of call money as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	Lenders	Annual interest rate (%)	2013	2012
Call money in Korean won	Woori Bank and others	2.32~2.47	₩ 1,569,400	₩ 2,018,100
Call money in foreign currencies	Centralbank Uzbekistan and others	0.17~5.23	998,569	578,826
			₩ 2,567,969	₩ 2,596,926

Call money and borrowings from financial institutions as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013			
	Bank of Korea	Other Banks	Others	Total
Call money	₩ 1,001	₩ 1,890,569	₩ 676,399	₩ 2,567,969
Borrowings	557,998	5,536,151	459,702	6,553,851
	₩ 558,999	₩ 7,426,720	₩ 1,136,101	₩ 9,121,820

(In millions of Korean won)	2012			
	Bank of Korea	Other Banks	Others	Total
Call money	₩ -	₩ 1,431,826	₩ 1,165,100	₩ 2,596,926
Borrowings	781,787	6,446,839	472,937	7,701,563
	₩ 781,787	₩ 7,878,665	₩ 1,638,037	₩ 10,298,489

21. Debentures

The details of debentures as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	Annual interest rate (%)	2013	2012
Debentures in Korean won			
Hybrid capital instrument	-	₩ -	₩ 100,000
Structured debentures	0.40 ~ 8.62	1,499,238	1,699,238
Subordinated fixed rate debentures in Korean won	3.08 ~ 7.70	8,648,474	7,896,780
Fixed rate debentures in Korean won	2.62 ~ 4.09	2,941,142	3,227,425
Floating rate debentures in Korean won	3.00 ~ 10.39	102,858	104,158
		13,191,712	13,027,601
Fair value adjustments on fair value hedged financial debentures in Korean won			
Fair value adjustments on valuation of fair value hedged items (current year portion)		(31,577)	36,417
Fair value adjustments on valuation of fair value hedged items (prior year portion)		81,369	52,572
		49,792	88,989
Discount or premium on debentures in Korean won			
Discount on debentures		(8,547)	(9,176)
		13,232,957	13,107,414
Debentures in foreign currencies			
Floating rate debentures	1.11 ~ 1.64	826,770	438,453
Fixed rate debentures	0.40 ~ 7.25	2,335,059	2,553,814
		3,161,829	2,992,267
Fair value adjustments on fair value hedged debentures in foreign currencies			
Fair value adjustments on valuation of fair value hedged items (current year portion)		(42,195)	(68,212)
Fair value adjustments on valuation of fair value hedged items (prior year portion)		(130,011)	(69,061)
		(172,206)	(137,273)
Discount or premium on debentures in foreign currencies			
Discount on debentures		(9,822)	(12,912)
		2,979,801	2,842,082
		₩ 16,212,758	₩ 15,949,496

The changes in debentures based on face value for the year ended December 31, 2013, are as follows:

	2013				
(In millions of Korean won)	**Beginning**	**Issues**	**Repayments**	**Others**	**Ending**
Debentures in Korean won					
Hybrid capital instrument	₩ 100,000	₩ -	₩ (100,000)	₩ -	₩ -
Structured debentures	1,699,238	100,000	(300,000)	-	1,499,238
Subordinated fixed rate debentures in Korean won	7,896,780	1,000,000	(248,306)	-	8,648,474
Fixed rate debentures in Korean won	3,227,425	1,300,000	(1,586,283)	-	2,941,142
Floating rate debentures in Korean won	104,158	302,600	(303,900)	-	102,858
	13,027,601	2,702,600	(2,538,489)	-	13,191,712
Debentures in foreign currencies					
Floating rate debentures	438,453	537,850	(176,050)	26,517	826,770
Fixed rate debentures	2,553,814	657,465	(772,364)	(103,856)	2,335,059
	2,992,267	1,195,315	(948,414)	(77,339)	3,161,829
	₩16,019,868	₩3,897,915	₩ (3,486,903)	₩ (77,339)	₩16,353,541

The changes in debentures based on face value for the year ended December 31, 2012, are as follows:

	2012				
(In millions of Korean won)	**Beginning**	**Issues**	**Repayments**	**Others**	**Ending**
Debentures in Korean won					
Hybrid capital instrument	₩ 100,000	₩ -	₩ -	₩ -	₩ 100,000
Structured debentures	3,424,238	310,000	(2,035,000)	-	1,699,238
Subordinated fixed rate debentures in Korean won	7,995,571	1,800,000	(1,898,791)	-	7,896,780
Fixed rate debentures in Korean won	3,411,612	2,610,000	(2,794,187)	-	3,227,425
Floating rate debentures in Korean won	444,258	100,900	(441,000)	-	104,158
	15,375,679	4,820,900	(7,168,978)	-	13,027,601
Debentures in foreign currencies					
Floating rate debentures	963,616	198,478	(682,622)	(41,019)	438,453
Fixed rate debentures	2,705,167	1,034,162	(1,042,992)	(142,523)	2,553,814
	3,668,783	1,232,640	(1,725,614)	(183,542)	2,992,267
	₩19,044,462	₩6,053,540	₩ (8,894,592)	₩ (183,542)	₩16,019,868

22. Provisions

The details of provisions as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Provisions for unused loan commitments	₩ 139,997	₩ 147,257
Provisions for acceptances and guarantees	209,110	208,746
Provisions for asset retirement obligation	67,995	58,701
Other	122,635	122,647
	₩ 539,737	₩ 537,351

Provisions for unused loan commitments as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013		
	Commitments outstanding	Provision	Ratio (%)
Corporate loan commitments	₩ 42,972,292	₩ 101,876	0.24
Retail loan commitments	13,922,285	38,121	0.27
	₩ 56,894,577	₩ 139,997	0.25

(In millions of Korean won)	2012		
	Commitments outstanding	Provision	Ratio (%)
Corporate loan commitments	₩ 41,338,162	₩ 106,094	0.26
Retail loan commitments	14,323,526	41,163	0.29
	₩ 55,661,688	₩ 147,257	0.26

Provisions for acceptances and guarantees as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013		
	Acceptances and guarantees	**Provision**	**Ratio (%)**
Confirmed acceptances and guarantees in Korean won	₩ 1,231,551	₩ 42,596	3.46
Confirmed acceptances and guarantees in foreign currencies	4,532,037	96,077	2.12
Unconfirmed acceptances and guarantees	4,041,087	70,437	1.74
	₩ 9,804,675	₩ 209,110	2.13

(In millions of Korean won)	2012		
	Acceptances and guarantees	**Provision**	**Ratio (%)**
Confirmed acceptances and guarantees in Korean won	₩ 1,564,111	₩ 33,547	2.14
Confirmed acceptances and guarantees in foreign currencies	3,609,636	75,859	2.10
Unconfirmed acceptances and guarantees	4,244,517	99,340	2.34
	₩ 9,418,264	₩ 208,746	2.22

The changes in provisions for unused loan commitments, acceptances and guarantees for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013		
	Provisions for unused loan commitments	**Provisions for acceptances and guarantees**	**Total**
Beginning	₩ 147,257	₩ 208,746	₩ 356,003
Effects of changes in foreign exchange rate	(165)	(961)	(1,126)
Provison(Reversal)	(7,095)	1,325	(5,770)
Ending	₩ 139,997	₩ 209,110	₩ 349,107

(In millions of Korean won)	2012		
	Provisions for unused loan commitments	**Provisions for acceptances and guarantees**	**Total**
Beginning	₩ 146,873	₩ 311,189	₩ 458,062
Effects of changes in foreign exchange rate	(769)	(10,218)	(10,987)
Provison(Reversal)	1,153	(68,472)	(67,319)
Other	-	(23,753)	(23,753)
Ending	₩ 147,257	₩ 208,746	₩ 356,003

The changes in provisions for asset retirement obligation for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	**2013**		**2012**	
Beginning	₩	58,701	₩	55,632
Provision		3,184		2,394
Used		(1,836)		(1,246)
Unwinding of discount		1,994		2,354
Effects of changes in discount rate		5,952		(433)
Ending	₩	67,995	₩	58,701

Provisions for asset retirement obligation are present value of estimated costs to be incurred for restoration of the leased properties. Actual expenses are expected to be incurred at the end of each lease contract. Three-year historical data of expired leases were used to estimate the average lease year. Also, the average restoration expense based on actual three-year historical data and the three-year historical average inflation rate were used to estimate the present value of estimated costs.

The details of other provisions as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	**2013**		**2012**	
Provisions for membership rewards program	₩	69	₩	151
Dormant accounts		16,838		16,028
Provisions for litigations		3,257		2,977
Provisions for financial guarantee contracts		2,699		7,383
Others		99,772		96,108
	₩	122,635	₩	122,647

The changes in other provisions for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013					
	Membership rewards program	**Dormant accounts**	**Litigations**	**Financial guarantee liability**	**Others**	**Total**
Beginning	₩ 151	₩ 16,028	₩ 2,977	₩ 7,383	₩ 96,108	₩ 122,647
Provision (Reversal)	160	10,595	786	(4,684)	24,310	31,167
Used and Others	(242)	(9,785)	(506)	-	(20,646)	(31,179)
Ending	₩ 69	₩ 16,838	₩ 3,257	₩ 2,699	₩ 99,772	₩ 122,635

(In millions of Korean won)

	2012					
	Membership rewards program	**Dormant accounts**	**Litigations**	**Financial guarantee liability**	**Others**	**Total**
Beginning	₩ 250	₩ 11,292	₩ 5,489	₩ 7,959	₩ 79,930	₩ 104,920
Provision (Reversal)	255	13,998	1,287	(576)	14,698	29,662
Used and Others	(354)	(9,262)	(3,799)	-	1,480	(11,935)
Ending	₩ 151	₩ 16,028	₩ 2,977	₩ 7,383	₩ 96,108	₩ 122,647

23. Net defined benefit liabilities

Defined benefit plan

The Group operates defined benefit plans which have the following characteristics:

- The Group has the obligation to pay the agreed benefits to all its current and former employees.
- Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the Group.

