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The following offering circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, neither The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank (Hong Kong) Limited, nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the offering circular distributed to you in electronic format and the hard copy version available to you on request from The Hongkong and Shanghai Banking Corporation Limited or Standard Chartered Bank (Hong Kong) Limited.

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

Issue of CNY 1,200,000,000 4.20% Senior Unsecured Notes due 2018
under the U.S.$6,000,000,000 Global Medium Term Note Program

THE NOTES TO WHICH THIS PRICING SUPPLEMENT RELATES (THE "NOTES") HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, UNLESS SO REGISTERED, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE LOCAL SECURITIES LAWS. ACCORDINGLY, THE NOTES WILL BE OFFERED AND SOLD ONLY OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S.

Joint Bookrunners and Joint Lead Managers

HSBC **Standard Chartered Bank (Hong Kong) Limited**

The date of this pricing supplement is July 27, 2015

Shinhan Bank

Issue of CNY 1,200,000,000 4.20% Senior Unsecured Notes due 2018
under the US$6,000,000,000
Global Medium Term Note Program

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the "**Conditions**") set forth in the offering circular dated April 2, 2015 (the "**Base Offering Circular**"), as supplemented by the supplemental offering circular dated April 14, 2015 (the "**Supplemental Offering Circular**", and together with the Base Offering Circular, the "**Offering Circular**"), as amended from time to time. This Pricing Supplement is supplemental to and must be read in conjunction with the Offering Circular.

1.	Issuer:	Shinhan Bank, acting through its principal office in Korea
2.	(i) Series Number:	33
	(ii) Tranche Number:	1
	(iii) Re-opening:	No
3.	Specified Currency or Currencies:	Renminbi ("**CNY**"), being the lawful currency of the People's Republic of China
4.	Aggregate Nominal Amount:	
	(i) Series:	CNY 1,200,000,000
	(ii) Tranche:	CNY 1,200,000,000
5.	(i) Issue Price of Tranche:	100.00% of the Aggregate Nominal Amount
	(ii) Net Proceeds (after deducting underwriting discounts and commissions but not estimated expenses):	CNY 1,197,600,000
	(iii) Use of Proceeds:	General corporate purposes
6.	(i) Specified Denominations:	CNY 1,000,000 and integral multiples of CNY 10,000 in excess thereof
	(ii) Calculation Amount:	CNY 10,000
7.	(i) Issue Date:	August 6, 2015
	(ii) Interest Commencement Date:	August 6, 2015
8.	Maturity Date:	August 6, 2018, subject to adjustment in according with the Modified Following Business Day Convention
9.	Interest Basis:	4.20% Fixed Rate per annum
10.	Redemption/Payment Basis:	Redemption at par

11. Change of Interest Basis or Redemption/Payment Basis:	None
12. Put/Call Options:	Not Applicable
13. Status of the Notes:	Senior unsecured
14. Listing:	Singapore Exchange Securities Trading Limited
15. Method of Distribution:	Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. Fixed Rate Note Provisions:	Applicable
(i) Rate(s) of Interest:	4.20% per annum payable semi-annually in arrears
(ii) Interest Payment Date(s)	February 6 and August 6 of each year up to and including the Maturity Date (with the first interest payment date being February 6, 2016), in each case, subject to adjustment in accordance with the Modified Following Business Day Convention
(iii) Fixed Coupon Amount(s):	Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction the resultant figure to the nearest CNY 0.01, CNY 0.005 being rounded upwards
(iv) Broken Amount(s):	Not Applicable
(v) Day Count Fraction:	Actual/365 (Fixed)
(vi) Determination Date(s):	Not Applicable
(vii) Business Center(s):	Not Applicable
(viii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	Condition 6(a)(II) applies. The Principal Paying Agent will act as the Calculation Agent.
17. Floating Rate Note Provisions:	Not Applicable
18. Zero Coupon Note Provisions:	Not Applicable
19. Index Linked Interest Note Provisions:	Not Applicable
20. Dual Currency Note Provisions:	Not Applicable

PROVISIONS RELATING TO REDEMPTION

21. Issuer Call:	Not Applicable
22. Investor Put:	Not Applicable

23. Final Redemption Amount of each Note:	CNY 10,000 per Calculation Amount
24. Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 8(e) (*Redemption and Purchase — Early Redemption Amounts*):	CNY 10,000 per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. Form of Notes:	Registered Notes The Notes will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee of The Bank of New York Mellon as common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream**"). The Notes will be settled and held solely through Euroclear and Clearstream in accordance with the rules and operating procedures of Euroclear and Clearstream. For the avoidance of doubt, any provision in the Registered Global Note relating to registration or settlement through The Depository Trust Company is not applicable for the Notes. The foregoing provisions apply to the Notes notwithstanding any provisions in the Registered Global Note to the contrary.
26. Additional Financial Center(s) or other special provisions relating to Payment Dates:	New York City, Hong Kong, Beijing and Seoul
27. Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature):	Not Applicable
28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	Not Applicable
29. Details relating to Installment Notes:	Not Applicable
(i) Installment Amount(s):	Not Applicable
(ii) Installment Date(s):	Not Applicable
30. Redenomination applicable:	Redenomination not applicable
31. Other terms or special conditions:	Not Applicable

DISTRIBUTION

32. (i) If syndicated, names of Managers:	The Hongkong and Shanghai Banking Corporation Limited Standard Chartered Bank (Hong Kong) Limited
(ii) Stabilizing Manager (if any):	The Hongkong and Shanghai Banking Corporation Limited
33. If non-syndicated, name of relevant Dealer:	Not applicable
34. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable:	TEFRA rules not applicable
35. Additional selling restrictions:	Not applicable

OPERATIONAL INFORMATION

36. Any clearing system(s) other than Euroclear and Clearstream and the relevant identification number(s):	None; Notes to be cleared through Euroclear and Clearstream
37. Delivery:	Delivery against payment
38. In the case of Registered Notes, specify the location of the office of the Registrar if other than New York:	The Bank of New York Mellon (Luxembourg) S.A. Vertigo Building – Polaris 2-4 rue Eugéne Ruppert L-2453 Luxembourg
39. In the case of Bearer Notes, specify the location of the office of the Principal Paying Agent if other than London:	Not Applicable
40. Additional Paying Agent(s) (if any):	Not Applicable
41. Alternate Settlement Rate Determination Agent (if any):	Not Applicable

42. Other Information:	Condition 7(a) (*Method of Payment*) shall be deleted in its entirety and shall be replaced with the following: "Subject as provided below: (i) payments in a Specified Currency other than Euro or Renminbi will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or at the option of the payee by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively); and (ii) payments in Euro will be made by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee or, at the option of the payee, by a Euro cheque; and (iii) payments in Renminbi will be made by credit transfer to a Renminbi account maintained in Hong Kong in accordance with prevailing rules and regulations and as further specified in the Global Note. Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto ("**FATCA**"). References to "**Specified Currency"** will include any successor currency under applicable law."

ISIN:	XS1263868181
Common Code:	126386818
CUSIP:	Not Applicable

LISTING APPLICATION

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the listing of the US$6,000,000,000 Global Medium Term Note Program of Shinhan Bank.

OTHER RELATIONSHIPS

Certain affiliates of the Joint Lead Managers have from time to time performed banking and advisory services in the ordinary course of business for the Issuer for which they have received customary fees and expenses. The Joint Lead Managers and certain of their affiliates may, from time to time, engage in transactions with and perform services for this Issuer in the ordinary course of business.

The Joint Lead Managers or certain of their respective affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

Recent Developments

The following information relates to certain recent developments relating to Shinhan Bank since the date of the Offering Circular and should be read together with the Offering Circular.

For the three months ended June 30, 2015, Shinhan Bank estimates that its operating income will decrease by 4.41% to ₩487 billion for the three months ended June 30, 2015 from ₩509 billion for the three months ended June 30, 2014 due to a decrease in net interest income by 4.97% to ₩1,037 billion for the three months ended June 30, 2015 from ₩1,091 billion for the three months ended June 30, 2014, which is expected to be partially offset by an increase of net fees and commission income by 5.01% to ₩220 billion for the three months ended June 30, 2015 from ₩210 billion for the three months ended June 30, 2014. Shinhan Bank estimates that its net impairment loss on financial assets will increase by 7.27% to ₩221 billion for the three months ended June 30, 2015 from ₩206 billion for the three months ended June 30, 2014. As a result, Shinhan Bank estimates that its net income will decrease by 3.94% to ₩401 billion for the three months ended June 30, 2015 from ₩417 billion for the three months ended June 30, 2014.

While the above estimates represent the most current information available to management, Shinhan Bank's financial closing procedures for the three months ended June 30, 2015 are not yet complete. The estimates above are not a comprehensive statement of Shinhan Bank's financial results for the three months ended June 30, 2015, and Shinhan Bank's actual results may differ materially from these estimates as a result of the completion of its financial closing procedures, final adjustments, review by its independent public accountants and other developments arising between now and the time that the financial results for the three months ended June 30, 2015 are finalized.

Presentation of Financial Information

The unaudited consolidated financial statements of Shinhan Bank as of March 31, 2015 and for the three months ended March 31, 2014 and 2015 included in this pricing supplement were prepared and presented in accordance with Korean International Financial Reporting Standards.

Index to Financial Statements

This pricing supplement contains the following interim financial statements of Shinhan Bank and independent auditor's reports and notes relating thereto:

Consolidated Interim Financial Statements:

Independent Auditor's Review Report

Consolidated Interim Statements of Financial Position as of March 31, 2015 and December 31, 2014

Consolidated Interim Statements of Comprehensive Income for the Three-Month Periods Ended March 31, 2015 and 2014

Consolidated Interim Statements of Changes in Equity for the Three-Month Periods Ended March 31, 2015 and 2014

Consolidated Interim Statements of Cash Flows for the Three -Month Periods Ended March 31, 2015 and 2014

Notes to the Consolidated Interim Financial Statements

RESPONSIBILITY

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

SHINHAN BANK AND SUBSIDIARIES

Consolidated Interim Financial Statements

March 31, 2015

(Unaudited)

(With Independent Auditors' Review Report Thereon)

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KPMG SAMJONG

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Independent Auditors' Review Report

(Based on a report originally issued in Korean)

The Board of Directors and Stockholder
Shinhan Bank:

Reviewed financial statements

We have reviewed the accompanying consolidated interim financial statements of Shinhan Bank and its subsidiaries (the "Group"), which comprise the consolidated interim statements of financial position as of March 31, 2015, the consolidated interim statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2015 and 2014 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") No.1034, *'Interim Financial Reporting'*, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' review responsibility

Our responsibility is to issue a report on these consolidated interim financial statements based on our reviews.

We conducted our reviews in accordance with the Review Standards for Quarterly and Semiannual Financial Statements established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with 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 that the accompanying consolidated interim financial statements referred to above are not prepared, in all material respects, in accordance with K-IFRS No.1034, *'Interim Financial Reporting.'*

Other matters

The procedures and practices utilized in the Republic of Korea to review such consolidated interim financial statements may differ from those generally accepted and applied in other countries.

The consolidated statement of financial position of the Group as of December 31, 2014, and the related consolidates statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us and our report thereon, dated March 9, 2015, expressed an unqualified opinion. The accompanying consolidated statement of financial position of the Group as of December 31, 2014 presented for comparative purposes, is not different from that audited by us in all material respects.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
May 14, 2015

This 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 consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SHINHAN BANK AND SUBSIDIARIES

Consolidated Interim Statements of Financial Position

As of March 31, 2015 and December 31, 2014
(Unaudited)

(In millions of won)	Notes		March 31, 2015	December 31, 2014
Assets				
Cash and due from banks	4,7,10,40,41	₩	15,351,732	15,860,077
Trading assets	4,8,41,43		8,867,171	8,316,341
Derivative assets	4,9,41,43		1,314,291	1,309,094
Loans	4,10,17,41,43		191,945,827	188,325,465
Available-for-sale financial assets	4,11,17,43		21,630,883	22,363,612
Held-to-maturity financial assets	4,11,17		8,041,984	8,012,117
Property and equipment	6,12,17		1,999,688	2,036,119
Intangible assets	6,13		279,278	180,267
Investments in associates	14		213,187	211,272
Investment properties	6,15		757,431	738,614
Current tax assets	37		7,488	7,033
Deferred tax assets	37		83,810	90,575
Other assets	4,10,16,41,44		10,360,760	8,190,271
Non-current assets held for sale			4,781	5,472
Total assets		₩	260,858,311	255,646,329
Liabilities				
Financial liabilities designated at fair value through profit or loss	4,18	₩	11,975	6,139
Deposits	4,19,41		191,755,566	189,639,872
Trading liabilities	4,20		432,270	428,936
Derivative liabilities	4,9,41,43		1,241,242	1,256,438
Borrowings	4,21		13,319,147	12,802,821
Debt securities issued	4,22		17,291,426	16,581,408
Liability for defined benefit obligations	23		237,923	245,975
Provisions	24,39,41		255,976	298,728
Current tax liabilities	37,41		234,138	170,699
Deferred tax liabilities	37		9,338	9,335
Other liabilities	4,25,41,43,44		15,974,516	13,729,078
Total liabilities			240,763,517	235,169,429
Equity				
Capital stock	26		7,928,078	7,928,078
Hybrid bonds	26		801,298	1,100,250
Capital surplus	26		403,164	403,164
Capital adjustments	26		(30,160)	(842)
Accumulated other comprehensive income	26,37		260,878	237,399
Retained earnings	26,27		10,728,138	10,805,574
Total equity attributable to equity holder of Shinhan Bank			20,091,396	20,473,623
Non-controlling interests	26		3,398	3,277
Total equity			20,094,794	20,476,900
Total liabilities and equity		₩	260,858,311	255,646,329

See accompanying notes to the consolidated interim financial statements.

SHINHAN BANK AND SUBSIDIARIES

Consolidated Interim Statements of Comprehensive income

For the three-month periods ended March 31, 2015 and 2014

(Unaudited)

(In millions of won)	Notes		2015	2014
Interest income		₩	1,977,976	2,132,895
Interest expense			(961,228)	(1,050,415)
Net interest income	4,6,28,41,43		1,016,748	1,082,480
Fees and commission income			243,147	229,931
Fees and commission expense			(45,273)	(47,955)
Net fees and commission income	4,6,29,41,43		197,874	181,976
Dividend income	30,43		64,007	36,594
Net trading income	31		39,134	33,925
Net foreign currencies transactions gain			46,626	6,753
Net loss on financial instruments designated at fair value through profit or loss	18		(64)	-
Net gain on sale of available-for-sale financial assets	11		145,114	134,667
Impairment loss on financial assets	4,10,32,41		(310,590)	(150,881)
General and administrative expenses	33,41		(653,880)	(664,526)
Net other operating expenses	6, 35,41		(76,363)	(127,315)
Operating income			468,606	533,673
Non-operating income, net	6, 36		29,034	3,139
Equity in income of investments in associate	6,14		3,413	3,944
Profit before income tax	6		501,053	540,756
Income tax expense	6,37		(111,031)	(115,599)
Profit for the period	6,27		390,022	425,157
Other comprehensive income:	4,26,37			
Items that are or may be reclassified subsequently to profit or loss				
Foreign currency translation differences for foreign operations			(2,010)	(1,879)
Unrealized net change in fair value of available-for-sale financial assets			25,170	(169)
Equity in other comprehensive income (loss) of associates			336	(1,272)
Total other comprehensive income (loss) for the period, net of income tax			23,496	(3,320)
Total comprehensive income for the period		₩	413,518	421,837

See accompanying notes to the consolidated interim financial statements.

SHINHAN BANK AND SUBSIDIARIES

Consolidated Interim Statements of Comprehensive income (continued)

For the three-month periods ended March 31, 2015 and 2014

(Unaudited)

(In millions of won, except for earning per share)	Notes		2015	2014
Profit attributable to:	6			
Equity holder of Shinhan Bank		₩	389,918	425,088
Non-controlling interests			104	69
Profit for the period		₩	390,022	425,157
Total comprehensive income attributable to:				
Equity holder of Shinhan Bank		₩	413,397	421,735
Non-controlling interests			121	102
Total comprehensive income for the period		₩	413,518	421,837
Earnings per share:	38			
Basic and diluted earnings per share in won		₩	236	248

See accompanying notes to the consolidated interim financial statements.

SHINHAN BANK AND SUBSIDIARIES

Consolidated Interim Statements of Changes in Equity

For the three-month period ended March 31, 2014
(Unaudited)

(In millions of won)		Attributable to equity holder of Shinhan Bank								
		Capital stock	**Hybrid bonds**	**Capital surplus**	**Capital adjustments**	**Accumulated other comprehensive income**	**Retained earnings**	**Subtotal**	**Non-controlling interests**	**Total equity**
Balance at January 1, 2014	₩	7,928,078	2,099,350	403,164	25	296,402	9,806,344	20,533,363	2,718	20,536,081
Total comprehensive income (loss), net of income tax										
Profit for the period		-	-	-	-	-	425,088	425,088	69	425,157
Foreign currency translation differences for foreign operations		-	-	-	-	(1,912)	-	(1,912)	33	(1,879)
Unrealized net changes in fair values of available-for-sale financial assets		-	-	-	-	(169)	-	(169)	-	(169)
Equity in other comprehensive income of associates		-	-	-	-	(1,272)	-	(1,272)	-	(1,272)
Total comprehensive income (loss) for the period		-	-	-	-	(3,353)	425,088	421,735	102	421,837
Transactions with owners, recognized directly in equity										
Annual dividends to equity holders		-	-	-	-	-	(360,000)	(360,000)	-	(360,000)
Dividend to hybrid bond holders		-	-	-	-	-	(32,439)	(32,439)	-	(32,439)
Share-based payment transactions		-	-	-	(184)	-	-	(184)	-	(184)
Total transactions with owners		-	-	-	(184)	-	(392,439)	(392,623)	-	(392,623)
Balance at March 31, 2014	₩	7,928,078	2,099,350	403,164	(159)	293,049	9,838,993	20,562,475	2,820	20,565,295

See accompanying notes to the consolidated interim financial statements.

SHINHAN BANK AND SUBSIDIARIES

Consolidated Interim Statements of Changes in Equity (continued)

For the three-month period ended March 31, 2015

(Unaudited)

(In millions of won)		Attributable to equity holder of Shinhan Bank								
		Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Subtotal	Non-controlling interests	Total equity
Balance at January 1, 2015	₩	7,928,078	1,100,250	403,164	(842)	237,399	10,805,574	20,473,623	3,277	20,476,900
Total comprehensive income (loss), net of income tax										
Profit for the period		-	-	-	-	-	389,918	389,918	104	390,022
Foreign currency translation differences for foreign operations		-	-	-	-	(2,027)	-	(2,027)	17	(2,010)
Unrealized net changes in fair values of available-for-sale financial assets		-	-	-	-	25,170	-	25,170	-	25,170
Equity in other comprehensive income of associates		-	-	-	-	336	-	336	-	336
Total comprehensive income (loss) for the period		-	-	-	-	23,479	389,918	413,397	121	413,518
Transactions with owners, recognized directly in equity										
Annual dividends to equity holders		-	-	-	-	-	(450,000)	(450,000)	-	(450,000)
Dividend to hybrid bond holders		-	-	-	-	-	(16,454)	(16,454)	-	(16,454)
Redemption of hybrid bonds		-	(298,952)	-	(30,899)	-	-	(329,851)	-	(329,851)
Share-based payment transactions		-	-	-	681	-	-	681	-	681
Other		-	-	-	900	-	(900)	-	-	-
Total transactions with owners		-	(298,952)	-	(29,318)	-	(467,354)	(795,624)	-	(795,624)
Balance at March 31, 2015	₩	7,928,078	801,298	403,164	(30,160)	260,878	10,728,138	20,091,396	3,398	20,094,794

See accompanying notes to the consolidated interim financial statements.

SHINHAN BANK AND SUBSIDIARIES

Consolidated Interim Statements of Cash Flows

For the three-month periods ended March 31, 2015 and 2014

(Unaudited)

(In millions of won)		2015	2014
Cash flows from operating activities			
Profit before income tax	₩	501,053	540,756
Adjustments for:			
Net interest income		(1,016,748)	(1,082,480)
Dividend income		(64,007)	(36,594)
Net loss on financial instruments designated at fair value through profit or loss		64	-
Non-cash trading loss, net		18,947	33,761
Non-cash foreign currencies transaction loss, net		297	38,892
Net gain on sales of available-for-sale financial assets		(145,114)	(134,667)
Net impairment loss on financial assets		252,645	64,583
Net impairment loss on other financial assets		57,945	86,298
Non-cash employee benefits		34,273	28,055
Depreciation and amortization		40,593	52,212
Non-cash other operating expenses (income), net		(71,023)	11
Share of profit of associates		(3,413)	(3,944)
Non-cash non-operating expenses, net		3,357	2,373
		(892,184)	(951,500)
Changes in assets and liabilities:			
Due from banks		186,806	(4,402,271)
Trading assets		(529,486)	(771,016)
Derivative assets		303,938	658,560
Loans		(3,899,807)	(621,529)
Other assets		(2,211,602)	(400,971)
Financial liabilities designated at fair value through profit or loss		5,771	-
Deposits		2,117,295	1,267,686
Trading liabilities		5,460	(6,714)
Derivative liabilities		(366,588)	(699,171)
Liability for defined benefit obligations		(40,982)	(31,669)
Provisions		(3,280)	(28,421)
Other liabilities		2,631,271	1,754,421
		(1,801,204)	(3,281,095)
Income tax paid		(52,376)	(51,326)
Interest received		2,005,580	2,177,748
Interest paid		(1,349,490)	(1,278,594)
Dividends received		65,855	72,744
Net cash used in operating activities		(1,522,766)	(2,771,267)

See accompanying notes to the consolidated interim financial statements.

SHINHAN BANK AND SUBSIDIARIES

Consolidated Interim Statements of Cash Flows (continued)

For the three-month periods ended March 31, 2015 and 2014
(Unaudited)

(In millions of won)		2015	2014
Cash flows from investing activities			
Proceeds from sale of available-for-sale financial assets	₩	6,488,465	6,908,011
Acquisitions of available-for-sale financial assets		(5,658,446)	(5,904,267)
Proceeds from redemption of held-to-maturity financial assets		567,489	883,672
Acquisitions of held-to-maturity financial assets		(595,260)	(1,003,736)
Proceeds from sale of property and equipment		635	6
Acquisitions of property and equipment		(16,188)	(26,051)
Proceeds from sale of intangible assets		586	640
Acquisitions of intangible assets		(59,118)	(7,313)
Acquisitions of investment properties		(500)	-
Proceeds from sale of non-current assets held for sale		773	1,470
Payment of guarantee deposits		(372,978)	(107,155)
Receipts of refund of guarantee deposits paid		433,103	120,439
Net cash provided by investing activities		788,561	865,716
Cash flows from financing activities			
Proceeds from borrowings		18,897,384	6,676,103
Repayments of borrowings		(18,381,573)	(4,135,993)
Proceeds from issuance of debt securities		1,336,298	116,123
Repayments of debt securities		(640,069)	(978,788)
Dividends paid		(479,216)	(403,439)
Redemption of hybrid bonds		(329,850)	-
Receipts of guarantee deposits for lease		62,666	4,053
Refund of guarantee deposits for lease		(61,135)	(2,787)
Net cash provided by financing activities		404,505	1,275,272
Effect of exchange rate fluctuations on cash and cash equivalents held		144	102
Net decrease in cash and cash equivalents		(329,556)	(630,177)
Cash and cash equivalents at January 1 (note 40)		4,536,204	4,991,361
Cash and cash equivalents at March 31 (note 40)	₩	4,206,648	4,361,184

See accompanying notes to the consolidated financial statements.

1. Reporting entity

Information regarding Shinhan Bank (the "Bank"), the controlling company, and its subsidiaries included in consolidation (collectively the "Group") are summarized as follows:

(a) Controlling company

The Bank was established through the merger of Hansung Bank and Dongil Bank, which were established on February 19, 1897 and August 8, 1906, respectively, to engage in commercial banking and trust operations.

The Bank acquired Chungbuk Bank and Kangwon Bank in 1999, and the former Shinhan Bank in April 1, 2006, and subsequently changed its name to Shinhan Bank. As of March 31, 2015, the Bank has 1,585,615,506 outstanding common shares with par value of ₩7,928,078 million which Shinhan Financial Group Co., Ltd. ("Shinhan Financial Group") owns 100% of them. As of March 31, 2015, the Bank operates through 792 domestic branches, 103 depositary offices, 24 premises and 7 overseas branches.

(b) Subsidiaries included in consolidation

i) Shinhan Asia Ltd.

Shinhan Asia Limited ("Shinhan Asia") engages in merchant banking activities in Hong Kong. As of March 31, 2015, Shinhan Asia's capital stock amounted to US $100 million.

ii) Shinhan Bank America

Shinhan Bank America ("Shinhan America") was established on March 24, 2003 through the merger of Chohung Bank of New York and California Chohung Bank. As of March 31, 2015, Shinhan America's capital stock amounted to US $123 million.

iii) Shinhan Bank Europe GmbH

Shinhan Bank Europe GmbH ("Shinhan Europe") was established in 1994. As of March 31, 2015, Shinhan Europe's capital stock amounted to EUR 23 million.

iv) Shinhan Khmer Bank

Shinhan Khmer Bank ("Shinhan Khmer") was established on October 15, 2007. As of March 31, 2015, Shinhan Khmer's capital stock amounted to US $20 million.

v) Shinhan Kazakhstan Bank

Shinhan Kazakhstan Bank ("Shinhan Kazakhstan") was established on December 16, 2008. As of March 31, 2015, Shinhan Kazakhstan's capital stock amounted to KZT 10,029 million.

vi) Shinhan Canada Bank

Shinhan Canada Bank ("Shinhan Canada") was established on March 9, 2009. As of March 31, 2015, Shinhan Canada's capital stock amounted to CAD 50 million.

1. Reporting entity (continued)

(b) Subsidiaries included in consolidation (continued)

vii) Shinhan Bank China Limited

Shinhan Bank China Limited ("Shinhan China") was established on May 12, 2008. As of March 31, 2015, Shinhan China's capital stock amounted to CNY 2,000 million.

viii) Shinhan Bank Japan

Shinhan Bank Japan ("Shinhan Japan") was established on September 14, 2009. As of March 31, 2015, Shinhan Japan's capital stock amounted to JPY 15,000 million.

ix) Shinhan Bank Vietnam

Shinhan Bank Vietnam ("Shinhan Vietnam") was established on November 16, 2009 and merged with Shinhan Vina Bank on November 28, 2011. As of March 31, 2015, Shinhan Vietnam's capital stock amounted to VND 4,547,100 million.

Details of ownerships in subsidiaries as of March 31, 2015 and December 31, 2014 were as follows:

		Ownership (%)	
Investee	Country	March 31, 2015	December 31, 2014
Shinhan Asia	Hong Kong	99.9	99.9
Shinhan America	U.S.A	100.0	100.0
Shinhan Europe	Germany	100.0	100.0
Shinhan Khmer	Cambodia	90.0	90.0
Shinhan Kazakhstan	Kazakhstan	100.0	100.0
Shinhan Canada	Canada	100.0	100.0
Shinhan China	China	100.0	100.0
Shinhan Japan	Japan	100.0	100.0
Shinhan Vietnam	Vietnam	100.0	100.0

1. Reporting entity (continued)

(b) Subsidiaries included in consolidation (continued)

In addition, structured entities included in consolidation as of March 31, 2015 were as follows:

Structured entities	Country	Fiscal year end
SH 2007 NPL Investment Co., Ltd.	Korea	December
Shinwha-China Investment Co., Ltd.	Korea	December
MPC Yulchon Green 1st	Korea	December
AR Plus 2nd	Korea	December
MPC Yulchon 2nd	Korea	September
STAY 2nd	Korea	March
S Dream 5th Co., Ltd	Korea	December
AETAS DRIVE FIRST Co., Ltd	Korea	December
AR Plus 3rd	Korea	September
MPC Yulchon 1st	Korea	December
S-Nuri 1st L.L.C	Korea	December
S-Nuri 4th L.L.C	Korea	February
S-Nuri 9th L.L.C	Korea	December
Shinhan-S-Russell Co., Ltd.	Korea	March
Development Trust	Korea	December
Non-specified Money Trust	Korea	December
Old-age Living Pension Trust	Korea	December
New-Personal Pension Trust	Korea	December
Personal Pension Trust	Korea	December
Retirement Trust	Korea	December
New Old-age Living Pension Trust	Korea	December
Pension Trust	Korea	December
Household Money Trust	Korea	December
Installment Money Trust for Purpose	Korea	December
Corporation Money Trust	Korea	December
China Opportunity Private Special Asset Investment Fund 3rd	Korea	December
Shinhan BNPP Private Corporate 25th	Korea	January
Shinhan BNPP Private Corporate 18th	Korea	January
LS Best Partner Private Investment Trust	Korea	May
Heungkuk Rainbow Private Securities Investment Trust T-41	Korea	August
Dongbu All Together Private Investment Trust Fund 9th	Korea	September
Hyundai Heritage Private Securities Investment Trust SH-3rd	Korea	September
Samsung Partner Private Securities No.6[Trust]	Korea	September

The Group consolidates a structured entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to most significantly affect those returns through its power over the structured entity based on the terms in the agreement relating to the establishment of the structured entity. For consolidated structured entities, the Group recognizes non-controlling interests related to the structured entity as liabilities in the consolidated statement of financial position.

The Group provides ABCP purchase agreement amounting to ₩756,070 million to the structured entities described above.