The net defined benefit liability recognized in the statements of financial position is calculated by independent actuaries in accordance with actuarial valuation methods.

The defined benefit obligation is calculated using the Projected Unit Credit method (the 'PUC'). Data used in the PUC such as interest rates, future salary increase rate, mortality rate and consumer price index are based on observable market data and historical data are updated annually.

Actuarial assumptions may differ from actual results, due to changes in the market, economic trends and mortality trends which may impact net defined benefit liabilities and future payments. Actuarial gains and losses arising from changes in actuarial assumptions are recognized in the year incurred through other comprehensive income.

The changes in the net defined benefit liabilities (assets) for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013		
	Present value of defined benefit obligation	**Fair value of plan assets**	**Net defined benefit liabilities**
Beginning	₩ 878,298	₩ (805,237)	₩ 73,061
Current service cost	156,073	-	156,073
Interest cost(income)	31,030	(28,455)	2,575
Gain or loss on settlement	(4,244)	-	(4,244)
Remeasurements :			
-Actuarial loss arising from changes in demographic assumptions	710	-	710
-Actuarial gain arising from changes in financial assumptions	(62,580)	-	(62,580)
-Actuarial loss arising from experience adjustment	6,109	-	6,109
-Return on plan assets (excluding amounts included in interest income)	-	952	952
Contributions	-	(116,803)	(116,803)
Payments from plans (settlement)	(65,493)	65,212	(281)
Payments from plans (benefit payments)	(30,355)	30,355	-
Payments from the Group	(3,715)	-	(3,715)
Transfer in	1,354	(1,354)	-
Transfer out	(1,093)	856	(237)
Exchange difference on foreign currency plans	(95)	-	(95)
Ending	₩ 905,999	₩ (854,474)	₩ 51,525

(In millions of Korean won)	2012		
	Present value of defined benefit obligation	**Fair value of plan assets**	**Net defined benefit liabilities**
Beginning	₩ 678,777	₩ (563,326)	₩ 115,451
Current service cost	140,983	-	140,983
Interest cost(income)	29,092	(24,179)	4,913
Past service cost	12,675	-	12,675
Remeasurements :			
-Actuarial gain arising from changes in demographic assumptions	(30,599)	-	(30,599)
-Actuarial loss arising from changes in financial assumptions	48,429	-	48,429
-Actuarial loss arising from experience adjustment	22,129	-	22,129
-Return on plan assets (excluding amounts included in interest income)	-	(1,353)	(1,353)
Contributions	-	(232,800)	(232,800)
Payments from plans (benefit payments)	(15,365)	15,365	-
Payments from the Group	(6,425)	-	(6,425)
Transfer in	424	(392)	32
Transfer out	(1,738)	1,448	(290)
Exchange difference on foreign currency plans	(84)	-	(84)
Ending	₩ 878,298	₩ (805,237)	₩ 73,061

The details of the net defined benefit liabilities as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Present value of defined benefit obligation	₩ 905,999	₩ 878,298
Fair value of plan assets	(854,474)	(805,237)
Net defined benefit liabilities	₩ 51,525	₩ 73,061

The details of post-employment benefits recognized in profit or loss as employee compensation and benefits for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Current service cost	₩ 156,073	₩ 140,983
Interest expenses of net defined benefit liabilities	2,575	4,913
Past service cost	-	12,675
Gain or loss on settlement	(4,244)	-
Total	₩ 154,404	₩ 158,571

Remeasurements of net defined benefit liabilities recognized as other comprehensive income for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	2013	2012
Remeasurements:		
-Actuarial loss(gain) arising from changes in demographic assumptions	₩ (710)	₩ 30,599
-Actuarial gain(loss) loss arising from changes in financial assumptions	62,580	(48,429)
-Actuarial loss arising from experience adjustment	(6,109)	(22,129)
-Return on plan assets (excluding amounts included in interest income)	(952)	1,353
Income tax effects	(13,264)	9,343
Remeasurements after income tax	₩ 41,545	₩ (29,263)

The details of fair value of plan assets as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013		
	Assets quoted in an active market	Assets not quoted in an active market	Total
Time deposits	₩ -	₩ 849,336	₩ 849,336
Repurchase agreements	-	5,138	5,138
	₩ -	₩ 854,474	₩ 854,474

(In millions of Korean won)	2012		
	Assets quoted in an active market	Assets not quoted in an active market	Total
Time deposits	₩ -	₩ 805,237	₩ 805,237

Key actuarial assumptions used as of December 31, 2013 and 2012, are as follows:

	Ratio (%)	
	2013	**2012**
Discount rate (%)	4.00	3.55
Salary increase rate (%)	2.50~4.55	2.50~4.55
Turnover (%)	0.70	0.70

Mortality assumptions are based on the 7th experience-based mortality table of Korea Insurance Development Institute of 2012.

The sensitivity of the defined benefit obligation to changes in the principal assumptions as of December 31, 2013, is as follows:

(In millions of Korean won)		Effect on defined benefit obligation	
	Changes in principal assumption	Decrease in principal assumption	Increase in principal assumption
Discount rate (%)	0.5%	4.95% decrease	5.33% increase
Salary increase rate (%)	0.5%	4.96% increase	4.66% decrease
Turnover (%)	0.5%	0.22% decrease	0.23% increase

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions using the same method, the projected unit credit method, is applied when calculating the defined benefit obligations recognized within the statement of financial position.

Expected maturity analysis of undiscounted pension benefits as of December 31, 2013, is as follows:

(in millions of Korean won)	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Between 5 and 10 years**	**Over 10 years**	**Total**
Pension benefits	18,062	53,668	234,998	734,834	3,069,734	₩4,111,296

The weighted average duration of the defined benefit obligations is 9.8 years.

Expected contributions to plan assets for periods post-December 31, 2013, is estimated to be approximately ₩ 150,000 million.

24. Other liabilities

The details of other liabilities as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)		2013		2012
Other financial liabilities				
Other payables	₩	2,374,288	₩	2,108,473
Prepaid card and debit cards		1,928		2,373
Accrued expenses		3,906,527		4,344,084
Financial guarantee liabilities		11,797		7,153
Deposits for letter of guarantees and others		141,689		148,103
Domestic exchange settlement credits		986,432		151,091
Foreign exchanges settlement credits		83,237		52,456
Borrowings from other business accounts		7,911		34,367
Payable to trust accounts		2,423,675		2,009,396
Liability incurred from agency relationship		532,157		499,249
Account for agency businesses		384,921		402,290
Others		10,568		21,159
		10,865,130		9,780,194
Other non-financial liabilities				
Other payables		145,696		213,656
Unearned revenue		47,445		53,318
Accrued expenses		142,463		139,132
Withholding taxes		106,116		113,415
Others		65,349		20,014
		507,069		539,535
	₩	11,372,199	₩	10,319,729

25. Equity

25.1 Capital Stock

The details of outstanding shares of the Group as of December 31, 2013 and 2012, are as follows:

	Ordinary shares	
	2013	**2012**
Number of shares authorized	1,000,000,000	1,000,000,000
Par value per share	₩ 5,000	₩ 5,000
Number of shares	404,379,116	404,379,116
Capital stock[1]	₩ 2,021,896	₩ 2,021,896

[1] In millions of Korean won.

25.2 Capital surplus

The details of capital surplus as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	**2013**	**2012**
Paid-in capital in excess of par value	₩ 4,604,417	₩ 4,604,417
Gain on business combination	397,669	397,669
Revaluation increment	177,229	177,229
Other capital surplus	40,389	40,357
	₩ 5,219,704	₩ 5,219,672

The gain on business combination is a gain from a bargain purchase from the merger with Korea Long Term Credit Bank on December 31, 1998, in accordance with previous Korean GAAP.

25.3 Accumulated other comprehensive income

The details of accumulated other comprehensive income as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Remeasurements of net defined benefit liabilities	₩ (4,085)	₩ (45,630)
Currency translation differences	(29,430)	(27,058)
Gain on valuation of available-for-sale financial assets	538,218	504,223
Gain on valuation of held-to-maturity financial assets	3	8
Losses on valuation of equity method investments	(57,087)	(47,389)
	₩ 447,619	₩ 384,154

25.4 Retained earnings

Retained earnings as of December 31, 2013 and 2012, consist of:

(In millions of Korean won)	2013	2012
Legal reserves	₩ 1,909,363	₩ 1,778,018
Regulatory reserve for credit losses	1,590,347	1,529,643
Voluntary reserves	8,369,234	7,545,629
Retained earnings before appropriation	1,059,151	1,537,209
	₩ 12,928,095	₩ 12,390,499

With respect to the allocation of net profit earned in a fiscal term, the Bank must set aside in its legal reserve an amount equal to at least 10% of its net income after tax as reported in the separate statement of comprehensive income each time it pays dividends on its net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital in accordance with Article 40 of the Banking Act. The reserves can only be transferred to capital stock or be used to reduce deficit. With respect to the Bank's branches overseas, a portion of the branch's net income is appropriated into legal reserves, in line with the financial legislation of the country where the overseas branch is located.

Regulatory Reserve for Credit Losses

Measurement and Disclosure of Regulatory Reserve for Credit Losses are required in accordance with Article 29.1 through 29.2 of Regulation on supervision of Banking Business.