1. Reporting entity (continued)

(b) Subsidiaries included in consolidation (continued)

i) Newly included subsidiaries for the three-month period ended March 31, 2015

	Reason
Shinhan-S-Russell Co.,Ltd.	ABCP purchase agreement & asset management, etc.

ii) Excluded subsidiaries for the three-month period ended March 31, 2015

	Reason
AR Plus	Termination of the ABCP purchase agreement

2. Basis of preparation

(a) Statement of compliance

The accompanying consolidated interim financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in *the Act on External Audits of Corporations in the Republic of Korea.*

These consolidated interim financial statements were prepared in accordance with K-IFRS No.1034, '*Interim Financial Reporting*' as part of the period covered by the Group's K-IFRS annual financial statements. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as of and for the year ended December 31, 2014. Theses consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

(b) Basis of measurement

The consolidated interim financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statements of financial position:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- share-based payment arrangements are measured at fair value
- recognized financial instruments designated as hedged items in qualifying fair value hedge relationships and adjusted for changes in fair value attributable to the risk being hedged
- liabilities for defined benefit plans are recognized as net of the total present value of defined benefit obligations less the fair value of plan assets.

(c) Functional and presentation currency

These consolidated interim financial statements are presented in Korean won, which is the Bank's functional currency and the currency of the primary economic environment in which the Group operates. Subsidiaries whose functional currency is not Korean won were as follows:

Functional currency	Subsidiary
USD	Shinhan Asia, Shinhan America, Shinhan Khmer
EUR	Shinhan Europe
KZT	Shinhan Kazakhstan
CAD	Shinhan Canada
CNY	Shinhan China
JPY	Shinhan Japan
VND	Shinhan Vietnam

2. Basis of preparation (continued)

(d) Use of estimates and judgements

The preparation of the consolidated interim financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the significant effect on the amount recognized in the consolidated interim financial statements is described in Note 5.

3. Significant accounting policies

Except as described below, the accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2014. The following changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as of and for the year ended December 31, 2015.

(a) Changes in accounting policies

The Group has applied the following amendments to standards and interpretation, with a date of initial application of January 1, 2015.

i) K-IFRS No.1108, *'Operating Segments'*
The Group has applied the amendments to K-IFRS No.1108, *'Operating Segments'* since January 1, 2015. The amendment requires the disclosure of judgements made by management in applying the aggregation criteria. The disclosures include a brief description of the operating segments that have been aggregated and the economic indicators that have been assessed in determining whether the operating segments share the similar economic characteristics. In addition, this amendment clarifies that a reconciliation of the total of the reportable segments' assets to the entity's total assets is required only when the information is regularly provided to the entity's chief operating decision maker. The impact of the amendments on the Group's consolidated financial statements is not significant.

ii) K-IFRS No.1102, *'Share-based Payment'*
The Group has applied the amendments to K-IFRS No.1102, *'Share-based Payment'* since January 1, 2015. The amendment clarifies the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The impact of the amendments on the Group's consolidated financial statements is not significant.

3. Significant accounting policies (continued)

(a) Changes in accounting policies (continued)

iii) K-IFRS No.1103, *'Business Combinations'*
The Group has applied the amendments to K-IFRS No.1103, *'Business Combinations'* since January 1, 2015. The amendment clarifies the classification and measurement of contingent consideration in a business combination. When a contingent consideration is a financial instrument, its classification as a liability or equity shall be determined in accordance with K-IFRS No.1032 and the contingent consideration that is classified as an asset or a liability shall be subsequently measured at fair value of which the changes recognised in profit or loss. In addition, this amendments clarifies that the standard does not apply to the accounting for all types of joint arrangements. The impact of the amendments on the Group's consolidated financial statements is not significant.

iv) K-IFRS No.1113, *'Fair Value Measurement'*
The Group has applied the amendments to K-IFRS No.1113, *'Fair Value Measurement'* since January 1, 2015. The amendment allows entities to measure short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, given the discount is immaterial. In addition, this amendment clarifies that the portfolio exception can be applies to contracts in the scope of K-IFRS No.1039 even though the contracts do not meet the definition of a financial asset or financial liability. The impact of the amendments on the Group's consolidated financial statements is not significant.

v) K-IFRS No.1024, *'Related Party Disclosures'*
The Group has applied the amendments to K-IFRS No.1024, *'Related Party Disclosures'* since January 1, 2015. The definition of a 'related party' is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity. The reporting entity is required to separately disclose the expense amount recognised for the key management personnel services. The impact of the amendments on the Group's consolidated financial statements is not significant.

vi) K-IFRS No.1019, *'Employee Benefits'*
The Group has applied the amendments to K-IFRS No.1019, *'Employee Benefits'* since January 1, 2015. The amendments introduce a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. A company is permitted (but not required) to recognise those contributions as a reduction of the service cost in the period in which the related service is rendered. Service-linked contributions from employees or third parties should be reflected in determining the net current service cost and the defined benefit obligation, and should be attributed to the periods of service using the same method as used for calculating the gross benefits or on a straight line basis. The impact of the amendments on the Group's consolidated financial statements is not significant.

3. Significant accounting policies (continued)

(b) Basis of consolidation

i) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for the same transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

ii) Intra-group transactions eliminated on consolidation

Intra-group balances, transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

iii) Non-controlling interests

Non-controlling interests in a subsidiary are accounted for separately from the parent's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interests holders, even when the allocation reduces the non-controlling interests balance below zero.

3. Significant accounting policies (continued)

(c) Business combinations

i) Business combinations

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Each identifiable asset and liability is measured at its acquisition-date fair value except for below:
- Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors
- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized
- Deferred tax assets or liabilities are recognized and measured in accordance with K-IFRS No.1012, '*Income Taxes*'
- Employee benefit arrangements are recognized and measured in accordance with K-IFRS No.1019, '*Employee Benefits*'
- Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset
- Reacquired rights are measured in accordance with special provisions
- Liabilities or equity instruments related to share-based payment transactions are measured in accordance with the method in K-IFRS No.1102, '*Share-based Payment*'
- Non-current assets held for sale are measured at fair value less costs to sell in accordance with K-IFRS No.1105, '*Non-current Assets Held for Sale and Discontinued Operations*'

As of the acquisition date, non-controlling interests in the acquiree are measured as the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employee that is included in consideration transferred in the business combination shall be measured in accordance with the method described above rather than at fair value.

Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No.1032, *'Financial Instruments: Presentation'* and K-IFRS No.1039, *'Financial Instruments: Recognition and Measurement'*.

3. Significant accounting policies (continued)

(c) Business combinations (continued)

ii) Goodwill

The Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, bargain purchase gain is recognized immediately in profit or loss.

When the Group additionally acquires non-controlling interest, the group does not recognize goodwill since the transaction is regarded as equity transaction.

As part of its transition to K-IFRS, the Group elected to restate only those business combinations which occurred on or after January 1, 2010 in accordance with K-IFRS. In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP.

(d) Investments in associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity or when another entity is classified as a subsidiary by the Banking act since the Group holds more than 15% of the voting power of another entity.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The investment in an associate and a joint venture is initially recognized at cost, and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate and the joint venture after the date of acquisition. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate or a joint venture uses accounting policies different from those of the Group for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

3. Significant accounting policies (continued)

(d) Investments in associates and joint ventures (continued)

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has to make payments on behalf of the investee for further losses.

(e) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The segment reporting to a chief executive officer includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly general expenses and income tax assets and liabilities. The Group considers the CEO as the chief operating decision maker.

3. Significant accounting policies (continued)

(f) Foreign currencies

i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedging instrument of the net investment in a foreign operation or a qualifying cash flow hedge, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation and are translated using the exchange rate at the reporting date.

On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

iii) Net investment in a foreign operation

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognized in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

3. <u>Significant accounting policies (continued)</u>

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Equity instruments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date. However, the Group's account overdraft is included in borrowings.

(h) Non-derivative financial assets

Financial assets are classified into financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity financial assets. Financial assets are recognized when the Group becomes a party to the contractual provisions of the instrument. In addition, a regular way purchase or sale (a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation of convention in the market place concerned) is recognized on the trade date are recognized on the trade date.

A financial asset is measured initially at its fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition of the financial asset.

i) Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

ii) Held-to-maturity financial assets

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, is classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

3. Significant accounting policies (continued)

(h) Non-derivative financial assets (continued)

iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives those are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

v) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

vi) Offsetting

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to set off the recognized amounts, and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3. Significant accounting policies (continued)

(i) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

i) Loans

The Group first assesses whether objective evidence of impairment exists individually for loans that are individually significant, 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. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables 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 (i.e., the effective interest rate computed at initial recognition).

If the interest rate of loans is a floating rate, the discount rate used to evaluate impairment is the current effective interest rate defined in the agreement. The present value of estimated future cash flows of secured financial assets is calculated by including cash flows from collateral after deducting costs to acquire and sell the collateral, regardless of probability of realization of such collateral.

In assessing collective impairment, the Group classifies loans, based on credit risk assessment or a credit rating assessment process that takes into account asset type, industry, regional location, collateral type, delinquency and other relative factors.

Future cash flows of loans subject to collective impairment assessment are estimated by using statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of losses incurred, adjusted for management’s judgment as to whether current economic and credit conditions are such that the impairment losses are likely to be greater or less than suggested by historical modelling. In adjusting the future cash flows by historical modelling, the result has to be in line with changes and trends of observable data (e.g., impairment losses of collective assets and unemployment rates, asset prices, commodity prices, payment status and other variables representing the size of impairment losses). Methodologies and assumptions used to estimate future cash flow are reviewed on a regular basis in order to reduce discrepancy between estimated impairment losses and actual loss.

3. Significant accounting policies (continued)

(i) Impairment of financial assets (continued)

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans. When a subsequent event causes the amount of impairment losses to decrease, and the decrease can be related objectively to an event occurring after the impairment is recognized, the decrease in impairment losses is reversed through profit or loss of the period.

ii) 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 that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. 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 is recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

iii) Held-to-maturity financial assets

An impairment loss in respect of held-to-maturity financial assets measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate and is recognized in profit or loss. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3. Significant accounting policies (continued)

(j) Derivative financial instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

i) Hedge Accounting

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

ii) Fair value hedges

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

3. Significant accounting policies (continued)

(j) Derivative financial instruments (continued)

iii) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity. The amount recognized in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the consolidated statements of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in the hedging reserve in equity remains there until the forecasted transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognized in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognized. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss. In other cases the amount recognized in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

iv) Hedge of net investment

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the accumulated other comprehensive income is transferred to profit or loss as part of the profit or loss on disposal in accordance with K-IFRS No.1021, *'The Effects of Changes in Foreign Exchange Rates'.*

v) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the economic characteristics and risks of the host contract and the embedded derivative are not closely related; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

vi) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

3. Significant accounting policies (continued)

(k) Property and equipment

Property and equipment are initially measured at cost and after initial recognition. The cost of property and equipment includes expenditures arising directly from the construction or acquisition of the asset, 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.

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

Certain land and buildings are measured at fair value at the date of transition to K-IFRS, which is deemed cost, in accordance with K-IFRS No.1101, *'First-time Adoption'*. Dividend from relevant revaluation surplus is prohibited in accordance with the resolution of the board of directors.

The Group recognizes in the carrying amount of an item of property and equipment the cost of replacing part of property and equipment when that cost is incurred if it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Land is not depreciated. Other property and equipment are depreciated on a straight-line basis over the estimated useful lives, which most closely reflect the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives for the current and comparative periods were as follows:

Descriptions	Useful lives
Buildings	40 years
Other properties	4~5 years

The gain or loss arising from the derecognition of an item of property and equipment, which is included in profit or loss, is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Depreciation methods, useful lives and residual values are reassessed at each fiscal year-end and any adjustment is accounted for as a change in accounting estimate.

(l) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

3. Significant accounting policies (continued)

(l) Intangible assets (continued)

Descriptions	Useful lives
Software and capitalized development cost	5 years
Other intangible assets	5 years or contract periods, whichever the shorter

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

(m) Investment properties

Investment property is property held either to earn rental income or for capital appreciation or both. An investment property is initially recognized at cost including any directly attributable expenditure. Subsequent to initial recognition, the asset is measured at cost less accumulated depreciation and accumulated impairment losses, if any.

The depreciation method and the estimated useful lives for the current and comparative periods were as follows:

Descriptions	Depreciation method	Useful lives
Buildings	Straight-line	40 years

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as changes in accounting estimates.

3. Significant accounting policies (continued)

(n) Leases

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

i) Finance leases

At the commencement of the lease term, the Group recognizes as finance assets and finance liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs 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 lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee 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 Group reviews to determine whether the leased asset may be impaired.

ii) Operating leases

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the period of the lease.

(o) Non-current assets held for sale

Assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No.1036, *'Impairment of Assets'*.

An asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

3. Significant accounting policies (continued)

(p) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, deferred tax assets and Non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU 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 or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. Significant accounting policies (continued)

(q) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(r) Equity capital

i) Capital stock

Capital stock is classified as equity. Incremental costs directly attributable to the transaction of stock are recognized as a deduction from equity, net of any tax effects.

ii) Hybrid bonds

The Group classifies an issued financial instrument, or its component parts, as a financial liability or an equity instrument depending on the substance of the contractual arrangement of such financial instrument. Hybrid bonds where the Group has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation are classified as an equity instrument and presented in equity.

iii) Non-controlling interests

Non-controlling interests, which represent the equity in a subsidiary not attributable, directly or indirectly, to a parent's ownership interests, consist of the amount of those non-controlling interests at the date of the original combination calculated in accordance with K-IFRS No.1103, '*Business Combinations*' and the non-controlling interests share of changes in equity since the date of the combination.

3. Significant accounting policies (continued)

(s) Employee benefits

i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

ii) Other long-term employee benefits

The Group's net obligation in respect of other long-term employee benefits that are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

iii) Retirement benefits: defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes service cost and net interest on the net defined benefit liability (asset) in profit or loss and remeasurements of the net defined benefit liability (asset) in other comprehensive income.

iv) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

3. Significant accounting policies (continued)

(t) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

The Group has granted share-based payment based on Shinhan Financial Group's share to the employees. In accordance with a repayment arrangement with Shinhan Financial Group, the Group is required to pay Shinhan Financial Group for the provision of the share-based payments. The Group recognizes the costs as expenses and accrued expenses in liabilities for the service period. When vesting conditions are not satisfied because of death, retirement or dismissal of employees during the specified service period, no amount is recognized for goods or services received on a cumulative basis. Share-based payment arrangements in which the Group has no obligation to settle the share-based payment transaction are accounted for as equity-settled share-based payment transactions, regardless of the repayment arrangement with Shinhan Financial Group.

(u) Provisions

Provisions are recognized when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

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 provision is reversed.

Provision shall be used only for expenditures for which the provision is originally recognized.

3. Significant accounting policies (continued)

(v) Financial guarantee contract

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee contract. The financial guarantee liability is subsequently measured at the higher of the amount of the best estimate of the expenditure required to settle the present obligation at the end of reporting period; and the amount initially recognized less, cumulative amortization recognized on a straight-line basis over the guarantee period. Financial guarantee liabilities are included within other liabilities.

(w) Financial income and expense

i) Interest income and expense

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or 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, and all other premiums or discounts. When it is not possible to estimate reliably the cash flows or the expected life of a financial instrument, the Group uses the contractual cash flows over the full contractual term of the financial instrument.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

ii) Fees and commission

The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument.

ⓐ Fees that are an integral part of the effective interest rate of a financial instrument.
Such fees are generally treated as an adjustment to the effective interest rate. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, preparing and processing documents, closing the transaction and the origination fees received on issuing financial liabilities. However, when the financial instrument is measured at fair value with the change in fair value recognized in profit or loss, the fees are recognized as revenue when the instrument is initially recognized.

3. Significant accounting policies (continued)

(w) Financial income and expense (continued)

ⓑ Fees earned as services are provided

Fees and commission income, including investment management fees, sales commission, and account servicing fees, are recognized as the related services are provided. If it is unlikely that a specific lending arrangement will be entered into and the loan commitment is outside the scope of K-IFRS No.1039, *'Financial Instruments: Recognition and Measurement'* the commitment fee is recognized as revenue on a time proportion basis over the commitment period.

ⓒ Fees that are earned on the execution of a significant act

The fees that are earned on the execution of a significant act including commission on the allotment of shares or other securities to a client, placement fee for arranging a loan between a borrower and an investor and sales commission, are recognized as revenue when the significant act has been completed.

iii) Dividends

Dividend income is recognized when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

(x) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Shinhan Financial Group, the parent company, files its national income tax return with the Korean tax authorities under the consolidated corporate tax system, which allows it to make national income tax payments based on the consolidated profits or losses of the Shinhan Financial Group and its wholly owned domestic subsidiaries including the Group. Deferred taxes are measured based on the future tax benefits expected to be realized in consideration of the expected profits or losses of eligible companies in accordance with the consolidated corporate tax system. Consolidated corporate tax amounts, once determined, are allocated to each of the subsidiaries and are used as a basis for the income taxes to be recorded in their stand-alone financial statements.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued)

(y) Accounting for trust accounts

The Group accounts for trust accounts separately from its group accounts under the Financial Investment Services and Capital Markets Act and thus the trust accounts are not included in the accompanying consolidated financial statements. Borrowings from trust accounts are included in other liabilities. Trust fees and commissions in relation to the service provided to trust accounts by the Group are recognized as fees and commissions income.

(z) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholder of the Bank by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(aa) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2015, and the Group has not early adopted them.

Management is in the process of evaluating the impact of the amendments on the Group's consolidated financial statements, if any.

i) K-IFRS No.1111, *'Joint Arrangements'*

The amendment requires the business combination accounting to be applied to an acquisition of interests in a joint operation that constitutes a business. In addition, when business combination accounting applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control, the additional interest acquired shall be measured at fair value but the previously held interests in the joint operation shall not be re-measured. The amendment is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

4. Financial risk management

4-1. Credit risk

Credit risk is the risk of financial loss of the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from due from banks, the lending process related to loans, investment activities in debt securities and off balance sheet items including loan commitments, etc. Credit risk management is critical to the Group's business activities; thus, the Group carefully manages the credit risk exposure.

(a) Credit risk management

Major policies of the credit risk management are determined by the Credit Policy Committee, which is the Group's executive decision-making body for credit risk management. The Credit Policy Committee is led by the Group's Deputy President and Head of Risk Management Group. The Credit Policy Committee also consists of chief officers from eight different business units. The Credit Review Committee performs credit review evaluations and operates separately from the Credit Policy Committee.

Each business unit is required to implement the Group's risk management policies and procedures. Risk Management Department reviews compliance of business units with agreed exposure limits established by the Credit Policy Committee, including those for selected industries, country risk and product types.

The Group established the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to the business unit credit officer. Larger facilities require approval by the Credit Committee. The Group assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and review of facilities are subject to the same review process.

The Group is responsible for limiting concentrations of exposures to counterparties, geographies and industries, and by issuers, credit rating band, market liquidity and country.

The Group develops and maintains the risk grading system in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining credit approvals, credit renewals, credit pricing, credit limits, or where impairment provisions may be required against specific credit exposures for existing loans.

Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolio, including those subject to central approval. In addition to periodic loan reviews by credit officers, the Group also utilizes an automated monitoring tool which conducts searches for companies with high probability of default. Regular reports on the credit quality of local portfolios are provided to the Credit Administration Department who may require appropriate corrective action to be taken.

(In millions of won)

4. Financial risk management (continued)

4-1. Credit risk (continued)

(b) Maximum exposure to credit risk

The Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Due from banks and loans(*1,2):			
Banks	₩	7,972,602	9,330,401
Retail:			
Mortgage lending		44,419,517	43,071,985
Other		45,479,517	44,568,901
		89,899,034	87,640,886
Government		13,508,907	11,950,221
Corporate:			
Large companies		31,765,562	31,325,767
Small and medium enterprises		57,858,064	57,472,842
Special finance		3,755,481	3,967,248
Other		600	1,075
		93,379,707	92,766,932
Card		15,477	25,999
		204,775,727	201,714,439
Trading assets:			
Debt securities		6,588,611	7,079,455
Gold deposits		153,000	224,556
		6,741,611	7,304,011
Derivative assets		1,314,291	1,309,094
Available-for-sale financial assets:			
Debt securities		19,227,148	20,033,298
Held-to-maturity financial assets:			
Debt securities		8,041,984	8,012,117
Other financial assets(*1,3)		10,149,320	8,019,552
Off balance sheet items:			
Financial guarantee contracts		3,135,854	3,069,507
Loan commitments and other liabilities for credit		75,269,687	73,608,486
		78,405,541	76,677,993
	₩	328,655,622	323,070,504

(*1) The maximum exposure amounts for due from banks and loans and other financial assets are measured as the amount net of allowances.
(*2) Due from banks and loans were classified as similar credit risk group to be with consistent calculating capital adequacy ratio under New Basel Capital Accord (Basel III).
(*3) Other financial assets comprise accounts receivable, accrued income, guarantee deposits, domestic exchange settlements receivables, suspense receivables, etc.

(In millions of won)

4. Financial risk management (continued)

4-1. Credit risk (continued)

(c) Information related to impairment for due from banks and loans

i) Due from banks and loans as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015					
		Banks	Retail	Government	Corporate	Card	Total
Neither past due nor impaired	₩	8,001,312	89,502,988	13,515,908	93,481,780	15,396	204,517,384
Past due but not impaired		-	419,600	-	238,795	426	658,821
Impaired		-	265,503	-	1,017,667	17	1,283,187
		8,001,312	90,188,091	13,515,908	94,738,242	15,839	206,459,392
Less: allowance		(28,710)	(289,057)	(7,001)	(1,358,535)	(362)	(1,683,665)
	₩	7,972,602	89,899,034	13,508,907	93,379,707	15,477	204,775,727

		December 31, 2014					
		Banks	Retail	Government	Corporate	Card	Total
Neither past due nor impaired	₩	9,362,122	87,295,416	11,958,001	92,695,348	25,979	201,336,866
Past due but not impaired		-	365,020	-	225,192	352	590,564
Impaired		-	252,282	-	1,138,077	16	1,390,375
		9,362,122	87,912,718	11,958,001	94,058,617	26,347	203,317,805
Less: allowance		(31,721)	(271,832)	(7,780)	(1,291,685)	(348)	(1,603,366)
	₩	9,330,401	87,640,886	11,950,221	92,766,932	25,999	201,714,439

(In millions of won)

4. Financial risk management (continued)

4-1. Credit risk (continued)

(c) Information related to impairment for due from banks and loans (continued)

ii) Credit quality of due from banks and loans that were neither past due nor impaired as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015					
		Banks	Retail	Government	Corporate	Card	Total
Grade 1(*1)	₩	8,001,312	84,875,476	13,515,908	58,133,353	9,841	164,535,890
Grade 2(*1)		-	4,627,512	-	35,348,427	5,555	39,981,494
		8,001,312	89,502,988	13,515,908	93,481,780	15,396	204,517,384
Less: allowance		(28,710)	(146,648)	(7,001)	(835,773)	(362)	(1,018,494)
	₩	7,972,602	89,356,340	13,508,907	92,646,007	15,034	203,498,890
Mitigation of credit risk due to collateral(*2)	₩	126	60,475,583	-	48,550,935	28	109,026,672

		December 31, 2014					
		Banks	Retail	Government	Corporate	Card	Total
Grade 1(*1)	₩	9,362,122	82,665,781	11,958,001	57,544,883	20,136	161,550,923
Grade 2(*1)		-	4,629,635	-	35,150,465	5,843	39,785,943
		9,362,122	87,295,416	11,958,001	92,695,348	25,979	201,336,866
Less: allowance		(31,721)	(145,141)	(7,780)	(792,986)	(348)	(977,976)
	₩	9,330,401	87,150,275	11,950,221	91,902,362	25,631	200,358,890
Mitigation of credit risk due to collateral(*2)	₩	134	59,713,527	-	47,914,214	38	107,627,913

(*1) Credit quality of due from banks and loans were classified based on the internal credit rating as follows:

Type of Borrower	Grade 1	Grade 2
Banks and governments	OECD sovereign credit rating of 6 or above (as applied to the nationality of the banks and governments)	OECD sovereign credit rating of below 6 (as applied to the nationality of the banks and governments)
Retail	Pool of retail loans with probability of default of less than 2.25%	Pool of retail loans with probability of default of 2.25% or more
Corporations	Internal credit rating of BBB+ or above	Internal credit rating of below BBB+
Credit cards	For individual card holders, score of 7 or higher in Shinhan Card's internal behavior scoring system For corporate cardholders, same as corporate loans	For individual card holders, score of below 7 in Shinhan Card's internal behavior scoring system For corporate cardholders, same as corporate loans

(*2) The Group holds collateral against due from banks and loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of quantification of the extent to which collateral mitigate credit risk are based on the fair value of collateral.

(In millions of won)

4. Financial risk management (continued)

4-1. Credit risk (continued)

(c) Information related to impairment for due from banks and loans (continued)

iii) Aging analysis of due from banks and loans, that were past due but not impaired as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015			
		Retail	Corporate	Card	Total
Within 30 days	₩	329,862	149,660	186	479,708
30~60 days		47,377	25,540	56	72,973
60~90 days		34,136	40,262	25	74,423
More than 90 days		8,225	23,333	159	31,717
		419,600	238,795	426	658,821
Less: allowance		(32,601)	(23,820)	-	(56,421)
	₩	386,999	214,975	426	602,400
Mitigation of credit risk due to collateral	₩	324,485	110,779	-	435,264

		December 31, 2014			
		Retail	Corporate	Card	Total
Within 30 days	₩	272,720	120,143	164	393,027
30~60 days		59,296	21,797	38	81,131
60~90 days		26,023	44,603	23	70,649
More than 90 days		6,981	38,649	127	45,757
		365,020	225,192	352	590,564
Less: allowance		(29,398)	(31,144)	-	(60,542)
	₩	335,622	194,048	352	530,022
Mitigation of credit risk due to collateral	₩	284,210	81,729	-	365,939

iv) Mitigation of credit risk due to the collateral of impaired due from banks and loans as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015			
		Retail	Corporate	Card	Total
Impaired	₩	265,503	1,017,667	17	1,283,187
Less: allowance		(109,808)	(498,942)	-	(608,750)
	₩	155,695	518,725	17	674,437
Mitigation of credit risk due to collateral	₩	124,842	403,975	-	528,817

		December 31, 2014			
		Retail	Corporate	Card	Total
Impaired	₩	252,282	1,138,077	16	1,390,375
Less: allowance		(97,293)	(467,555)	-	(564,848)
	₩	154,989	670,522	16	825,527
Mitigation of credit risk due to collateral	₩	128,406	398,646	-	527,052

(In millions of won)

4. Financial risk management (continued)

4-1. Credit risk (continued)

(d) Credit rating

i) Credit rating of debt securities as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015			
		Trading assets	Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA	₩	1,768,925	13,253,612	7,030,016	22,052,553
AA- to AA+		2,015,172	1,844,878	880,154	4,740,204
A- to A+		1,907,713	2,357,361	20,938	4,286,012
BBB- to BBB+		251,306	622,420	-	873,726
Lower than BBB-		112,008	403,376	40,812	556,196
Unrated		533,487	745,501	70,064	1,349,052
	₩	6,588,611	19,227,148	8,041,984	33,857,743

		December 31, 2014			
		Trading assets	Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA	₩	1,539,833	12,978,467	7,025,246	21,543,546
AA- to AA+		1,662,905	2,634,819	753,221	5,050,945
A- to A+		2,866,086	2,247,214	131,292	5,244,592
BBB- to BBB+		569,706	1,095,902	-	1,665,608
Lower than BBB-		240,642	441,338	33,306	715,286
Unrated		200,283	635,558	69,052	904,893
	₩	7,079,455	20,033,298	8,012,117	35,124,870

ii) The credit qualities of securities debt securities according to the credit ratings by external rating agencies were as follows:

	KIS(*1)	KR(*2)	S&P	Fitch	Moody's
AAA	-	-	AAA	AAA	Aaa
AA- to AA+	AAA	AAA	AA- to AA+	AA- to AA+	Aa3 to Aa1
A- to A+	AA- to AA+	AA- to AA+	A- to A+	A- to A+	A3 to A1
BBB- to BBB+	BBB- to A	BBB- to A	BBB- to BBB+	BBB- to BBB+	Baa3 to Baa1
Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than Baa3
Unrated	Unrated	Unrated	Unrated	Unrated	Unrated

(*1) KIS: Korea Investors Service
(*2) KR: Korea Ratings

(In millions of won)

4. Financial risk management (continued)

4-1. Credit risk (continued)

(d) Credit rating (continued)

iii) Credit status of debt securities as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Neither past due nor impaired	₩	33,857,743	35,124,870
Impaired		-	-
	₩	33,857,743	35,124,870

(e) Assets acquired through foreclosures amounting to ₩2,394 million, ₩2,585 million were classified as Non-current assets held for sale As of March 31, 2015 and December 31, 2014, respectively.