The details of the regulatory reserve for credit losses as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	**2013**	**2012**
Beginning	₩ 1,590,347	₩ 1,529,643
Amounts estimated to be appropriated	100,632	60,704
Ending	₩ 1,690,979	₩ 1,590,347

The adjustments to the regulatory reserve for credit losses for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	**2013**	**2012**
Provision of regulatory reserve for credit losses	₩ 100,632	₩ 60,704
Adjusted profit after provision of regulatory reserve for credit losses[1]	719,087	1,379,419

[1] Adjusted profit after provision of regulatory reserve for credit losses is not accordance with K-IFRS and calculated on the assumption that provision(reversal) of regulatory reserve for credit losses before income tax is adjusted to the profit.

26. Interest income and expense

The details of interest income and expense for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Interest income		
Due from financial institutions	₩ 107,090	₩ 110,440
Loans	9,258,122	10,971,962
Financial investments		
Available-for-sale financial assets	579,808	679,638
Held-to-maturity financial assets	505,038	570,487
Other	145,322	162,517
	10,595,380	12,495,044
Interest expenses		
Deposits	4,274,624	5,422,791
Debts	261,077	335,685
Debentures	824,057	890,964
Other	75,382	66,129
	5,435,140	6,715,569
Net interest income	₩ 5,160,240	₩ 5,779,475

Interest income recognized on impaired loans is ₩ 106,603 million (2012: ₩ 117,258 million) for the year ended December 31, 2013. Interest income recognized on impaired financial investments is ₩ 4 million (2012: ₩ 8 million) for the year ended December 31, 2013.

27. Fee and commission income and expense

The details of fee and commission income, and fee and commission expense for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Fee and commission income		
Banking activity fees	₩ 171,582	₩ 171,605
Lending activity fees	90,243	89,553
Agent activity fees	411,498	550,239
Trust and other fiduciary fees	137,558	135,724
Guarantee fees	34,173	33,594
Credit card related fees and commissions	1,809	2,375
Foreign currency related fees	102,047	108,615
Security activity commissions	174,179	171,993
Other business account commission on consignment	29,799	30,354
Debit card related fees and commissions	572	712
Others	128,190	142,724
	1,281,650	1,437,488
Fee and commission expense		
Trading activity related fees[1]	9,742	9,801
Lending activity fees	19,535	21,647
Credit card related fees and commissions	1,301	1,447
Contributions to external institutions	17,454	17,329
Outsourcing related fees	55,465	61,439
Foreign currency related fees	12,483	17,313
Management fees of written-off loans	12,071	10,719
Others	48,855	44,381
	176,906	184,076
Net fee and commission income	₩ 1,104,744	₩ 1,253,412

[1] The fees from financial assets/liabilities at fair value through profit or loss.

28. Net gains or losses from financial assets/liabilities at fair value through profit or loss

Net gains or losses from financial assets/liabilities at fair value through profit or loss held for trading includes interest income, dividend income, gains or losses arising from changes in the fair values, sales and redemptions. The details for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Gains from financial instruments held for trading		
Financial assets held for trading		
Debt securities	₩ 251,490	₩ 338,467
Equity securities	31,829	51,212
	283,319	389,679
Derivatives held for trading		
Interest rate	1,031,352	908,368
Currency	2,491,176	2,699,155
Stock or index	49,267	68,019
Other	2,252	3,421
	3,574,047	3,678,963
Financial liabilities held for trading	197	54
Other financial instruments	69	48
	3,857,632	4,068,744
Losses from financial instruments held for trading		
Financial assets held for trading		
Debt securities	71,706	37,431
Equity securities	29,034	27,257
	100,740	64,688
Derivatives held for trading		
Interest rate	1,022,572	929,292
Currency	1,975,892	2,257,185
Stock or index	65,177	74,038
Other	2,268	2,433
	3,065,909	3,262,948
Financial liabilities held for trading	453	573
Other financial instruments	29	35
	3,167,131	3,328,244
Net gain or loss from financial instruments held for trading	₩ 690,501	₩ 740,500

29. Other operating income and expenses

The details of other operating income and expenses for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Other operating income		
Revenue related to available-for-sale financial assets		
Gains on redemption of available-for-sale financial assets	₩ 867	₩ 480
Gains on sale of available-for-sale financial assets	134,202	82,638
	135,069	83,118
Gains on foreign exchange transactions	1,369,517	1,078,601
Dividend income	60,789	61,136
Others	161,369	197,762
	1,726,744	1,420,617
Other operating expenses		
Expense related to available-for-sale financial assets		
Losses on redemption of available-for-sale financial assets	65	11
Losses on sale of available-for-sale financial assets	15,458	6,219
Impairment on available-for-sale financial assets	155,194	262,751
	170,717	268,981
Impairment on held-to-maturity financial assets	5	154
Losses on foreign exchange transactions	1,663,967	1,409,450
Others	947,441	992,197
	2,782,130	2,670,782
Net other operating expenses	₩ (1,055,386)	₩ (1,250,165)

30. General and administrative expenses

30.1 General and administrative expenses

The details of general and administrative expenses for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Employee Benefits		
Salaries and short-term employee benefits - salaries	₩ 1,395,233	₩ 1,362,169
Salaries and short-term employee benefits – welfare expense	631,584	618,674
Post-employment benefits - defined benefit plans	154,404	158,571
Post-employment benefits - defined contribution plans	2,980	1,159
Termination benefits	19,269	(3,960)
Share-based payments	14,616	8,578
	2,218,086	2,145,191
Depreciation and amortization	240,248	271,429
Other general and administrative expenses		
Rental expense	267,992	256,143
Tax and dues	100,462	31,103
Communication	25,492	26,029
Electricity and utilities	22,878	21,746
Publication	14,412	15,080
Repairs and maintenance	13,924	12,799
Vehicle	9,745	10,148
Travel	3,817	3,287
Training	16,828	19,383
Service fees	83,967	84,423
Others	378,937	380,227
	938,454	860,368
	₩ 3,396,788	₩ 3,276,988

30.2 Share-based payments

30.2.1 Share options

The details of the share options as of December 31, 2013, are as follows:

(In number of shares)

	Grant date	Exercise year (Years)	Number of granted shares[1]	Vesting conditions
Series 19	2006.03.24	8	930,000	Service year: 1, 2, 3 years[2]
Series 20	2006.04.28	8	30,000	Service year: 3 years[2]
Series 21	2006.10.27	8	20,000	Service year: 2 years[2]
Series 22	2007.02.08	8	855,000	Service year: 1, 3 years[2]
Series 23	2007.03.23	8	30,000	Service year: 3 years[2]
			1,865,000	

[1] Granted shares represent the total number of shares initially granted to directors and employees whose options have not been exercised at the end of the reporting period.
[2] The exercise price is indexed to the sum of the major competitors' total market capitalization.

The changes in the number of granted share options and the weighted average exercise price for the years ended December 31, 2013 and 2012, are as follows:

(In Korean won, except shares)

	2013					
	Number of granted shares			Number of exercisable share	Exercise price per share	Remaining contractual life(Years)
	Beginning	Expired	Ending			
Series 15-1	125,362	125,362	-	-	-	-
Series 15-2	440,928	440,928	-	-	-	-
Series 17	29,441	29,441	-	-	-	-
Series 18	7,212	7,212	-	-	-	-
Series 19	751,651	-	751,651	751,651	77,063	0.23
Series 20	25,613	-	25,613	25,613	81,900	0.32
Series 21	18,987	-	18,987	18,987	76,600	0.82
Series 22	657,498	-	657,498	657,498	77,100	1.11
Series 23	15,246	-	15,246	15,246	84,500	1.22
	2,071,938	602,943	1,468,995	1,468,995		
Weighted average exercise price	₩ 68,909	₩ 48,625	₩ 77,235	₩ 77,235		

(In Korean won, except shares)

	2012					
	Number of granted shares			Number of exercisable share	Exercise price per share	Remaining contractual life(Years)
	Beginning	Expired	Ending			
Series 12	54,250	54,250	-	-	-	-
Series 13-1	20,000	20,000	-	-	-	-
Series 15-1	125,362	-	125,362	125,362	54,656	0.21
Series 15-2	440,928	-	440,928	440,928	46,800	0.21
Series 17	29,441	-	29,441	29,441	49,200	0.56
Series 18	7,212	-	7,212	7,212	53,000	0.64
Series 19	751,651	-	751,651	751,651	77,063	1.23
Series 20	25,613	-	25,613	25,613	81,900	1.32
Series 21	18,987	-	18,987	18,987	76,600	1.82
Series 22	657,498	-	657,498	657,498	77,100	2.11
Series 23	15,246	-	15,246	15,246	84,500	2.22
	2,146,188	74,250	2,071,938	2,071,938		
Weighted average exercise price	₩ 68,144	₩ 46,787	₩ 68,909	₩ 68,909		

The fair value of each option granted is estimated using a Black-Scholes option pricing model based on the assumptions in the table below:

(In Korean won)	Share price	Weighted average exercise price	Expected volatility (%)	Option's expected life (Years)	Expected dividends	Risk free interest rate (%)	Fair value
Series 19 (Directors)	40,700	76,726	10.99	0.11	57	2.67	-
Series 19 (Employees)	40,700	77,390	10.99	0.11	57	2.67	-
Series 20 (Employees)	40,700	81,900	15.65	0.16	81	2.67	-
Series 21 (Employees)	40,700	76,600	22.52	0.41	205	2.67	-
Series 22 (Directors)	40,700	77,100	23.67	0.55	275	2.67	-
Series 22 (Employees)	40,700	77,100	27.42	0.23	116	2.67	-
Series 23 (Non-executive directors)	40,700	84,500	22.76	0.61	304	2.67	-

The option's expected life is separately estimated for employees and directors using actual historical behavior and projected future behavior to reflect the effects of expected early exercise. Expected volatility is based on the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option. To reflect the changes in exercise price which is indexed to the sum of the major competitors' total market capitalization, cross volatility is used in calculating the expected volatility.