(f) Concentration by geographic location

An analysis of concentration by geographic location for financial assets including due from banks and loans, net of allowance, as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015						
		Korea	U.S.A	Japan	Vietnam	China	Other	Total
Due from banks and loans:								
Banks	₩	2,217,373	483,848	235,113	315,916	2,837,722	1,882,630	7,972,602
Retail		88,451,313	264,971	781,716	58,535	54,745	287,754	89,899,034
Government		12,463,432	202,123	169,616	60,160	510,908	102,668	13,508,907
Corporate		83,715,272	1,304,863	1,518,802	1,340,959	2,407,284	3,092,527	93,379,707
Card		5,929	1,129	1	8,404	3	11	15,477
		186,853,319	2,256,934	2,705,248	1,783,974	5,810,662	5,365,590	204,775,727
Trading assets		6,529,111	-	-	-	59,500	153,000	6,741,611
Available-for-sale financial assets		18,331,979	176,317	50,634	429,480	35,362	203,376	19,227,148
Held-to-maturity financial assets		7,893,502	22,159	23,136	29,661	62,375	11,151	8,041,984
	₩	219,607,911	2,455,410	2,779,018	2,243,115	5,967,899	5,733,117	238,786,470

		December 31, 2014						
		Korea	U.S.A	Japan	Vietnam	China	Other	Total
Due from banks and loans:								
Banks	₩	3,045,693	906,217	367,693	345,781	2,589,456	2,075,561	9,330,401
Retail		86,216,060	263,905	784,022	56,376	44,733	275,790	87,640,886
Government		11,076,342	115,845	73,475	80,516	540,175	63,868	11,950,221
Corporate		83,114,294	1,328,807	1,480,465	1,292,578	2,664,495	2,886,293	92,766,932
Card		16,531	1,132	-	8,322	3	11	25,999
		183,468,920	2,615,906	2,705,655	1,783,573	5,838,862	5,301,523	201,714,439
Trading assets		7,069,987	-	-	-	9,468	224,556	7,304,011
Available-for-sale financial assets		19,235,556	179,092	37,005	416,632	29,669	135,344	20,033,298
Held-to-maturity financial assets		7,878,556	22,257	23,137	22,031	54,860	11,276	8,012,117
	₩	217,653,019	2,817,255	2,765,797	2,222,236	5,932,859	5,672,699	237,063,865

(In millions of won)

4. Financial risk management (continued)

4-1. Credit risk (continued)

(g) Concentration by industry sector

An analysis of concentration by industry sector for financial assets including due from banks and loans, net of allowance, as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015						
		Finance and insurance	Manu-facturing	Retail and wholesale	Real estate and service	Others	Retail customers	Total
Due from banks and loans:								
Banks	₩	5,473,256	14,997	-	185,742	2,298,607	-	7,972,602
Retail		-	-	-	-	-	89,899,034	89,899,034
Government		12,840,275	-	-	-	668,632	-	13,508,907
Corporate		2,072,137	35,058,188	13,553,466	16,019,345	26,676,571	-	93,379,707
Card		-	-	-	-	-	15,477	15,477
		20,385,668	35,073,185	13,553,466	16,205,087	29,643,810	89,914,511	204,775,727
Trading assets		3,770,944	233,525	350,012	968,501	1,418,629	-	6,741,611
Available-for-sale financial assets		13,827,141	715,530	113,077	403,542	4,167,858	-	19,227,148
Held-to-maturity financial assets		1,733,558	71,810	-	82,035	6,154,581	-	8,041,984
	₩	39,717,311	36,094,050	14,016,555	17,659,165	41,384,878	89,914,511	238,786,470

		December 31, 2014						
		Finance and insurance	Manu-facturing	Retail and wholesale	Real estate and service	Others	Retail customers	Total
Due from banks and loans:								
Banks	₩	7,409,760	2,246	-	187,727	1,730,668	-	9,330,401
Retail		-	-	-	-	-	87,640,886	87,640,886
Government		11,198,476	-	-	-	751,745	-	11,950,221
Corporate		2,231,685	35,173,585	12,923,930	16,296,477	26,141,255	-	92,766,932
Card		-	-	-	-	-	25,999	25,999
		20,839,921	35,175,831	12,923,930	16,484,204	28,623,668	87,666,885	201,714,439
Trading assets		4,035,691	421,339	410,638	644,759	1,791,584	-	7,304,011
Available-for-sale financial assets		14,477,248	829,423	102,049	624,394	4,000,184	-	20,033,298
Held-to-maturity financial assets		1,915,165	49,915	-	92,226	5,954,811	-	8,012,117
	₩	41,268,025	36,476,508	13,436,617	17,845,583	40,370,247	87,666,885	237,063,865

4. Financial risk management (continued)

4-2. Market risk

Market risk is the risk that changes in market price such as interest rates, equity prices, foreign exchange rates, etc. will affect the Group's income. Trading position is exposed to the risk such as interest rates, equity prices, foreign exchange rates, etc. and non-trading position is mainly exposed to interest rates. The Group separates and manages its exposure to market risk between trading and non-trading position.

Overall authority for market risk is vested in the Group's Asset & Liability Management Committee ("ALM Committee"). The Risk Management Department is responsible for the development of detailed risk management policies which are subject to review and approval by the ALM Committee and for the day-to-day review of their implementation. The ALM Committee also sets Value at Risk (VaR) limit, damage limit, sensitivity limit, investment limits, position limits, and stress damage limits of each department and desk. The Risk Management Department monitors operation departments and reports regularly to the ALM Committee and the Risk Management Committee.

Before launching a new product from each business unit, the Group is required to perform an objective analysis of the risk evaluation and examination of fair value measurement method from the Risk Management Department or Fair Value Evaluation Committee. The Derivative and Structured Product Risk Review Committee reviews the related risk exposure and investment limit.

(a) Market risk management of trading positions

Trading position includes securities, foreign exchange position, and derivatives which are traded for profits.

Trading data of foreign exchange, stocks, bonds and derivatives from trading positions are tracked and daily risk limits are systematically monitored based on the Group's risk management parameters. Statistical analysis that complements the above risk management process and stress testing is performed regularly in order to manage the impact and loss of rapid economic changes. These risk management processes enable the Group to manage the scale of potential losses within a certain range when a crisis occurs.

i) Measurement method on market risk arising from trading position

The principal tool used to measure and control market risk exposure within the Group's trading position is VaR. The VaR of a trading position is the estimated loss that will arise on the portfolio over a specified period of time (ten days holding period) from an adverse market movement with a specified probability (confidence level). The Group measures market risk based on 99.9% confidence level by using the VaR model based on historical simulation.

VaR is a commonly used market risk management technique. However, VaR estimates possible losses over a certain period at a particular confidence level using the historical market movement data. The use of historical market movement data as a basis for determining the possible range of future outcome may not always cover all possible scenarios, especially those of an exceptional nature. VaR models assume that a holding period of generally one to ten days is sufficient prior to liquidating the underlying positions, but this may not be the case for certain highly illiquid assets or in situations in which there is severe general market illiquidity.

(In millions of won)

4. Financial risk management (continued)

4-2. Market risk (continued)

(a) Market risk management of trading positions (continued)

The Group directly applies the historical changes in interest rates, equity prices, and foreign exchange rates to current position. The actual outputs are regularly monitored by testing the effectiveness of assumptions, measurements and parameter. The application of this method does not prevent loss from larger market movement that exceeds the acceptable parameter.

VaR limit related to the operation of trading and non-trading portfolio is determined by management annually. VaR is measured at least daily. The quality of VaR model is monitored consistently by examining the VaR results related to trading book.

ii) VaR of trading position

An analysis of trading position VaR for the three-month period ended March 31, 2015 and for the year ended December 31, 2014 were as follows:

		2015			
		Average	Maximum	Minimum	Period end
Interest rate risk	₩	12,014	14,416	10,348	14,416
Equity risk		4,003	4,838	2,972	4,660
Foreign currency risk(*)		44,011	53,165	35,383	37,312
Volatility risk		121	187	65	107
Covariance		(13,127)	(18,540)	(6,688)	(11,880)
	₩	47,022	54,066	42,080	44,615

		2014			
		Average	Maximum	Minimum	Period end
Interest rate risk	₩	17,302	25,863	8,721	13,414
Equity risk		4,333	7,362	2,493	3,442
Foreign currency risk(*)		43,872	54,355	34,928	49,372
Volatility risk		161	259	66	66
Covariance		(18,668)	(32,344)	(5,246)	(13,268)
	₩	47,000	55,495	40,962	53,026

(*) The Group measured foreign currency risk arising from trading position and non-trading position.

(In millions of won)

4. Financial risk management (continued)

4-2. Market risk (continued)

(b) Market risk management of non-trading positions

The most critical market risk that arises from non-trading position is the interest rate risk. Accordingly, the Group measures and manages market risk for non-trading position by taking into account effects of interest rate changes on both its net asset value and income. Interest rate risk is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALM Committee is the monitoring body for compliance with these limits including establishing policies and setting the limits and is assisted by the Risk Management Department in its day-to-day monitoring activities.

i) Measurement method on market risk arising from non-trading position

The Group measures and manages interest rate risk by using various analyses such as interest rate gap, duration gap, and NII (Net Interest Income) simulation of each scenario through the ALM system (OFSA). The Group also monitors interest rate VaR, earnings at risk ("EaR"), and gap rate of interest rate by setting the limits on a monthly basis.

The Group measures interest rate VaR by using standard modified duration and interest rate volatility, and interest rate EaR by using impact period by maturity period and interest rate volatility based on a standard methodology provided by Bank for International Settlements ("BIS").

ii) Interest rate VaR and EaR for non-trading positions

Interest rate VaR and EaR for non-trading positions which were measured by the standard methodology provided by BIS as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31,2014
Interest rate VaR	₩	815,921	695,044
Interest rate EaR		385,410	313,619

(In millions of won)

4. Financial risk management (continued)

4-2. Market risk (continued)

(c) Foreign exchange risk

The Group manages foreign currency risk based on general positions which includes all spot and future foreign currency positions, etc. The ALM Committee oversees the Group's foreign exchange exposure for both trading and non-trading activities by establishing limits for the net foreign currencies open position. The Group's foreign exchange position is centralized at the FX & Derivatives Department. Dealers in the FX & Derivatives Department manage the Group's overall position within the set limits through spot trading, forward contracts, currency options, futures and swaps and foreign exchange swaps. The Group's foreign exchange transactions are mainly conducted in the U.S. dollar (USD), Japanese yen (JPY), euro (EUR) and Chinese yuan (CNY). Other foreign currencies are narrowly traded.

Foreign currency denominated assets and liabilities as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015					
		USD	JPY	EUR	CNY	Other	Total
Assets							
Cash and due from banks	₩	1,258,291	878,494	99,472	1,883,930	545,393	4,665,580
Trading assets		-	-	-	-	153,000	153,000
Derivative assets		111,192	4,534	4,754	1,557	741	122,778
Loans		13,973,088	3,902,474	1,025,315	2,155,750	2,550,253	23,606,880
Available-for-sale financial assets		975,340	54,811	109	-	546,594	1,576,854
Held-to-maturity financial assets		64	195,359	-	58,694	45,931	300,048
Other financial assets		2,200,203	441,790	589,694	1,187,185	138,612	4,557,484
		18,518,178	5,477,462	1,719,344	5,287,116	3,980,524	34,982,624
Liabilities							
Deposits		7,174,840	4,453,232	376,688	3,015,007	2,125,358	17,145,125
Trading liabilities		-	-	-	-	432,270	432,270
Derivative liabilities		82,206	8,172	792	3,829	118	95,117
Borrowings		5,434,748	170,260	483,509	430,582	385,420	6,904,519
Debt securities issued		3,085,966	585,285	-	-	372,723	4,043,974
Other financial liabilities		2,559,160	466,830	711,620	1,342,979	161,554	5,242,143
		18,336,920	5,683,779	1,572,609	4,792,397	3,477,443	33,863,148
Net assets (liabilities)		181,258	(206,317)	146,735	494,719	503,081	1,119,476
Off-balance							
Derivative exposures		390,238	284,424	(88,970)	(115,701)	(26,122)	443,869
Net position	₩	571,496	78,107	57,765	379,018	476,959	1,563,345

(In millions of won)

4. Financial risk management (continued)

4-2. Market risk (continued)

(c) Foreign exchange risk (continued)

		December 31, 2014					
		USD	JPY	EUR	CNY	Other	Total
Assets							
Cash and due from banks	₩	1,554,830	796,296	96,725	1,687,069	677,811	4,812,731
Trading assets		-	-	-	-	224,556	224,556
Derivative assets		126,925	100	5,205	1,418	158	133,806
Loans		14,237,836	4,218,682	929,165	2,304,384	2,345,771	24,035,838
Available-for-sale financial assets		879,538	41,160	4,143	-	536,891	1,461,732
Held-to-maturity financial assets		73	180,191	-	51,180	38,326	269,770
Other financial assets		1,796,229	213,903	33,864	279,412	116,841	2,440,249
		18,595,431	5,450,332	1,069,102	4,323,463	3,940,354	33,378,682
Liabilities							
Deposits		7,314,969	4,548,496	344,351	3,004,043	2,322,394	17,534,253
Trading liabilities		-	-	-	-	428,936	428,936
Derivative liabilities		68,522	72,628	366	916	77	142,509
Borrowings		5,225,495	261,139	511,723	387,367	261,128	6,646,852
Debt securities issued		3,069,650	585,209	-	-	389,648	4,044,507
Other financial liabilities		1,908,888	129,655	103,272	436,379	182,812	2,761,006
		17,587,524	5,597,127	959,712	3,828,705	3,584,995	31,558,063
Net assets (liabilities)		1,007,907	(146,795)	109,390	494,758	355,359	1,820,619
Off-balance							
Derivative exposures		(418,456)	136,614	(41,958)	(117,920)	136,402	(305,318)
Net position	₩	589,451	(10,181)	67,432	376,838	491,761	1,515,301

4. Financial risk management (continued)

4-3. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The ALM Committee is responsible for establishing policies and setting the limits related to liquidity risk management. The Risk Management Department evaluates and manages the Group's overall liquidity risk and monitors compliance of all operating subsidiaries and foreign branches with limits on a daily basis.

The Group applies the following basic principles for liquidity risk management:

- raise funding in sufficient amounts at the optimal time and reasonable costs;
- maintain risk at appropriate levels and preemptively manage them through a prescribed risk limit system and an early warning signal detection system;
- secure stable sources of revenue and minimize actual losses by implementing an effective asset-liability management system based on diversified sources of funding with varying maturities;
- monitor and manage daily and intra-daily liquidity positions and risk exposures as to timely payment and settlement of financial obligations due under both normal and crisis situations;
- conduct periodic contingency analysis in anticipation of any potential liquidity crisis and establish and implement emergency plans in case of a crisis actually happening; and
- consider liquidity-related costs, benefits and risks in determining the price of products and services, employee performance evaluations and approval of launching new products and services.

The Group manages its liquidity risk within the limits set on won and foreign currency by using various analysis methods such as liquidity gap, real liquidity gap and loan-deposit ratio through the ALM system and various indices including risk limits, early warning index, and monitoring index.

The following table presents the Group's cash flows of financial assets and financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. Since the effect of the discount is not important for the balance with the maturities of less than 12 months, the amount is the same as the book value.

(In millions of won)

4. Financial risk management (continued)

4-3. Liquidity risk (continued)

(a) Contractual maturities for financial instruments

Contractual maturities for financial assets and financial liabilities as of March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015						
	Less than 1 month	1~3 months	3~6 months	6 months~ 1 year	1~5 years	More than 5 years	Total
Assets							
Cash and due from banks	₩ 13,980,044	904,212	257,871	234,151	26,259	-	15,402,537
Trading assets	8,867,171	-	-	-	-	-	8,867,171
Derivative assets	1,279,297	234,433	72,310	132,645	203,063	47,423	1,969,171
Loans	23,384,454	26,346,845	28,662,679	43,594,257	45,408,654	47,857,278	215,254,167
Available-for-sale financial assets	20,808,170	-	-	-	-	822,713	21,630,883
Held-to-maturity financial assets	56,639	221,292	449,895	664,050	6,671,097	1,099,606	9,162,579
Other financial assets	7,405,442	-	-	-	2,856,809	-	10,262,251
	₩ 75,781,217	27,706,782	29,442,755	44,625,103	55,165,882	49,827,020	282,548,759
Liabilities							
Financial liabilities designated at fair value through profit or loss	₩ -	-	-	-	12,527	-	12,527
Deposits	93,382,237	22,605,328	25,445,226	41,839,222	12,339,293	4,399,986	200,011,292
Trading liabilities	432,270	-	-	-	-	-	432,270
Derivative liabilities	1,215,854	29,002	23,144	48,255	282,237	357,531	1,956,023
Borrowings	4,788,358	2,140,010	1,611,466	1,388,291	3,100,632	501,407	13,530,164
Debt securities issued	766,237	1,808,729	3,005,313	3,238,665	8,110,199	2,154,408	19,083,551
Other financial liabilities	15,835,785	-	-	-	121,537	-	15,957,322
	₩ 116,420,741	26,583,069	30,085,149	46,514,433	23,966,425	7,413,332	250,983,149

(In millions of won)

4. Financial risk management (continued)

4-3. Liquidity risk (continued)

(a) Contractual maturities for financial instruments (continued)

		December 31, 2014						
		Less than 1 month	1~3 months	3~6 months	6 months~ 1 year	1~5 years	More than 5 years	Total
Assets								
Cash and due from banks	₩	14,403,576	751,768	414,544	309,024	35,555	-	15,914,467
Trading assets		8,316,341	-	-	-	-	-	8,316,341
Derivative assets		1,299,123	264,459	85,066	120,408	255,611	50,797	2,075,464
Loans		19,077,637	23,946,375	30,703,857	46,783,276	45,082,527	46,401,285	211,994,957
Available-for-sale financial assets		21,518,374	-	-	-	-	845,238	22,363,612
Held-to-maturity financial assets		126,238	545,926	267,173	975,791	6,163,264	1,079,096	9,157,488
Other financial assets		4,791,485	-	-	-	3,345,138	-	8,136,623
	₩	69,532,774	25,508,528	31,470,640	48,188,499	54,882,095	48,376,416	277,958,952
Liabilities								
Financial liabilities designated at fair value through profit or loss	₩	-	-	-	-	6,478	-	6,478
Deposits		90,600,157	22,009,320	27,033,455	41,581,709	11,221,657	3,652,814	196,099,112
Trading liabilities		428,936	-	-	-	-	-	428,936
Derivative liabilities		1,230,421	24,644	27,272	56,291	350,109	433,058	2,121,795
Borrowings		4,322,011	1,842,747	1,717,968	1,497,262	3,102,363	548,389	13,030,740
Debt securities issued		344,793	1,445,809	2,195,326	3,898,623	8,396,824	2,173,506	18,454,881
Other financial liabilities		13,523,535	-	-	-	120,006	-	13,643,541
	₩	110,449,853	25,322,520	30,974,021	47,033,885	23,197,437	6,807,767	243,785,483

(*1) These amounts include cash flows of principal and interest on financial assets and financial liabilities.
(*2) The undiscounted cash flows were classified based on the earliest dates for obligation repayment. Trading assets and available-for-sale financial assets except for assets restricted for sale for certain periods were included in the less than 1month

(b) Contractual maturities for off balance sheet items

Financial guarantees such as financial guarantee contracts, loan commitments and others provided by the Group are classified based on the earliest date at which the Group should fulfill the obligation under the guarantee when the counterparty requests for the payment.

Off balance items as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Financial guarantee contracts	₩	3,135,854	3,069,507
Loan commitments and others		75,269,687	73,608,486
	₩	78,405,541	76,677,993

4. Financial risk management (continued)

4-4. Measurement of fair value

The fair value which the Group primarily uses for measurement of financial instruments are the published price quotations in an active market which are based on the market prices or the dealer price quotations of financial instruments traded in an active market where available, which is the best evidence of fair value.

If the market for a financial instrument is not active, fair value is established either by using a valuation technique or independent third-party valuation service. The Group uses diverse valuation techniques under reasonable assumptions which are based on the inputs observable in markets at the end of each reporting period.

Valuation techniques include using the recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. For example, the fair value for interest swaps is the present value of estimated future cash flows, and fair value for foreign exchange forwards contracts is measured by using the published forward exchange rate at the end of each reporting period.

The Group classifies and discloses fair value of the financial instruments into the following three-level hierarchy:

- Level 1: Financial instruments measured at quoted prices from active markets are classified as level 1.
- Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as level 2.
- Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as level 3.

(In millions of won)

4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

(a) Financial instruments measured at fair value

i) The table below analyzes financial instruments measured at the fair value as of March 31, 2015 and December 31, 2014 by the level in the fair value hierarchy into which the fair value measurement is categorized:

		March 31, 2015			
		Level 1	Level 2	Level 3	Total
Financial assets					
Trading assets:					
Debt securities	₩	590,397	5,998,214	-	6,588,611
Equity securities		124,990	2,000,570	-	2,125,560
Gold deposits		153,000	-	-	153,000
Derivative assets:					
Trading		-	1,178,282	20,764	1,199,046
Hedging		-	53,561	61,684	115,245
Available-for-sale financial assets:					
Debt securities		6,798,884	12,428,264	-	19,227,148
Equity securities		1,146,739	207,079	1,049,917	2,403,735
	₩	8,814,010	21,865,970	1,132,365	31,812,345
Financial liabilities					
Financial liabilities designated at fair value through profit or loss:					
Deposits	₩	-	8,931	3,044	11,975
Trading liabilities:					
Gold deposits		432,270	-	-	432,270
Derivative liabilities:					
Trading		-	1,184,902	5,706	1,190,608
Hedging		-	16,221	34,413	50,634
	₩	432,270	1,210,054	43,163	1,685,487

(In millions of won)

4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

(a) Financial instruments measured at fair value (continued)

		December 31, 2014			
		Level 1	Level 2	Level 3	Total
Financial assets					
Trading assets:					
Debt securities	₩	428,351	6,651,104	-	7,079,455
Equity securities		61,281	951,049	-	1,012,330
Gold deposits		224,556	-	-	224,556
Derivative assets:					
Trading		-	1,174,220	17,673	1,191,893
Hedging		-	55,930	61,271	117,201
Available-for-sale financial assets:					
Debt securities		6,789,894	13,243,404	-	20,033,298
Equity securities		1,083,754	166,579	1,079,981	2,330,314
	₩	8,587,836	22,242,286	1,158,925	31,989,047
Financial liabilities					
Financial liabilities designated at fair value through profit or loss:					
Deposits	₩	-	3,054	3,085	6,139
Trading liabilities:					
Gold deposits		428,936	-	-	428,936
Derivative liabilities:					
Trading		-	1,199,547	5,668	1,205,215
Hedging		-	22,460	28,763	51,223
	₩	428,936	1,225,061	37,516	1,691,513

(In millions of won)

4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

(a) Financial instruments measured at fair value (continued)

ii) There was no transfer between level 1 and level 2 for the three-month period ended March 31, 2015 and for the year ended December 31, 2014.

iii) Changes in level 3 of the fair value hierarchy

Changes in level 3 of the fair value hierarchy for the three-month period ended March 31, 2015 and for the year ended December 31, 2014 were as follows:

		2015			
		Available-for-sale financial assets	Net derivative instruments	Financial liabilities designated at fair value through profit or loss	Total
Beginning balance	₩	1,079,981	44,513	(3,085)	1,121,409
Total gain or loss:					
Recognized in profit or loss (*1)		(8,629)	(514)	(20)	(9,163)
Recognized in other comprehensive income		(7,366)	-	-	(7,366)
Purchases		25,515	(12)	-	25,503
Settlements		(29,636)	(1,658)	61	(31,233)
Transfers into level 3(*2)		3	-	-	3
Transfers out of level 3(*2)		(9,951)	-	-	(9,951)
Ending balance	₩	1,049,917	42,329	(3,044)	1,089,202

		2014			
		Available-for-sale financial assets	Net derivative instruments	Financial liabilities designated at fair value through profit or loss	Total
Beginning balance	₩	1,094,844	(136,356)	-	958,488
Total gain or loss:					
Recognized in profit or loss (*1)		(115,451)	166,918	3	51,470
Recognized in other comprehensive income		112,403	-	-	112,403
Purchases		168,797	368	(3,538)	165,627
Settlements		(204,177)	13,635	450	(190,092)
Transfers into level 3(*2)		27,022	-	-	27,022
Transfers out of level 3(*2)		(3,457)	(52)	-	(3,509)
Ending balance	₩	1,079,981	44,513	(3,085)	1,121,409

(In millions of won)

4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

(a) Financial instruments measured at fair value (continued)

(*1) Gains or losses among the changes in level 3 of the fair value hierarchy and gains or losses related to financial instruments that the Group held as of March 31, 2015 and December 31, 2014 are presented in the statement of comprehensive income as follows:

		2015		2014	
		Gains or losses recognized in profit or loss	Gains or losses recognized in profit or loss for financial instrument held at the end of the year	Gains or losses recognized in profit or loss	Gains or losses recognized in profit or loss for financial instrument held at the end of the year
Net trading income	₩	3,065	3,065	11,712	11,712
Gain(Loss) on financial instruments designated at fair value through profit or loss		(20)	(20)	3	3
Net gain on sale of available-for-sale financial assets		3,785	-	24,625	-
Impairment loss on financial assets		(12,414)	(12,414)	(140,076)	(140,003)
Net other operating expenses		(3,579)	(3,579)	155,206	155,206
	₩	(9,163)	(12,948)	51,470	26,918

(*2) These financial instruments were transferred into or out of level 3 as the availability of observable market data has changed. The Group recognized transfers between levels of the fair value hierarchy as of the end of the reporting period during which the event or the change in circumstances that caused the transfer has occurred.

(In millions of won)

4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

(a) Financial instruments measured at fair value (continued)

iv) Valuation techniques and inputs used in measuring fair value of financial instruments

ⓐ Valuation techniques and inputs used in measuring fair value of financial instruments classified as level 2 as of March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015			
	Type of financial instruments	Book value	Valuation techniques	Inputs
Financial assets				
Trading assets	Debt securities	₩ 5,998,214	Discounted cash flow	Discount rate
	Equity securities	2,000,570	Net asset value	Price of underlying assets
		7,998,784		
Derivative assets	Trading	1,178,282	Option model	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
	Hedging	53,561	Discounted cash flow	
		1,231,843		
Available-for-sale financial assets	Debt securities	12,428,264	Discounted cash flow	Discount rate
	Equity securities	207,079	Net asset value	Price of underlying assets
		12,635,343		
		₩ 21,865,970		
Financial liabilities				
Financial liabilities designated at fair value through profit or loss	Deposits	₩ 8,931	Option model	Discount rate, volatility, stock price index, etc.
Derivative liabilities	Trading	1,184,902	Option model	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
	Hedging	16,221	Discounted cash flow	
		1,201,123		
		₩ 1,210,054		

(In millions of won)

4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

(a) Financial instruments measured at fair value (continued)

	December 31, 2014				
	Type of financial instruments		Book value	Valuation techniques	Inputs
Financial assets					
Trading assets	Debt securities	₩	6,651,104	Discounted cash flow	Discount rate
	Equity securities		951,049	Net asset value	Price of underlying assets
			7,602,153		
Derivative assets	Trading		1,174,220	Option model	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
	Hedging		55,930	Discounted cash flow	
			1,230,150		
Available-for-sale financial assets	Debt securities		13,243,404	Discounted cash flow	Discount rate
	Equity securities		166,579	Net asset value	Price of underlying assets
			13,409,983		
		₩	22,242,286		
Financial liabilities					
Financial liabilities designated at fair value through profit or loss	Deposits	₩	3,054	Option model	Discount rate, volatility, stock price index, etc.
Derivative liabilities	Trading		1,199,547	Option model	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
	Hedging		22,460	Discounted cash flow	
			1,222,007		
		₩	1,225,061		

(In millions of won)

4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

(a) Financial instruments measured at fair value (continued)

ⓑ Information about valuation techniques and significant unobservable inputs in measuring financial instruments categorized as level 3 as of March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015				
	Valuation technique	Type of financial instrument	Book value	Significant unobservable input	Range of estimates for unobservable input
Financial assets					
Derivative assets	Option model(*)	Equity and foreign exchange related	₩ 16,984	The volatility of the underlying asset	4.99%~35.84%
				Correlations	(10.87%)
	Option model(*)	Interest rates related	65,464	The volatility of the underlying asset	0.16%~1.37%
				Regression coefficient	0.00%~3.02%
				Correlations	(26.33%)~76.32%
Available-for-sale financial assets	Discounted cash flow	Equity securities	1,049,917	Discount rate	5.94%~17.05%
				Growth rate	0.00%~0.00%
			₩ 1,132,365		
Financial liabilities					
Financial liabilities designated at fair value through profit or loss	Option model(*)	Equity related	₩ 3,044	The volatility of the underlying asset	22.08%~28.19%
				Correlations	34.00%
Derivative liabilities	Option model(*)	Equity and foreign exchange related	1,984	The volatility of the underlying asset	8.79%~35.84%
				Correlations	(10.87%)~23.37%
	Option model(*)	Interest rates related	38,135	The volatility of the underlying asset	0.16%~0.66%
				Regression coefficient	0.02%~3.02%
				Correlations	16.64%~36.34%
			₩ 43,163		

(In millions of won)

4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

(a) Financial instruments measured at fair value (continued)

	December 31, 2014					
	Valuation technique	Type of financial instrument		Book value	Significant unobservable input	Range of estimates for unobservable input
Financial assets						
Derivative assets	Option model(*)	Equity and foreign exchange related	₩	13,819	The volatility of the underlying asset	4.79%~32.73%
					Correlations	(0.06%)
	Option model(*)	Interest rates related		65,125	The volatility of the underlying asset	0.16%~0.64%
					Regression coefficient	0.00%~3.02%
					Correlations	12.16%~41.70%
Available-for-sale financial assets	Discounted cash flow	Equity securities		1,079,981	Discount rate	2.29%~17.84%
					Growth rate	0.00%~2.50%
			₩	1,158,925		
Financial liabilities						
Financial liabilities designated at fair value through profit or loss	Option model(*)	Equity related	₩	3,085	The volatility of the underlying asset	22.08%~28.19%
					Correlations	34.00%
Derivative liabilities	Option model(*)	Equity and foreign exchange related		1,854	The volatility of the underlying asset	6.48%~35.57%
					Correlations	(0.06%)~0.23%
	Option model(*)	Interest rates related		32,577	The volatility of the underlying asset	0.16%~0.64%
					Regression coefficient	0.00%~3.02%
					Correlations	12.16%~41.70%
			₩	37,516		

(*) Option model that the Group uses in derivative valuation includes Black-Scholes model, Hull-White model, Monte Carlo simulation, etc.