30.2.2 Share Grants

The Group changed the scheme of share-based payment from share option to share grants in November 2007. The share grant award program is an incentive plan that sets, on grant date, the maximum amount of shares that can be awarded. Actual shares granted at the end of the vesting period is determined in accordance with achievement of pre-specified targets over the vesting period.

The details of the share grants as of December 31, 2013, are as follows:

(In number of shares)

Share grants	Grant date	Number of granted shares[1]	Vesting conditions
Series 32	2011.03.24	7,986	Services fulfillment, Achievements of targets on the basis of non-market performance[2,4]
Series 33	2011.07.07	6,025	Services fulfillment, Achievements of targets on the basis of market and non-market performance [3,4]
Series 34	2011.08.10	10,242	Services fulfillment, Achievements of targets on the basis of market and non-market performance [3,4]
Series 36	2011.10.18	8,596	Services fulfillment, Achievements of targets on the basis of market and non-market performance [3,4]
Series 37	2011.12.23	68,310	Services fulfillment, Achievements of targets on the basis of market and non-market performance [3,4]
Series 38	2012.01.01	171,100	Services fulfillment, Achievements of targets on the basis of market and non-market performance [3,4]
Series 39	2012.01.08	18,250	Services fulfillment, Achievements of targets on the basis of market and non-market performance [3,4]
Series 40	2012.08.01	9,864	Services fulfillment, Achievements of targets on the basis of market and non-market performance [3,4]
Series 41	2012.08.02	37,513	Services fulfillment, Achievements of targets on the basis of market and non-market performance [3,4]
Series 42	2012.09.20	8,244	Services fulfillment, Achievements of targets on the basis of market and non-market performance [3,4]
Series 43	2012.11.26	13,918	Services fulfillment, Achievements of targets on the basis of market and non-market performance [3,4]
Series 44	2013.01.01	17,242	Services fulfillment, Achievements of targets on the basis of market and non-market performance [3,4]

Series 45	2013.01.01	77,584	Services fulfillment, Achievements of targets on the basis of market and non-market performance [3,4]
Series 46	2013.01.01	120,680	Services fulfillment, Achievements of targets on the basis of market and non-market performance [3,4]
Series 47	2013.07.01	10,298	Services fulfillment, Achievements of targets on the basis of market and non-market performance [3,4]
Series 48	2013.07.23	74,666	Services fulfillment, Achievements of targets on the basis of market and non-market performance [3,4]
Series 49	2013.07.24	109,420	Services fulfillment, Achievements of targets on the basis of market and non-market performance [3,4]
Series 50	2013.07.24	82,926	Services fulfillment, Achievements of targets on the basis of market and non-market performance [3,4]
Series 51	2013.07.25	9,180	Services fulfillment, Achievements of targets on the basis of market and non-market performance [3,4]
Series 52	2013.08.01	10,278	Services fulfillment, Achievements of targets on the basis of market and non-market performance [3,4]
Grant deferred in 2010	-	5,240	Satisfied
Grant deferred in 2011	-	17,670	Satisfied
Grant deferred in 2012	-	47,892	Satisfied
Grant deferred in 2013	-	25,273	Satisfied
		968,397	

[1] Granted shares represent the total number of shares initially granted to directors and employees at the end of reporting period.

[2] The number of granted shares to be compensated is fixed and not linked to performance.

[3] The 30%, 30% and 40% of the number of granted shares to be compensated are determined based on the accomplishment of the targeted KPI, the targeted financial results of the Bank and the targeted relative TSR, respectively. However, half of the number of granted shares to be compensated is determined based on the accomplishment of the targeted relative TSR, while the other half is determined by the targeted KPIs.

[4] Certain portion of the granted shares is compensated over a maximum period of three years.

The details of share grants linked to short-term performance as of December 31, 2013, are as follows:

	Grant date	Number of vested shares [1]	Vesting conditions
Granted shares for 2010	2010.01.01	27,548	Satisfied
Granted shares for 2011	2011.01.01	94,822	Satisfied
Granted shares for 2012	2012.01.01	155,466	Satisfied
Granted shares for 2013	2013.01.01	174,304	Proportion to service year

[1] The number of shares, which are exercisable, is determined by the results of performance. The share grants are settled over three years.

Share grants are measured at fair value using the Monte Carlo Simulation Model and assumptions used in determining the fair value as of December 31, 2013, are as follows:

(In Korean won)	Expected exercise period (Years)	Risk free rate (%)	Fair value (Market performance condition)	Fair value (Non-market performance condition)
Linked to long term performance				
Series 32	0.25~2.97	2.67	-	39,923~44,228
Series 33	0.25~3.00	2.67	-	40,662~44,160
Series 34	0.25~3.00	2.67	-	40,662~44,160
Series 36	0.25~3.00	2.67	-	40,662~44,160
Series 37	0.25~3.00	2.67	-	40,662~44,160
Series 38	0.25~3.00	2.67	-	40,662~44,160
Series 39	0.25~3.00	2.67	-	40,662~44,160
Series 40	0.25~3.00	2.67	-	40,662~44,160
Series 41-1	0.58~4.00	2.67	10,272	42,844~44,477
Series 41-2	0.25~3.00	2.67	-	40,662~44,160
Series 42	0.25~3.00	2.67	-	40,662~44,160
Series 43	0.90~4.00	2.67	3,421	42,844~44,477
Series 44	0.25~3.00	2.67	-	40,662~44,160
Series 45-1	1.00~4.00	2.67	8,988	42,844~44,477
Series 45-2	0.25~3.00	2.67	-	40,662~44,160
Series 46-1	1.00~4.00	2.67	8,988	42,844~44,477
Series 46-2	0.25~3.00	2.67	-	40,662~44,160
Series 47	0.25~3.00	2.67	-	40,662~44,160
Series 48	1.56~5.00	2.72	21,274	43,343~45,144
Series 49-1	1.56~5.00	2.72	21,255	43,343~45,144
Series 49-2	0.25~3.00	2.67	28,655	40,662~44,160
Series 50	1.56~5.00	2.72	21,255	43,343~45,144
Series 51	1.56~5.00	2.72	21,050	43,343~45,144
Series 52	1.58~5.00	2.73	21,307	43,343~45,144
Grant deferred in 2010	0.25~1.00	2.67	-	40,662~42,844
Grant deferred in 2011	0.25~1.00	2.67	-	40,662~42,844

Grant deferred in 2012	0.25~2.00	2.67	-	40,662~43,343
Grant deferred in 2013	0.45~2.45	2.67	-	42,492~43,760
Linked to short-term performance				
Share granted in 2011	0.25~1.00	2.67	-	40,662~42,844
Share granted in 2012	0.25~2.00	2.67	-	40,662~43,343
Share granted in 2013	1.00~3.00	2.67	-	40,662~44,160

Expected volatility is based on the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the grant. And the current stock price of December 31, 2013, was used for the underlying asset price. Additionally, the average three-year historical dividend rate was used as the expected dividend rate.

As of December 31, 2013 and 2012, the accrued expenses related to share-based payments including share options and share grants amounted to ₩34,053 million and ₩24,986 million, respectively, and the compensation costs from share options and share grants amounting to ₩ 14,616 million and ₩8,578 million were incurred during the years ended December 31, 2013 and 2012, respectively. There is no intrinsic value of the vested share options as of December 31, 2013 and 2012.

31. Non-operating income and expense

The details of non-operating income and expense for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)		2013		2012
Non-operating income				
Gains of disposal in property and equipment and assets held for sale	₩	844	₩	5,813
Rent received		12,568		8,531
Others		47,237		44,403
		60,649		58,747
Non-operating expenses				
Losses of disposal in property and equipment and assets held for sale		732		206
Donation		53,426		73,115
Restoration cost		709		940
Others		29,413		48,501
		84,280		122,762
Net non-operating expense	₩	(23,631)	₩	(64,015)

32. Income tax expense

Income tax expense for the years ended December 31, 2013 and 2012, consists of:

(In millions of Korean won)	2013	2012
Tax payable		
Current tax expense	₩ 406,642	₩ 585,223
Adjustments recognized in the period for current tax of prior years	89,536	11,740
	496,178	596,963
Changes in deferred income tax assets (liabilities)	(74,982)	(103,336)
Income tax expense of overseas branches	4,796	16,527
Income tax recognized directly in equity		
Changes in value of available-for-sale financial assets	(10,406)	(64,967)
Comprehensive income of investment under equity method	74	8
Changes in remeasurements of net defined benefit liabilities	(13,264)	9,343
	(23,596)	(55,616)
Consolidated tax effect	(10,504)	(12,184)
Tax expense	₩ 391,892	₩ 442,354

An analysis of the net profit before income tax and income tax expense for the years ended December 31, 2013 and 2012, follows:

(In millions of Korean won)	2013	2012
Net profit before income tax	₩ 1,211,611	₩ 1,882,477
Tax at the applicable tax rate[1]	₩ 292,747	₩ 455,098
Non-taxable income	(2,551)	(5,224)
Non-deductible expense	12,943	10,784
Tax credit and tax exemption	(756)	(66)
Temporary difference for which no deferred tax is recognized	47,125	1,763
Tax rebate for tax of prior years	43,927	(26,274)
Income tax expense of overseas branches	4,796	16,527
Tax effect of investments in subsidiaries	1,520	1,976
Income tax expense of overseas branch	(871)	-
Consolidated tax effect	(10,504)	(12,184)
Others	3,516	(46)
Tax expense	₩ 391,892	₩ 442,354
Tax expense / Net profit before income tax (%)	32.34	23.50

[1] Applicable income tax rate for ₩ 200 million and below is 11%, for ₩ 200 million to ₩ 20 billion is 22%, and for over ₩ 20 billion is 24.2%.