(In millions of won)

4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

(a) Financial instruments measured at fair value (continued)

v) Sensitivity to changes in unobservable inputs

For level 3 fair value measurement, changing one or more of the unobservable inputs used to reasonably possible alternative assumptions would have the following effect on profit or loss, or other comprehensive income as of March 31, 2015 and December 31, 2014 were as follows:

March 31, 2015						
			Profit for the period		Other comprehensive income	
Type of financial instrument			Favorable change	Unfavorable change	Favorable change	Unfavorable change
Derivative assets(*1)	Equity and foreign exchange related	₩	425	(271)	-	-
	Interest rates related		4,300	(6,317)	-	-
Available-for-sale financial assets(*2)	Equity securities		-	-	99,652	(37,562)
		₩	4,725	(6,588)	99,652	(37,562)
Financial liabilities designated at fair value through profit or loss(*1)	Equity related	₩	6	(5)	-	-
Derivative liabilities(*1)	Equity and foreign exchange related		1,019	(556)	-	-
	Interest rates related		7,592	(5,531)	-	-
		₩	8,617	(6,092)	-	-

December 31, 2014						
			Profit for the year		Other comprehensive income	
Type of financial instrument			Favorable change	Unfavorable change	Favorable change	Unfavorable change
Derivative assets(*1)	Equity and foreign exchange related	₩	430	(329)	-	-
	Interest rates related		7,129	(12,929)	-	-
Available-for-sale financial assets(*2)	Equity securities		-	-	157,385	(37,118)
		₩	7,559	(13,258)	157,385	(37,118)
Financial liabilities designated at fair value through profit or loss(*1)	Equity related	₩	5	(5)	-	-
Derivative liabilities(*1)	Equity related	₩	97	(113)		
	Interest rates related		6,853	(6,275)	-	-
		₩	6,955	(6,393)	-	-

(*1) Based on 10% of increase or decrease in volatility of underlying assets or correlation
(*2) Based on changes in growth rate (0%~1%) and discount rate (-1%~1%)

4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

(b) The financial instruments measured at amortized cost

i) The method of measuring the fair value of financial instruments measured at amortized cost is as follows:

Type	Measurement methods of fair value
Cash and due from banks	The book value and the fair value for cash are identical and most of deposits are floating interest rate deposits or next day deposits of a short-term instrument. Therefore, the book value for deposits approximates fair value.
Loans	The fair value of loans is measured by discounting the expected cash flows at the market interest rate, credit risk, etc.
Held-to-maturity financial assets	The fair value of held-to-maturity financial assets is determined by applying the lesser of two quoted bond prices provided by two bond pricing agencies as of the latest trading date.
Deposits and borrowings	The book amount and the fair value for demand deposits, cash management account deposits and call money as short-term instruments are identical. The fair value of others is measured by discounting the contractual cash flows at the market interest rate that takes into account the residual risk.
Debt securities issued	The fair value of deposits and borrowings is based on the published price quotations in an active market. In case there is no observable market price, it is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.

(In millions of won)

4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

(b) The financial instruments measured at amortized cost (continued)

ii) The book value and the fair value of financial instruments measured at amortized cost as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015				
		Book value				
		Balance	Unamortized balance	Allowance	Total	Fair value
Assets						
Cash and due from banks:						
Cash and cash equivalent	₩	2,521,832	-	-	2,521,832	2,521,832
Due from banks		12,852,957	-	(23,057)	12,829,900	12,829,900
Loans:						
Household loans		82,472,402	246,945	(225,640)	82,493,707	83,937,624
Corporate loans		104,774,044	30,948	(1,412,254)	103,392,738	104,699,307
Public and other loans		2,068,999	1,223	(9,386)	2,060,836	2,072,656
Loans to bank		3,996,035	-	(12,966)	3,983,069	4,014,673
Card receivables		15,839	-	(362)	15,477	15,478
Held-to-maturity financial assets:						
Government bonds		5,382,174	-	-	5,382,174	5,704,432
Financial institutions bonds		773,825	-	-	773,825	789,097
Corporate bonds and others		1,885,985	-	-	1,885,985	1,949,199
Other financial assets		10,262,251	(50,994)	(61,937)	10,149,320	10,206,538
	₩	227,006,343	228,122	(1,745,602)	225,488,863	228,740,736
Liabilities						
Deposits:						
Demand deposits	₩	71,322,488	-	-	71,322,488	71,322,488
Time deposits		113,622,826	-	-	113,622,826	114,044,312
Negotiable certificates of deposits		2,339,344	-	-	2,339,344	2,347,779
Note discount deposits		2,825,683	-	-	2,825,683	2,825,548
CMA(*)		1,611,402	-	-	1,611,402	1,611,402
Others		33,823	-	-	33,823	33,830
Borrowings:						
Call money		2,506,481	-	-	2,506,481	2,506,481
Bill sold		29,393	-	-	29,393	29,305
Bonds sold under repurchase agreements		430,115	-	-	430,115	430,114
Borrowings		10,277,244	(1,275)	-	10,275,969	10,339,651
Due to Bank of Korea in foreign currency		77,189	-	-	77,189	77,189
Debt securities issued:						
Debt securities issued in won		13,280,647	(21,742)	-	13,258,905	13,649,907
Debt securities issued in foreign currency		4,043,974	(11,453)	-	4,032,521	4,134,171
Other financial liabilities		15,988,772	(3,002)	-	15,985,770	15,970,458
	₩	238,389,381	(37,472)	-	238,351,909	239,322,635

(In millions of won)

4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

(b) The financial instruments measured at amortized cost (continued)

		December 31, 2014				
		Book value				
		Balance	Unamortized balance	Allowance	Total	Fair value
Assets						
Cash and due from banks:						
Cash and cash equivalent	₩	2,471,103	-	-	2,471,103	2,471,103
Due from banks		13,412,669	-	(23,695)	13,388,974	13,388,974
Loans:						
Household loans		80,221,735	235,085	(209,684)	80,247,136	81,035,996
Corporate loans		102,638,114	31,773	(1,347,043)	101,322,844	102,401,952
Public and other loans		2,092,730	1,361	(11,073)	2,083,018	2,095,248
Loans to bank		4,657,991	-	(11,524)	4,646,467	4,667,059
Card receivables		26,347	-	(347)	26,000	26,000
Held-to-maturity financial assets:						
Government bonds		5,149,408	-	-	5,149,408	5,392,674
Financial institutions bonds		501,452	-	-	501,452	506,475
Corporate bonds and others		2,361,257	-	-	2,361,257	2,417,634
Other financial assets		8,136,623	(54,894)	(62,177)	8,019,552	8,074,498
	₩	221,669,429	213,325	(1,665,543)	220,217,211	222,477,613
Liabilities						
Deposits:						
Demand deposits	₩	68,342,432	-	-	68,342,432	68,342,432
Time deposits		114,192,938	-	-	114,192,938	114,517,158
Negotiable certificates of deposits		2,145,645	-	-	2,145,645	2,153,581
Note discount deposits		3,241,082	-	-	3,241,082	3,240,906
CMA(*)		1,682,610	-	-	1,682,610	1,682,610
Others		35,165	-	-	35,165	35,173
Borrowings:						
Call money		1,782,736	-	-	1,782,736	1,782,736
Bill sold		31,059	-	-	31,059	30,934
Bonds sold under repurchase agreements		376,709	-	-	376,709	376,709
Borrowings		10,536,642	(1,504)	-	10,535,138	10,578,970
Due to Bank of Korea in foreign currency		77,179	-	-	77,179	77,179
Debt securities issued:						
Debt securities issued in won		12,576,406	(26,825)	-	12,549,581	12,856,874
Debt securities issued in foreign currency		4,044,507	(12,680)	-	4,031,827	4,140,691
Other financial liabilities		13,675,982	(2,296)	-	13,673,686	13,648,516
	₩	232,741,092	(43,305)	-	232,697,787	233,464,469

(*) CMA: Cash management account deposits

(In millions of won)

4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

(b) The financial instruments measured at amortized cost (continued)

iii) The fair value hierarchy of financial instruments which are not measured at fair value in the consolidated statement of financial position as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015			
		Level 1	Level 2	Level 3	Total
Assets					
Cash and due from banks:					
Cash and cash equivalent	₩	2,521,832	-	-	2,521,832
Due from banks		-	12,829,900	-	12,829,900
Loans:					
Household loans		-	-	83,937,624	83,937,624
Corporate loans		-	-	104,699,307	104,699,307
Public and other loans		-	-	2,072,656	2,072,656
Loans to bank		-	2,330,068	1,684,605	4,014,673
Card receivables		-	-	15,478	15,478
Held-to-maturity financial assets:					
Government bonds		2,331,291	3,373,141	-	5,704,432
Financial institutions bonds		120,941	668,156	-	789,097
Corporate bonds and others		-	1,949,199	-	1,949,199
Other financial assets		-	8,015,877	2,190,661	10,206,538
	₩	4,974,064	29,166,341	194,600,331	228,740,736
Liabilities					
Deposits:					
Demand deposits	₩	-	71,322,488	-	71,322,488
Time deposits		-	-	114,044,312	114,044,312
Negotiable certificates of deposits		-	-	2,347,779	2,347,779
Note discount deposits		-	-	2,825,548	2,825,548
CMA(*)		-	1,611,402	-	1,611,402
Others		-	-	33,830	33,830
Borrowings:					
Call money		-	2,506,481	-	2,506,481
Bill sold		-	-	29,305	29,305
Bonds sold under repurchase agreements		-	-	430,114	430,114
Borrowings		-	-	10,339,651	10,339,651
Due to Bank of Korea in foreign currency		-	-	77,189	77,189
Debt securities issued:					
Debt securities issued in won		-	11,120,634	2,529,273	13,649,907
Debt securities issued in foreign currency		-	4,134,171	-	4,134,171
Other financial liabilities		-	7,238,234	8,732,224	15,970,458
	₩	-	97,933,410	141,389,225	239,322,635

(In millions of won)

4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

(b) The financial instruments measured at amortized cost (continued)

		December 31, 2014			
		Level 1	Level 2	Level 3	Total
Assets					
Cash and due from banks:					
Cash and cash equivalent	₩	2,471,103	-	-	2,471,103
Due from banks		-	13,388,974	-	13,388,974
Loans:					
Household loans		-	-	81,035,996	81,035,996
Corporate loans		-	-	102,401,952	102,401,952
Public and other loans		-	-	2,095,248	2,095,248
Loans to bank		-	2,959,108	1,707,951	4,667,059
Card receivables		-	-	26,000	26,000
Held-to-maturity financial assets:					
Government bonds		2,329,136	3,063,538	-	5,392,674
Financial institutions bonds		120,885	385,590	-	506,475
Corporate bonds and others		-	2,417,634	-	2,417,634
Other financial assets		-	5,841,425	2,233,073	8,074,498
	₩	4,921,124	28,056,269	189,500,220	222,477,613
Liabilities					
Deposits:					
Demand deposits	₩	-	68,342,432	-	68,342,432
Time deposits		-	-	114,517,158	114,517,158
Negotiable certificates of deposits		-	-	2,153,581	2,153,581
Note discount deposits		-	-	3,240,906	3,240,906
CMA(*)		-	1,682,610	-	1,682,610
Others		-	-	35,173	35,173
Borrowings:					
Call money		-	1,782,736	-	1,782,736
Bill sold		-	-	30,934	30,934
Bonds sold under repurchase agreements		-	-	376,709	376,709
Borrowings		-	-	10,578,970	10,578,970
Due to Bank of Korea in foreign currency		-	-	77,179	77,179
Debt securities issued:					
Debt securities issued in won		-	10,186,912	2,669,962	12,856,874
Debt securities issued in foreign currency		-	4,140,691	-	4,140,691
Other financial liabilities		-	5,189,080	8,459,436	13,648,516
	₩	-	91,324,461	142,140,008	233,464,469

(*) CMA: Cash management account deposits

(In millions of won)

4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

(b) Financial instruments measured at amortized cost (continued)

iv) For financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed, valuation techniques and inputs used in measuring fair value of financial instruments classified as level 2 or level 3 as of March 31, 2015 and December 31, 2014 were as follows.

	March 31, 2015				
Level	Type		Fair value(*)	Valuation technique	Inputs
Level 2	Held-to-maturity financial assets	₩	5,990,496		Discount rate
Level 3	Loans		192,409,670	Discounted cash flow	Discount rate, Credit spread, Prepayment rate
	Other financial assets		2,190,661		Discount rate
		₩	200,590,827		
Level 2	Debt securities issued	₩	15,254,805		Discount rate
Level 3	Deposits		118,791,797		Discount rate
	Borrowing		6,031,132	Discounted cash flow	Discount rate
	Debt securities issued		2,529,273		Discount rate, Regression coefficient, Correlation coefficient
	Other financial liabilities		8,732,224		Discount rate
		₩	151,339,231		

	December 31, 2014				
Level	Type		Fair value(*)	Valuation technique	Inputs
Level 2	Held-to-maturity financial assets	₩	5,866,762		Discount rate
Level 3	Loans		187,267,147	Discounted cash flow	Discount rate, Credit spread, Prepayment rate
	Other financial assets		2,233,073		Discount rate
		₩	195,366,982		
Level 2	Debt securities issued	₩	14,327,603		Discount rate
Level 3	Deposits		119,395,308		Discount rate
	Borrowing		5,995,820	Discounted cash flow	Discount rate
	Debt securities issued		2,669,962		Discount rate, Regression coefficient, Correlation coefficient
	Other financial liabilities		8,459,436		Discount rate
		₩	150,848,129		

(*) Valuation techniques and inputs are not disclosed when the carrying amount is a reasonable approximation of fair value

(In millions of won)

4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

(c) Deferred day one gain or loss for the three-month period ended March 31, 2015 and for the year ended December 31, 2014 were as follows:

		2015			
		Beginning balance	Deferred	Amortization	Ending balance
Financial liabilities designated at fair value through profit or loss	₩	(64)	-	8	(56)
Equity swap liabilities		63	-	(9)	54
		2014			
		Beginning balance	Deferred	Amortization	Ending balance
Financial liabilities designated at fair value through profit or loss	₩	-	(94)	30	(64)
Equity swap liabilities		-	88	(25)	63

(In millions of won)

4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

(d) Classification by category of financial instruments

Financial assets and liabilities were measured at fair value or amortized cost. The financial instruments measured at fair value or amortized costs were measured in accordance with the Group's valuation methodologies, which were described in Note 3.