The details of current tax liabilities (income tax payable) and current tax assets (income tax refund receivables) before offsetting, as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	**2013**	**2012**
Income tax refund receivable prior to offsetting	₩ (268,266)	₩ (375,268)
Tax payables prior to offsetting[1]	406,080	588,635
Tax payables (receivable) after offsetting	137,814	213,367
Adjustment on consolidated tax payable and others[2]	(10,504)	(12,184)
Payable[3]	(125,977)	(194,052)
Current tax payable	₩ 1,333	₩ 7,131

[1] Includes income tax payable of ₩ 1,333 million and ₩ 7,131 million under current tax liabilities as of December 31, 2013 and 2012, respectively, which are not to be offset against income tax refund receivables, such as overseas branches.

[2] Tax expense reduced due to the adoption of consolidated tax return was reclassified as tax benefit.

[3] The amount of income tax payable by the Bank is reclassified as accounts payable, not to the tax authority, but to KB Financial Group Inc. due to the adoption of consolidated tax return.

33. Dividends

The dividend to the shareholders of the parent company in respect of the year ended December 31, 2013, of ₩ 392 per share, amounting to total dividends of ₩ 158,517 million, is to be proposed at the annual general shareholders' meeting on March 27, 2014. The Group's consolidated financial statements as of December 31, 2013, do not reflect this dividend payable.

34. Accumulated other comprehensive income

The details of accumulated other comprehensive income for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013				
	Beginning	Changes except for reclassification	Reclassification to profit or loss	Tax effect	Ending
Remeasurements of net defined benefit liabilities	₩ (45,630)	₩ 54,809	₩ -	₩ (13,264)	₩ (4,085)
Currency translation differences	(27,058)	(2,372)	-	-	(29,430)
Gain(loss) on valuation of available-for-sale financial assets	504,223	233,258	(188,857)	(10,406)	538,218
Gain(loss) on valuation of held-to-maturity financial assets	8	-	(5)	-	3
Gain(loss) on valuation of equity method investments	(47,389)	(9,772)	-	74	(57,087)
	₩ 384,154	₩ 275,923	₩ (188,862)	₩ (23,596)	₩ 447,619

(In millions of Korean won)

	2012				
	Beginning	Changes except for reclassification	Reclassification to profit or loss	Tax effect	Ending
Remeasurements of net defined benefit liabilities	₩ (16,367)	₩ (38,606)	₩ -	₩ 9,343	₩ (45,630)
Currency translation differences	(1,462)	(25,596)	-	-	(27,058)
Gain(loss) on valuation of available-for-sale financial assets	296,098	199,896	73,196	(64,967)	504,223
Gain(loss) on valuation of held-to-maturity financial assets	12	-	(4)	-	8
Gain(loss) on valuation of equity method investments	(3,938)	(43,459)	-	8	(47,389)
	₩ 274,343	₩ 92,235	₩ 73,192	₩ (55,616)	₩ 384,154

35. Trust Accounts

Financial information of the trust accounts the Group manages as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013		2012	
	Total assets	Operating revenues	Total assets	Operating revenues
Consolidated	₩ 3,462,823	₩ 138,479	₩ 3,280,238	₩ 154,604
Unconsolidated	22,541,883	1,073,136	19,532,521	1,053,690
	₩ 26,004,706	₩1,211,615	₩ 22,812,759	₩ 1,208,294

[1] Financial information of the trust accounts has been prepared in accordance with the Statement of Korea Accounting Standard 5004, *Trust Accounts*, and enforcement regulations of Financial Investment Services under the Financial Investment Services and Capital Markets Act.

Significant transactions between the Group and the trust accounts for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Revenues		
Fees and commissions from trust accounts	₩ 137,558	₩ 135,724
Commissions from early termination in trust accounts	69	161
	137,627	135,885
Expenses		
Interest expenses on due to trust accounts	62,543	51,166
Assets		
Accrued trust fees	23,332	32,016
Liabilities		
Due to trust accounts	2,423,675	2,009,396
Accrued interest on due to trust accounts	4,576	4,074
	2,428,251	2,013,470

36. Supplemental Cash Flow Information

Cash and cash equivalents as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Cash	₩ 1,963,148	₩ 2,041,022
Checks with other banks	734,574	808,460
Due from Bank of Korea	7,119,962	3,215,181
Due from other financial institutions	3,912,566	3,964,247
	13,730,250	10,028,910
Restricted due from financial institutions	(7,470,062)	(3,441,218)
Due from financial institutions with original maturities over three months	(427,548)	(142,682)
	(7,897,610)	(3,583,900)
	₩ 5,832,640	₩ 6,445,010

Significant non-cash transactions for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Decrease in loans due to the write-offs	₩ 1,677,292	₩ 1,645,105
Changes in accumulated other comprehensive income due to valuation of financial investments	33,990	208,121
Changes in accumulated other comprehensive income due to investment in associates	(9,698)	(43,451)
Changes in investment in associates due to debt-for-equity swap with Ssangyong Engineering & Construction Co., Ltd.	28,779	-
Changes in financial investments due to debt-for-equity swap with Taihan Electric Wire Co., Ltd.	115,716	-

Cash inflow and outflow from income tax, interest and dividends for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	Activities	2013	2012
Income tax paid	Operating	₩ 561,998	₩ 964,347
Interest received	Operating	11,030,359	12,944,462
Interest paid	Operating	6,025,179	6,792,006
Dividends received	Operating	62,221	62,923
Dividends paid	Financing	282,039	657,925

37. Contingent liabilities and commitments

Acceptances and guarantees as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Confirmed acceptances and guarantees		
Confirmed acceptances and guarantees in Korean won		
Acceptances and guarantees for KB purchasing loan	₩ 448,906	₩ 546,480
Other	782,645	1,017,631
	1,231,551	1,564,111
Confirmed acceptances and guarantees in foreign currency		
Acceptances of letter of credit	281,049	204,764
Letter of guarantees	57,596	66,535
Bid bond	24,212	85,228
Performance bond	999,872	529,088
Refund guarantees	2,263,202	2,172,006
Others	906,106	552,015
	4,532,037	3,609,636
Financial guarantees		
Acceptances and guarantee for issue of debentures	20,200	-
Acceptances and guarantees for mortgage	43,272	45,123
Overseas debt guarantees	319,080	238,670
International financing guarantees in foreign currencies	41,896	21,422
	424,448	305,215
	6,188,036	5,478,962
Unconfirmed acceptances and guarantees		
Guarantees of letter of credit	3,265,906	3,326,326
Refund guarantees	775,181	918,191
	4,041,087	4,244,517
	₩ 10,229,123	₩ 9,723,479

Acceptances and guarantees by counterparty as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013			
	Confirmed guarantees	**Unconfirmed guarantees**	**Total**	**Proportion (%)**
Corporations	₩ 4,998,055	₩ 2,723,162	₩ 7,721,217	75.48
Small companies	1,029,029	623,803	1,652,832	16.16
Public and others	160,952	694,122	855,074	8.36
	₩ 6,188,036	₩ 4,041,087	₩ 10,229,123	100.00

(In millions of Korean won)

	2012			
	Confirmed guarantees	**Unconfirmed guarantees**	**Total**	**Proportion (%)**
Corporations	₩ 4,237,299	₩ 2,450,719	₩ 6,688,018	68.78
Small companies	1,185,983	763,254	1,949,237	20.05
Public and others	55,680	1,030,544	1,086,224	11.17
	₩ 5,478,962	₩ 4,244,517	₩ 9,723,479	100.00

Acceptances and guarantees by industry as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
Financial institutions	₩ 145,198	₩ 3,924	₩ 149,122	1.46
Manufacturing	3,867,871	2,270,253	6,138,124	60.01
Service	523,698	115,710	639,408	6.25
Wholesale and retail	1,083,263	745,658	1,828,921	17.88
Construction	484,754	244,727	729,481	7.13
Public	72,577	635,326	707,903	6.92
Others	10,675	25,489	36,164	0.35
	₩ 6,188,036	₩ 4,041,087	₩ 10,229,123	100.00

(In millions of Korean won)

	2012			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
Financial institutions	₩ 92,037	₩ 8,610	₩ 100,647	1.04
Manufacturing	3,262,541	2,198,617	5,461,158	56.16
Service	389,830	33,815	423,645	4.35
Wholesale and retail	924,597	725,224	1,649,821	16.97
Construction	754,866	284,448	1,039,314	10.69
Public	20,650	972,777	993,427	10.22
Others	34,441	21,026	55,467	0.57
	₩ 5,478,962	₩ 4,244,517	₩ 9,723,479	100.00

Commitments as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013	2012
Commitments		
Corporate loan commitments	₩ 42,972,292	₩ 41,338,162
Retail loan commitments	13,922,285	14,323,526
Other acceptance and guarantees in won	1,000,000	1,000,000
Other purchase of security investment	1,465,175	1,533,616
	59,359,752	58,195,304
Financial Guarantees		
Credit line	2,572,424	1,141,554
Purchase of security investment	100,500	62,500
	2,672,924	1,204,054
	₩ 62,032,676	₩ 59,399,358

Other Matters (including litigation)

a) The Bank has filed 156 lawsuits (excluding minor lawsuits in relation to the collection or management of loans), as the plaintiff, involving aggregate claims of ₩ 792,960 million, and faces 229 lawsuits as the defendant (excluding minor lawsuits in relation to the collection or management of loans) involving aggregate damages of ₩ 354,126 million, which arose in the normal course of the business and are still pending as of December 31, 2013.

Meanwhile, certain customers of the Bank have filed lawsuits against the Bank in connection with fees paid for the registration of fixed collateral. Of the cases currently on trial, the Court has ruled in favor of the Bank, and where the case has been appealed, these appeals were subsequently dismissed. Based on these rulings, there is a low probability of potential losses related to the aforementioned lawsuits.

b) According to shareholders' agreement on September 25, 2009, among the Bank, the International Finance Corporation ("IFC") and the remaining shareholders, the Bank granted a put option to IFC with the right to sell shares of JSC Bank Center Credit to itself or its designee. The exercise price is determined at its fair value by mutual agreement between the Bank and IFC. If the price is not agreed by the designated date, it is determined by the value measured by the selected independent external valuation institution. The put option may be exercised by IFC at any time from February 24, 2013 to February 24, 2017.

c) The face values of the securities sold to general customers through tellers' sale amount to ₩ 57,159 million and ₩ 116,633 million as of December 31, 2013 and 2012, respectively.

d) The Bank underwent a tax investigation by the Seoul Regional Tax Office and in early 2007 was assessed additional corporate tax including local income tax of ₩ 482,755 million. The Bank paid this amount to the Tax authorities. Subsequently, the Bank filed a claim for adjudication in August 2007 for repayment of the amount of ₩ 482,643 million. Of this amount, ₩ 117,135 million has been refunded to the Bank following a successful appeal to the National Tax Tribunal and administrative litigations. Further, a portion of the claim amounting to ₩ 970 million has been extinguished following litigation. Meanwhile, the claim for a refund of ₩ 364,538 million, specifically related to the merger of Kookmin Card Co., Ltd. was ruled in favor of the Bank in an original case on April 1, 2011, and in a second trial at the Seoul High Court on January 12, 2012. The ruling has been appealed by the Tax authorities to the Supreme Court, where it is currently pending third trial as of December 31, 2013.

e) The Bank and KB Kookmin Card Co., Ltd. are jointly liable for the obligation of the Bank before spin-off.

f) The Bank filed a claim for rectification of education tax paid for revenues regarding credit card business before spin-off. The claim was ruled in favor of the Bank at the Supreme Court in December 2012, and the refunded education tax amounting to ₩ 83,100 million was recognized as other operating income.

Depending on the judgments of the court or National Tax Service, the beneficiary of refunded education tax might be changed from the Bank to KB Kookmin Card Co., Ltd., in which the possibility is considered relatively low.

g) For the year ended December 31, 2013, the Bank underwent a tax investigation for the fiscal years 2008 to 2012 by the Seoul Regional Tax Office. As a result, the Bank was fined a total of ₩ 124,357 million for income taxes (including local income taxes), paid ₩ 113,699 million, excluding local income tax, and recognized local income taxes amounting to ₩ 10,658 million as non-trade payables. In October 2013, the Bank appealed to the tax tribunal the ₩ 116,257 million in fines.

h) The Bank filed a claim for rectification of foreign income tax paid for the financial years ended December 31, 2010 and December 31, 2011. The claim was ruled partly in favor of the Bank in January 2014 and a refund of ₩ 15,772 million was received from the Seoul Regional Tax Office.

38. Subsidiaries

The details of subsidiaries as of December 31, 2013, are as follows:

Name of subsidiaries	Ownership (%)	Location	Industry
Kookmin Bank Int'l Ltd.(London)	100.00	England	Banking and foreign exchange transaction
Kookmin Bank Hong Kong Ltd.	100.00	Hong Kong	Banking and foreign exchange transaction
Kookmin Bank Cambodia PLC.	100.00	Cambodia	Banking and foreign exchange transaction
Kookmin Bank (China) Ltd.	100.00	China	Banking and foreign exchange transaction
Personal pension and 10 other trusts[1]	-	Korea	Trust
KB Mortgage Loan First Securitization Specialty Co., Ltd. and 10 others[2]	-	Korea and others	Asset-backed securitization and others
KB Evergreen Private Securities 82 and 28 others[3]	100.00	Korea	Private equity fund
KB Wise Star Private Real Estate Feeder Fund 1st [3]	86.00	Korea	Investment Trust
KB Star Retail Private Real Estate Master 1 [2, 4]	42.12	Korea	Investment Trust

[1] The Bank controls the trust because it has power that determines the management performance over the trust and is exposed to variable returns to absorb losses through the guarantees of payment of principal or, payment of principal and fixed rate of return.
[2] The Bank controls these investees because it is exposed to variable returns from its involvement with the investees and has ability to affect those returns through its power, even though it holds less than a majority of the voting rights of the investees.
[3] The Bank controls these investees because it is exposed to variable returns from its involvement with the investees and has ability to affect those returns through its power.
[4] Ownerships are based on consolidated basis.

The condensed financial information of major subsidiaries as of December 31, 2013 and 2012, and for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

	2013				
	Assets	Liabilities	Equity	Operating revenue	Profit (loss) for the year
Kookmin Bank Int'l Ltd.(London)	₩ 381,179	₩ 311,990	₩ 69,189	₩ 10,253	₩ 3,242
Kookmin Bank Hong Kong Ltd.	533,542	405,755	127,787	16,869	6,282
Kookmin Bank Cambodia PLC.	94,835	74,666	20,169	6,391	2,859
Kookmin Bank (China) Ltd.	1,143,619	753,289	390,330	34,691	(16,168)
Personal pension trust and 10 others	3,492,556	3,399,885	92,671	134,793	2,021

(In millions of Korean won)

	2012				
	Assets	Liabilities	Equity	Operating revenue	Profit for the year
Kookmin Bank Int'l Ltd.(London)	₩ 410,137	₩ 342,989	₩ 67,148	₩ 14,623	₩ 4,656
Kookmin Bank Hong Kong Ltd.	481,987	358,413	123,574	19,844	8,167
Kookmin Bank Cambodia PLC.	71,495	53,820	17,675	4,804	1,741
Kookmin Bank (China) Ltd.	930,070	518,042	412,028	9,410	1,039
Personal pension trust and 10 others	3,334,394	3,245,039	89,355	168,089	170

Changes in non-controlling interest

The Group acquired an additional equity interest in Kookmin Bank Cambodia PLC. in July 2012 for ₩ 8,048 million, with the carrying amount of the non-controlling interest being ₩8,364 million. The Group derecognized non-controlling interests of ₩ 7,013 million and recorded a decrease in equity attributable to shareholders of the parent company of ₩ 1,035 million. In June 2013, the parent entity acquired an additional equity interest in Kookmin Bank Cambodia PLC. for ₩ 1,463 million, with the carrying amount of the non-controlling interest being ₩ 1,495 million. This resulted in the elimination of non-controlling interest equity for Kookmin Bank Cambodia PLC. and the remaining ₩ 32 million was recognized as an increase in the Group's equity attributable to shareholders of the parent company. As of December 31, 2012, the Group owned 92.44% which has increased to 100% as of December 31, 2013.

Nature of the risks associated with interests in consolidated structured entities

Terms of contractual arrangements that provide financial support to a consolidated structured entity

-The Bank has provided asset-backed commercial paper ("ABCP") purchase commitment of ₩101,000 million to KH First Co., Ltd., a subsidiary of the Bank and an issuer of ABCP products. This purchase commitment would require the Bank to purchase unsold ABCP if there is a shortage of the investors for the ABCP issued by the structured entity.

- The Bank provides capital commitment of ₩ 258,000 million to KB Wise Star Private Real Estate Feeder Fund 1st, of which ₩ 220,117 million has not been utilized. Based on the investment agreement, the Bank is subject to increase its investment by the request from the asset management company or the additional agreement among investors.

-The Bank provides guarantees of payment of principal or for the principal and a fixed rate of return, in the case that the operating results of the trusts are less than the guaranteed principal or principal and a fixed rate of return.

Changes in subsidiaries

Hanhwa Private Securities Investment Trust 68, KB Star Retail Private Real Estate Master 1 and 53 other private equity funds were newly consolidated during the year ended December 31, 2013. KB Evergreen Private Securities 26 and 50 other private equity funds were excluded from the consolidation due to their liquidation.

39. Unconsolidated Structured Entity

As of December 31, 2013, the nature, purpose and activities of the unconsolidated structured entities and how the structured entities are financed, are as follows:

Nature	Purpose	Activities	Methods of Financing
Asset-backed securitization	Early cash generation through transfer of securitization assets Fees earned as services to SPC, such as providing lines of credit and ABCP purchase commitments	Fulfillment of Asset-backed securitization plan Purchase and transfer securitization assets Issuance and repayment of ABS and ABCP	Issuance of ABS and ABCP based on securitization assets
Project Financing	Granting PF loans to SOC and real property Granting loans to ships/aircrafts SPC	Construction of SOC and real property Building ships/ Construction and purchase of aircrafts	Loan commitments through Credit Line, providing lines of credit and investment agreements
Investment funds	Investment in beneficiary certificates Investment in PEF and partnerships	Management of fund assets Payment of fund fees and allocation of fund profits	Sales of beneficiary certificate instruments Investment of managing partners and limited partners

As of December 31, 2013, the size of the unconsolidated structured entities and the risks associated with its interests in unconsolidated structured entities are as follows:

(In millions of Korean won)

	Asset-backed securitization	Project Financing	Investment funds	Others	Total
Total assets of the unconsolidated structured entities	₩ 11,030,382	₩ 24,570,257	₩ 4,385,796	₩ 3,502,834	₩ 43,489,269
Carrying amount on financial statements					
Assets					
Loans	314,380	2,477,166	-	291,599	3,083,145
Financial investments	873,909	213,882	710,800	-	1,798,591
Investments in associates	-	-	392,389	-	392,389
	₩ 1,188,289	₩ 2,691,048	₩ 1,103,189	₩ 291,599	₩ 5,274,125
Liabilities					
Deposits	₩ 306,931	₩ 487,818	₩ 21,459	₩ 5,473	₩ 821,681
Other liabilities	-	96	-	-	96
	₩ 306,931	₩ 487,914	₩ 21,459	₩ 5,473	₩ 821,777
Maximum exposure to loss[1]	₩ 3,903,764	₩ 5,116,533	₩ 2,670,626	₩ 386,000	₩ 12,076,923
Methods of determining the maximum exposure to loss	Providing lines of credit and purchase commitments	Loan commitments / capital commitments / purchase commitments and Acceptances and guarantees	Capital commitments	Loan commitments	

[1] Maximum exposure to loss includes the asset amounts, after deducting loss (provision for assets, impairment losses and others), recognized in the consolidated financial statements of the Group.

40. Finance and Operating Leases

40.1 Finance lease

The future minimum lease payments arising as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013		2012	
Net carrying amount of finance lease assets	₩	16,955	₩	16,856
Minimum lease payment				
Within 1 year	₩	1,927	₩	2,310
1-5 years		-		1,427
	₩	1,927	₩	3,737
Present value of minimum lease payment				
Within 1 year	₩	1,873	₩	2,163
1-5 years		-		1,386
	₩	1,873	₩	3,549

40.2 Operating lease

40.2.1 The Group as operating lessee

The future minimum lease payments arising from the non-cancellable lease contracts as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013		2012	
Minimum lease payment				
Within 1 year	₩	116,681	₩	114,849
1-5 years		97,021		101,091
Over 5 years		62		42,816
	₩	213,764	₩	258,756
Minimum sublease payment		(735)		(348)

The lease payments reflected in profit or loss for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)

Lease payment reflected in profit or loss	**2013**	**2012**
Minimum lease payment	₩ 198,216	₩ 194,443
Sublease payment	(497)	(498)
	₩ 197,719	₩ 193,945

40.2.2 The Group as operating lessor

The future minimum lease receipts arising from the non-cancellable lease contracts as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	**2013**	**2012**
Minimum lease receipts		
Within 1 year	₩ 9,181	₩ 3,085
1-5 years	22,348	728
	₩ 31,529	₩ 3,813

41. Related Party Transactions

Profit and loss arising from transactions with related parties for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

		2013	2012
Parent			
KB Financial Group Inc.	Fee and commission income	₩ 1,225	₩ 1,014
	Other non-operating income	1,459	917
	Interest expense	3,159	2,256
Parent's subsidiaries			
KB Investment Co., Ltd.	Other non-operating income	1	-
	Interest expense	372	827
KB Data System Co., Ltd.	Fee and commission income	2	1
	Other non-operating income	50	45
	Interest expense	411	564
	Other operating expense	-	86
	General and administrative expenses	13,945	28,312
	Losses on financial assets/ liabilities at fair value through profit or loss	-	18
KB Real Estate Trust Co., Ltd.	Fee and commission income	22	4
	Other non-operating income	39	48
	Interest expense	325	157
	Fee and commission expense	895	1,231
KB Life Insurance Co., Ltd.	Fee and commission income	19,496	46,569
	Other non-operating income	180	166
	Interest expense	163	17
KB Credit Information Co., Ltd.	Fee and commission income	4	-
	Other non-operating income	514	637
	Interest expense	372	461
	Fee and commission expense	16,598	24,214
	Other non-operating expenses	-	161
KB Asset Management Co., Ltd.	Fee and commission income	374	210
	Interest expense	774	1,624
	Fee and commission expense	1,514	2,701
KB Investment and Securities Co., Ltd.	Interest income	305	263
	Fee and commission income	3,570	9,785
	Gains on financial assets/ liabilities at fair value through profit or loss	-	100
	Other non-operating income	645	630
	Interest expense	4,473	5,776
	Fee and commission expense	1,385	1,565

	Losses on financial assets/ liabilities at fair value through profit or loss	-	97
	Provision for credit losses	2	-
KB Kookmin Card Co., Ltd.	Interest income	2,912	3,264
	Fee and commission income	214,199	243,473
	Gains on financial assets/ liabilities at fair value through profit or loss	44	-
	Other non-operating income	1,107	1,913
	Interest expense	4,161	4,346
	Fee and commission expense	187	238
	Provision for credit losses	359	-
	General and administrative expenses	43	252
KB Savings Bank Co., Ltd.	Fee and commission income	226	407
	Other non-operating income	1	3
	Interest expense	-	12
Yehansoul Savings Bank	Interest expense	3,551	-
Woori KA First Asset Securitization Specialty Co., Ltd. [1]	Interest income	-	5
	Provision for credit losses	-	34
KB Mezzanine Private Securities Fund	Fee and commission income	798	693
Hanbando BTL Private Special Asset Fund	Fee and commission income	199	194
Associates			
KB06-1 Venture Investment Partnership	Interest expense	-	27
KB08-1 Venture Investment Partnership	Interest expense	131	226
KB12-1 Venture Investment Partnership	Interest expense	218	63
Korea Credit Bureau Co., Ltd.	Fee and commission income	3	3
	Interest expense	139	143
UAMCO., Ltd.	Interest income	31	297
	Reversal of credit losses	-	68
	Other operating expense	7,626	93,266
United PF 1st Recovery Private Equity Fund	Interest income	91	500
	Other operating income	-	1,900
	Reversal of credit losses	83	7
	Interest expense	-	28
CH Engineering Co., Ltd.	Reversal of credit losses	-	106
EValley Co., Ltd. [1]	Reversal of credit losses	-	77
Pyungjeon Industries Co., Ltd. [1]	Reversal of credit losses	1,055	-
	Provision for credit losses	-	343
Kores Co., Ltd.	Interest income	386	317
	Fee and commission income	-	9
	Reversal of credit losses	36	-
	Provision for credit losses	-	325
Incheon Bridge Co., Ltd.	Interest income	14,592	-
	Reversal of credit losses	2	-
	Interest expense	909	-
KB Start-up Creation Fund	Interest expense	39	-

Ssangyong Engineering & Construction Co., Ltd.	Interest income	2,007	-
	Reversal of credit losses	7,550	-
SUNWOO[1]	Interest expense	1	-
KB Star Office Private Real Estate Investment Trust No.1	Interest expense	75	9
Associates of Parent's subsidiaries			
Joam Housing Development Co., Ltd. [1]	Interest expense	-	1
KB Global Star Game & Apps SPAC. [1]	Interest expense	10	430
Semiland Co., Ltd.	Interest income	14	17
	Reversal of credit losses	-	4
Sehwa Electronics Co., Ltd. [1]	Fee and commission income	-	33
	Gains on financial assets/ liabilities at fair value through profit or loss	35	2
	Interest expense	-	10
	Fee and commission expense	7	-
	Losses on financial assets/ liabilities at fair value through profit or loss	-	143
Serit Platform Co., Ltd. [1]	Interest income	58	78
	Fee and commission income	17	27
	Provision for credit losses	74	4
DSplant Co., Ltd.[1]	Interest income	121	167
	Fee and commission income	4	-
	Reversal of credit losses	2	3
	Interest expense	2	1
	Fee and commission expense	-	2
	Losses on financial assets/ liabilities at fair value through profit or loss	26	-
KB IC 3rd Recovery Private Equity Fund	Interest expense	91	-
Key management	Interest income	286	262
	Reversal of credit losses	9	9
	Interest expense	135	163
Other			
Retirement pension	Fee and commission income	386	415
	Interest expense	1,971	1,699
		₩ 338,283	₩ 486,474

[1] Not considered to be the Group's related party as at December 31, 2013.

The details of receivables and payables, and related allowances for loan losses arising from the related party transactions as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

		2013	2012
Parent			
KB Financial Group Inc.	Other assets	₩ 2	₩ -
	Deposits	77,298	96,234
	Other liabilities	180,329	239,476
Parent's subsidiaries			
KB Investment Co., Ltd.	Deposits	11,052	15,532
	Other liabilities	36	366
KB Data System Co., Ltd.	Other assets	4,670	6,725
	Deposits	15,275	16,816
	Other liabilities	401	2,390
KB Real Estate Trust Co., Ltd.	Deposits	15,190	6,671
	Other liabilities	378	348
KB Life Insurance Co., Ltd.	Other assets	1,696	1,306
	Deposits	585	6,622
	Debts	5,000	-
	Other liabilities	389	450
KB Credit Information Co., Ltd.	Deposits	10,796	7,686
	Other liabilities	7,942	8,435
KB Asset Management Co., Ltd.	Other assets	56	53
	Deposits	60,341	9,872
	Other liabilities	582	727
KB Investment and Securities Co., Ltd.	Cash and due from financial institutions	834	781
	Gross amounts of loans and receivables	32,995	-
	Allowances	13	-
	Other assets	707	9,048
	Deposits	356,989	313,866
	Debentures	-	20
	Other liabilities	5,775	3,309
	Provisions	5	16
KB Kookmin Card Co., Ltd.	Other assets	25,495	24,852
	Deposits	264,717	78,867
	Other liabilities	37,157	40,658
	Provisions	416	57
KB Savings Bank Co., Ltd.	Other assets	9	-
Powernet Technologies Co,.Ltd [1]	Deposits	-	17
Woori KA First Asset Securitization Specialty Co., Ltd. [1]	Gross amounts of loans and receivables	-	30,250
	Allowances	-	34
	Other assets	-	5
KB Mezzanine Private Securities Fund	Other assets	199	168
Hanbando BTL Private Special Asset Fund	Other assets	50	50
Associates			
KB08-1 Venture Investment Partnership	Deposits	5,212	10,213

	Other liabilities	2	11
KB12-1 Venture Investment Partnership	Deposits	3,072	13,908
	Other liabilities	4	18
Korea Credit Bureau Co., Ltd.	Deposits	20,200	18,017
	Other liabilities	64	32
UAMCO., Ltd.	Deposits	5	6
	Provisions	192	191
	Other liabilities	-	1
United PF 1st Recovery Private Equity Fund	Gross amounts of loans and receivables	-	2,805
	Allowances	-	5
	Other assets	-	4
	Provisions	82	160
	Other liabilities	-	1
Kores Co., Ltd.	Gross amounts of loans and receivables	7,854	7,854
	Allowances	3,836	3,872
	Other liabilities	2	3
Pyungjeon Industries Co., Ltd. [1]	Gross amounts of loans and receivables	-	2,125
	Allowances	-	1,055
	Other liabilities	-	1
Incheon Bridge Co., Ltd.	Gross amounts of loans and receivables	249,362	263,080
	Allowances	300	302
	Other assets	1,343	-
	Deposits	30,991	33,569
	Other liabilities	240	305
JSC Bank CenterCredit	Cash and due from financial institutions	353	161
KB Start-up Creation Fund	Deposits	5,033	-
	Other liabilities	6	-
Ssangyong Engineering & Construction Co., Ltd.	Gross amounts of loans and receivables	47,104	-
	Allowances	38,784	-
	Deposits	61	-
	Other liabilities	14	-
Terra Corporation	Deposits	1	-
KB Star Office Private Real Estate Investment Trust No.1	Deposits	8,142	4,850
	Other liabilities	31	9
Associates of Parent's subsidiaries			
Semiland Co., Ltd.	Gross amounts of loans and receivables	19	-
	Deposits	1	1
	Provisions	3	3
KB IC 3rd Recovery Private Equity Fund	Deposits	1,400	-
	Other liabilities	25	-
KB Glenwood Private Equity Fund	Deposits	1	-

KB Global Star Game & Apps SPAC.[1]	Deposits	-	897
	Other liabilities	-	2
Joam Housing Development Co., Ltd.[1]	Deposits	-	236
Sehwa Electronics Co., Ltd.[1]	Derivative financial liabilities	-	75
	Deposits	-	72
	Provisions	-	11
	Other liabilities	-	7
Serit Platform Co., Ltd.[1]	Gross amounts of loans and receivables	-	767
	Allowances	-	80
	Other assets	-	2
	Deposits	-	48
DSplant Co., Ltd.[1]	Gross amounts of loans and receivables	-	3,254
	Allowances	-	12
	Other assets	-	10
	Deposits	-	45
	Provisions	-	3
	Other liabilities	-	2
Key management	Gross amounts of loans and receivables	4,578	5,532
	Allowances	1	21
	Other assets	6	6
	Deposits	5,798	8,506
	Other liabilities	62	71
	Provisions	2	44
Other			
Retirement pension	Other assets	166	195
	Deposits	48,840	50,317
	Other liabilities	908	1,099
		₩ 1,601,479	₩ 1,355,583

[1] Not considered to be the Group's related party as at December 31, 2013.

In accordance with K-IFRS 1024, the Group includes parent, parent's subsidiaries, associates, associates of parent's subsidiaries, key management (including family members), and post-employment benefit plans of the Group and entities regarded as its related parties in the scope of its related parties. Additionally, the Group discloses balances (receivables and payables) and other amounts arising from the related party transactions in the notes to the consolidated financial statements. Refer to Note 13 for details on investments in associates.

Key management includes the directors of the parent company and the executive directors (vice-presidents and above) of the Bank and companies where the directors and /or their close family members have control or joint control.

Unused commitments to related parties as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)		2013	2012
KB Investment and Securities Co., Ltd.	Loan commitment in won	₩ 14,505	₩ 47,500
KB Kookmin Card Co., Ltd.[1]	Loan commitment in won	520,000	520,000
	Other commitment in won	1,000,000	1,000,000
KB Mezzanine Private Securities Fund	Commitments on purchase of security investment	18,359	57,159
Hanbando BTL Private Special Asset Fund	Commitments on purchase of security investment	15,931	20,798
KB Hope Sharing BTL Private Special Asset	Commitments on purchase of security investment	51,172	64,095
Balhae Infrastructure Fund	Commitments on purchase of security investment	21,744	21,744
UAMCO., Ltd.	Loan commitment in won	127,800	127,800
	Commitments on purchase of security investment	89,950	89,950
KB12-1 Venture Investment Partnership	Commitments on purchase of security investment	16,800	28,000
KoFC KBIC Frontier Champ 2010-5(PEF)	Commitments on purchase of security investment	1,320	10,710
United PF 1st Recovery Private Equity Fund	Loan commitment in won	54,600	106,395
	Commitments on purchase of security investment	49,383	49,383
Incheon Bridge Co., Ltd.	Loan commitment in won	42,088	37,587
KoFC POSCO HANHWA KB shared growth Private Equity Fund	Commitments on purchase of security investment	28,780	35,000
KB Start-up Creation Fund	Commitments on purchase of security investment	16,000	-
KB Gws Private Securities Investment Trust and others	Loan commitment	757	2,899
	Commitments on purchase of security investment	876	876
	Other commitment	-	88,151

[1] The Bank and KB Kookmin Card Co., Ltd. are jointly liable for the obligation of the Bank before spin-off.

Unused commitments received from related party entities as at December 31, 2013 and 2012, are as follows:

(In millions of Korean won)		2013	2012
Parent's subsidiaries			
KB Investment Co., Ltd.	Loss sharing agreements	₩ 10,056	₩ 1,424
KB Kookmin Card Co., Ltd.	Loan commitment in won	84,789	63,869
Associate			
Ssangyong Engineering & Construction Co., Ltd.	Guarantee in won	293,500	-

Compensation to key management for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013			
	Short-term employee benefits	**Post-employment benefit**	**Share-based payments**	**Total**
Registered directors (executive)	₩ 1,487	₩ 103	₩ 449	₩ 2,039
Registered directors (non-executive)	364	-	-	364
Non-registered directors	4,324	918	3,722	8,964
	₩ 6,175	₩ 1,021	₩ 4,171	₩ 11,367

(In millions of Korean won)	2012			
	Short-term employee benefits	**Post-employment benefit**	**Share-based payments**	**Total**
Registered directors (executive)	₩ 1,636	₩ 91	₩ 1,624	₩ 3,351
Registered directors (non-executive)	333	-	-	333
Non-registered directors	3,122	246	1,984	5,352
	₩ 5,091	₩ 337	₩ 3,608	₩ 9,036

Significant transactions occurring between the Group and related parties include the establishment of deposit accounts, issuance of general purpose loans, loans on business transactions and trade receivables, and providing foreign currency remittances and related services. Other significant transactions include the grant of credit due to acceptance of banker's usance that the Bank issues and overdraft credit accounts arising from net settlement agreement between the Bank and KB Kookmin Card Co., Ltd.

Collaterals offered to related parties as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)		2013		2012	
	Assets pledged	Carrying amount	Collateralized amount	Carrying amount	Collateralized amount
Parent's subsidiaries					
KB Investment and Securities Co., Ltd.	Securities	₩ 59,076	₩ 59,000	₩ 82,025	₩ 82,000

Collaterals received from related parties as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)		2013	2012
Associates			
Kores Co., Ltd.	Row house	₩ 24	₩ 24
	Apartment	24	24
	Factory / Forest land	15,000	15,000

42. Approval of Issuance of the Financial Statements

The issuance of the Group's consolidated financial statements as of and for the year ended December 31, 2013, was approved by the Board of Directors on February 20, 2014.

REGISTERED AND HEAD OFFICE OF THE ISSUER

Kookmin Bank
84, Namdaemoon-ro
Jung-gu
Seoul 100-703
Korea

ARRANGER

BNP Paribas
10 Harewood Avenue
London NW1 6AA
United Kingdom

DEALERS

BNP Paribas
10 Harewood Avenue
London NW1 6AA
United Kingdom

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

Citigroup Global Markets Inc.
388 Greenwich Street
New York, NY 10013
United States

Commerzbank Aktiengesellschaft
Kaiserstraße 16 (Kaiserplatz)
60311 Frankfurt am Main
Federal Republic of Germany

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

Société Générale
29, boulevard Haussmann
75009 Paris
France

Standard Chartered Bank
One Basinghall Avenue
London EC2V 5DD
United Kingdom

TRUSTEE

BNY Mellon Corporate Trustee Services Limited
One Canada Square
London E14 5AL
United Kingdom

ISSUING AND PAYING AGENT AND EXCHANGE AGENT

The Bank of New York Mellon, London Branch
One Canada Square
London E14 5AL
United Kingdom

The Bank of New York Mellon
101 Barclay Street
22nd Floor
New York, NY 10286
United States of America

REGISTRAR AND TRANSFER AGENT

The Bank of New York Mellon
101 Barclay Street
22nd Floor
New York, NY 10286
United States of America

The Bank of New York Mellon (Luxembourg) S.A.
Vertigo Building – Polaris
2-4 rue Eugène Ruppert
L-2453 Luxembourg

LEGAL ADVISERS

To the Issuer as to Korean law

Kim and Chang
39, Sajik-ro 8-gil
Jongno-gu
Seoul 110-720, Korea

To the Arranger as to Korean law

Shin and Kim
8th Floor, State Tower Namsan
100 Toegye-ro, Jung-gu
Seoul 100-052, Korea

To the Issuer as to U.S. law and English law

Linklaters LLP
Foreign Legal Consultant Office, Seoul
22F East Tower, Mirae Asset Center 1
26 Eulji-ro 5-gil, Jung-gu
Seoul 100-210, Korea

To the Arranger as to U.S. law and English law

Allen & Overy
9th Floor
Three Exchange Square
Central
Hong Kong

To the Trustee as to U.S. law and English law

Allen & Overy
One Bishops Square
London E1 6AD
United Kingdom

LUXEMBOURG LISTING AGENT

Banque Internationale à Luxembourg SA
69, route d'Esch
Office PLM -101F
L-2953 Luxembourg

INDEPENDENT ACCOUNTANTS

Samil PricewaterhouseCoopers
92, Hangang-daero
Yongsan-gu
Seoul 140-702 Korea