The carrying amounts of each category of financial instruments as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015					
		Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Derivatives held for hedging	Total
Assets							
Due from banks	₩	-	-	-	12,829,900	-	12,829,900
Trading assets		8,867,171	-	-	-	-	8,867,171
Derivatives		1,199,046	-	-	-	115,245	1,314,291
Loans		-	-	-	191,945,827	-	191,945,827
Available-for-sale financial assets		-	21,630,883	-	-	-	21,630,883
Held-to-maturity financial assets		-	-	8,041,984	-	-	8,041,984
Other financial assets		-	-	-	10,149,320	-	10,149,320
	₩	10,066,217	21,630,883	8,041,984	214,925,047	115,245	254,779,376

		March 31, 2015				
		Trading liabilities	Financial liabilities designated at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivatives held for hedging	Total
Liabilities						
Financial liabilities designated at fair value through profit or loss	₩	-	11,975	-	-	11,975
Deposits		-	-	191,755,566	-	191,755,566
Trading liabilities		432,270	-	-	-	432,270
Derivatives		1,190,608	-	-	50,634	1,241,242
Borrowings		-	-	13,319,147	-	13,319,147
Debt securities issued		-	-	17,291,426	-	17,291,426
Other financial liabilities		-	-	15,985,770	-	15,985,770
	₩	1,622,878	11,975	238,351,909	50,634	240,037,396

(In millions of won)

4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

(d) Classification by category of financial instruments (continued)

		December 31, 2014					
		Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Derivatives held for hedging	Total
Assets							
Due from banks	₩	-	-	-	13,388,974	-	13,388,974
Trading assets		8,316,341	-	-	-	-	8,316,341
Derivatives		1,191,894	-	-	-	117,200	1,309,094
Loans		-	-	-	188,325,465	-	188,325,465
Available-for-sale financial assets		-	22,363,612	-	-	-	22,363,612
Held-to-maturity financial assets		-	-	8,012,117	-	-	8,012,117
Other financial assets		-	-	-	8,019,552	-	8,019,552
	₩	9,508,235	22,363,612	8,012,117	209,733,991	117,200	249,735,155

		December 31, 2014				
		Trading liabilities	Financial liabilities designated at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivatives held for hedging	Total
Liabilities						
Financial liabilities designated at fair value through profit or loss	₩	-	6,139	-	-	6,139
Deposits		-	-	189,639,872	-	189,639,872
Trading liabilities		428,936	-	-	-	428,936
Derivatives		1,205,215	-	-	51,223	1,256,438
Borrowings		-	-	12,802,821	-	12,802,821
Debt securities issued		-	-	16,581,408	-	16,581,408
Other financial liabilities		-	-	13,673,686	-	13,673,686
	₩	1,634,151	6,139	232,697,787	51,223	234,389,300

(In millions of won)

4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

(e) Financial instruments income and costs by category for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015					
		Interest income (expense)	Fees and commission income (expense)	Impairment loss	Others	Total	Other comprehensive income (loss)
Trading assets	₩	44,139	1,288	-	39,156	84,583	-
Available-for-sale financial assets		130,596	-	(57,945)	208,898	281,549	33,206
Held-to-maturity financial assets		74,906	-	-	-	74,906	-
Loans and receivables		1,728,335	27,607	(252,645)	40,214	1,543,511	-
Trading liabilities		-	(1)	-	-	(1)	-
Financial liabilities designated at fair value through profit or loss		-	-	-	(64)	(64)	-
Financial liabilities measured at amortized cost		(961,228)	(1)	-	1,547	(959,682)	6,937
Net derivatives held for hedging		-	-	-	(1,768)	(1,768)	(783)
	₩	1,016,748	28,893	(310,590)	287,983	1,023,034	39,360

		2014					
		Interest income (expense)	Fees and commission income (expense)	Impairment loss	Others	Total	Other comprehensive income (loss)
Trading assets	₩	51,421	948	-	34,651	87,020	-
Available-for-sale financial assets		160,865	-	(86,298)	168,637	243,204	(223)
Held-to-maturity financial assets		82,873	-	-	-	82,873	-
Loans and receivables		1,837,736	29,778	(64,583)	4,491	1,807,422	-
Trading liabilities		-	(3)	-	-	(3)	-
Financial liabilities measured at amortized cost		(1,050,415)	(2)	-	(45,179)	(1,095,596)	(12,000)
Net derivatives held for hedging		-	-	-	47,265	47,265	466
	₩	1,082,480	30,721	(150,881)	209,865	1,172,185	(11,757)

4. Financial risk management (continued)

4-5. Capital risk management

Capital regulations applicable to banks were adopted in 1988, which focused primarily on capital adequacy and asset soundness as a measure of risk. Building upon the initial Basel Capital Accord of 1988, capital regulations were developed to reflect additional risks as well. For the purpose of improving risk management and increasing capital adequacy of banks, capital adequacy standards based on the new Basel Capital Accord (Basel III) was implemented by the Financial Services Commission regulations beginning in December 2013. Under these regulations, all domestic banks including the Group were required to maintain a capital adequacy ratio of 8% and report whether the Group meet the capital adequacy ratio to the Financial Services Commission.

Under the Banking Act, the capital of a bank is divided into two categories.

(a) Tier 1 capital (Common equity Tier 1 capital + Additional Tier 1 capital)
① Common equity Tier 1 capital: Common equity Tier 1 capital consists of capital stock, capital surplus, retained earnings (excluding regulatory reserve for loan loss), accumulated other comprehensive income and other disclosed reserves, and non-controlling interests that meet certain criteria.
② Additional Tier 1 capital: Additional Tier 1 capital consists of equity instrument that meet certain criteria for perpetual nature of the equity instrument, any related capital surplus, instruments issued by consolidated subsidiaries of the Group and held by third parties that meet certain criteria.

(b) Tier 2 capital (Supplementary capital)
Tier 2 capital consists of instruments that meet certain criteria for loss absorption in case of liquidation, any related capital surplus, and instruments issued by consolidated subsidiaries of the Group and held by third parties that meet certain criteria.

The capital adequacy ratio of the Group is calculated by ratios of Tier 1 and Tier 2 capital (less any capital deductions) to risk-weighted assets. Pursuant to Basel III, operational risk, such as inadequate procedures, loss risk by employees, internal systems, occurrence of unexpected events, as well as credit risk and market risk, is taken into account in calculating the risk-weighted assets.

The Group evaluates and manages the capital adequacy ratio pursuant to internally developed standards. It means that the Group assesses whether the level on ratio of available capital to economic capital is sufficient, or not. Economic capital is totalled taking into account in type of the risk (credit, market, operation, interest rate, liquidity and concentration).

(In millions of won)

4. Financial risk management (continued)

4-5. Capital risk management (continued)

Details of capital categories and the capital adequacy ratio of the Group as of March 31, 2015 and December 31, 2014 were as follows:

Category		March 31, 2015(*)	December 31, 2014
Capital:			
Common equity Tier 1 capital	₩	17,335,425	16,999,542
Additional Tier 1 capital		802,915	1,102,256
Tier 1 capital		18,138,340	18,101,798
Tier 2 capital		2,604,927	2,845,616
	₩	20,743,267	20,947,414
Total risk-weighted assets	₩	136,549,933	135,714,810
Capital adequacy ratio:			
Common equity		12.70%	12.53%
Tier 1 capital adequacy ratio		13.28%	13.34%
Tier 2 capital adequacy ratio		1.91%	2.09%
Total capital ratio		15.19%	15.43%

(*) The capital adequacy ratio as of March 31, 2015 was preliminary.

The Group maintains the total capital ratio of 8.0% or above, Tier 1 capital ratio of 6.0% or above, and common equity capital ratio of 4.5% or above as described in the above table.

(In millions of won)

4. Financial risk management (continued)

4-6. The transaction as a transfer of financial instrument

(a) Transfers financial assets that were not derecognized

i) Bonds sold under repurchase agreements as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Transferred asset:			
Available-for-sale financial assets	₩	176,579	130,333
Held-to-maturity financial assets		382,541	375,396
	₩	559,120	505,729
Associated liabilities:			
Bonds sold under repurchase agreements	₩	430,115	376,709

ii) Securities loaned as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014	Lender
Government bonds	₩	142,829	345,020	Korea Securities Finance Corp.
Financial institutions bonds		-	140,239	Korea Securities Finance Corp.
	₩	142,829	485,259	

(b) Qualify for derecognition and continuing involvement in financial assets

There are no financial assets that meets the conditions of derecognition and in which the Group has continuing involvement as of March 31, 2015 and December 31, 2014.

(In millions of won)

4. Financial risk management (continued)

4-7. Offsetting financial assets and financial liabilities

Details of financial assets and financial liabilities subject to offsetting, enforceable master netting agreements and similar agreements as of March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015					
				Related amounts not set off in the statement of financial position		
	Gross amounts of recognized financial assets and liabilities	Gross amounts of recognized financial assets and liabilities set off in the statement of financial position	Net amounts of financial assets and liabilities presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Financial assets						
Derivative assets(*1)	₩ 1,308,028	-	1,308,028	7,198,164	-	659,527
Other financial assets(*1)	6,549,663	-	6,549,663			
Bonds sold under repurchase agreements related collateral of securities(*2)	559,120	-	559,120	430,115	-	129,005
Bonds purchased under resale agreement (Loans)(*2)	3,739,169	-	3,739,169	3,739,169	-	-
Securities lent(*2)	142,829	-	142,829	142,829	-	-
Domestic exchange settlements receivables(*3)	21,496,298	19,862,216	1,634,082	-	-	1,634,082
Receivables from disposal of securities(*4)	23,865	602	23,263	23,263	-	-
	₩ 33,818,972	19,862,818	13,956,154	11,533,540	-	2,422,614
Financial liabilities						
Derivative liabilities(*1)	₩ 1,226,777	-	1,226,777	7,179,411	-	388,871
Other financial liabilities(*1)	6,341,505	-	6,341,505			
Bonds sold under repurchase agreements (Borrowings)(*2)	430,115	-	430,115	430,115	-	-
Domestic exchange settlement payables(*3)	20,714,665	19,862,216	852,449	852,449	-	-
Payables from purchase of securities(*4)	745	602	143	143	-	-
	₩ 28,713,807	19,862,818	8,850,989	8,462,118	-	388,871

(In millions of won)

4. Financial risk management (continued)

4-7. Offsetting financial assets and financial liabilities (continued)

		December 31, 2014					
					Related amounts not set off in the statement of financial position		
		Gross amounts of recognized financial assets and liabilities	Gross amounts of recognized financial assets and liabilities set off in the statement of financial position	Net amounts of financial assets and liabilities presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Financial assets							
Derivative assets(*1)	₩	1,307,295	-	1,307,295	4,628,608	21,696	724,582
Other financial assets(*1)		4,067,591	-	4,067,591			
Bonds sold under repurchase agreements related collateral of securities(*2)		505,729	-	505,729	376,709	-	129,020
Bonds purchased under resale agreement (Loans)(*2)		2,372,983	-	2,372,983	2,372,983	-	-
Securities lent(*2)		485,259	-	485,259	485,259	-	-
Domestic exchange settlements receivables(*3)		24,467,356	22,400,331	2,067,025	-	-	2,067,025
Receivables from disposal of securities(*4)		4,649	316	4,333	4,333	-	-
	₩	33,210,862	22,400,647	10,810,215	7,867,892	21,696	2,920,627
Financial liabilities							
Derivative liabilities(*1)	₩	1,174,494	-	1,174,494	4,597,194	-	310,620
Other financial liabilities(*1)		3,733,320	-	3,733,320			
Bonds sold under repurchase agreements (Borrowings)(*2)		376,709	-	376,709	376,709	-	-
Domestic exchange settlement payables(*3)		23,830,425	22,400,331	1,430,094	1,430,094	-	-
Payables from purchase of securities(*4)		552	316	236	236	-	-
	₩	29,115,500	22,400,647	6,714,853	6,404,233	-	310,620

(*1) The Group has certain derivative transactions subject to the ISDA (International Derivatives Swaps and Dealers Association) agreement. According to the ISDA agreement, when credit events (e.g. default) of counterparties occur, all derivative agreements are terminated and set off.

(*2) Resale and repurchase agreement, securities borrowing and lending agreement are also similar to ISDA agreement with respect to enforceable netting agreements.

(*3) The Group has legally enforceable right to set off and settles financial assets and liabilities on a net basis. Therefore, domestic exchanges settlement receivables (payables) are recorded on a net basis in the consolidated statements of financial position.

(*4) Receivables and payables related to settlement of purchase and disposition of enlisted securities are offset and the net amount is presented in the consolidated statement of financial position because the Group currently has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis. The effect of offsetting due to the establishment of 'central counterparty (CCP) system' is included in the amount as of March 31, 2015 and December 31, 2014.

5. Significant estimates and judgments

The preparation of consolidated interim financial statements requires the application of certain critical estimates and judgments relative to the future. Management's estimated outcomes may differ from actual outcomes. The change in an accounting estimate is recognized prospectively in profit or loss in the period of the change, if the change affects that period only, or the period of the change and future periods, if the change affects both.

(a) Income taxes

The Group is subject to tax laws from various countries. In the normal course of business, there are various types of transactions and different accounting methods that may add uncertainties to the decision of the final income taxes. The Group has recognized current and deferred taxes that reflect tax consequences based on the best estimates in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. However, actual income taxes in the future may not be identical to the recognized deferred tax assets and liabilities, and this difference can affect current and deferred tax at the period when the final tax effect is determined.

(b) Fair value of financial instruments

The fair values of financial instruments which are not actively traded in the market are determined by using valuation techniques. The Group determines valuation techniques and assumptions based on significant market conditions at the end of each reporting period. Diverse valuation techniques are used to determine the fair value of financial instruments, from generic valuation techniques to internally developed valuation models that incorporate various types of assumptions and variables.

(c) Allowances for loan losses, guarantees and unused loan commitments

The Group determines and recognizes allowances for losses on loans through impairment testing and recognizes a provision for guarantees and unused loan commitments. The accuracy of provisions of credit losses is determined by the methodology and assumptions used for expected cash flows for individually assessed allowances and collectively assessed allowances for groups of loans, guarantees and unused loan commitments.

5. Significant estimate and judgment (continued)

(d) Defined benefit obligation

The present value of a defined benefit obligation that is measured by actuarial valuation methods uses various assumptions which can change according to various elements. 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. Other significant assumptions related to defined benefit obligations are based on current market situations.

(e) Impairment of available-for-sale equity investments

When there is a significant or prolonged decline in the fair value of an investment in an equity instrument below its original cost, there is objective evidence that available-for-sale equity investments are impaired. Accordingly, the Group considers the decline in the fair value of more than 30% against the original cost as "significant decline" and the status when the market price for marketable equity less than the carrying amounts of instruments for a six consecutive months as a "prolonged decline".

6. Operating segments

(a) The general descriptions of the Group's operating segments as of March 31, 2015 and December 31, 2014 were as follows:

The Group has 4 reportable segments which are strategic business units. Each of these segments is providing different services and managed separately.

Description	Area of business
Retail banking	Loans to or deposits from individual customers, wealth management customers, and institutions such as hospitals, airports and schools.
Corporate banking and treasury	Loans to or deposits from corporations, including small or medium sized companies and businesses related to investment banking. Treasury management, trading of securities and derivatives, investment portfolio management and other related businesses.
International group	Supervision of overseas subsidiaries and branch operations and other international businesses.
Other	Administration of bank operations and Merchant Banking Account.

(In millions of won)

6. Operating segments (continued)

(b) The following table provides information of financial performance of each operating segment for the three-month periods ended March 31, 2015 and 2014.

		2015					
		Retail	Corporate and treasury	International group	Other	Consolidation adjustments	Total
Net interest income	₩	542,544	190,543	83,568	198,520	1,573	1,016,748
Net fees and commission income (expense)		134,769	52,146	16,191	(5,232)	-	197,874
Net other income (expense)		(581,953)	240,083	(24,025)	(375,552)	(4,569)	(746,016)
Operating income (expense)		95,360	482,772	75,734	(182,264)	(2,996)	468,606
Non-operating income (expenses), net		20	289	(172)	30,608	(1,711)	29,034
Share of profit of associates		-	-	-	-	3,413	3,413
Profit (Loss) before income tax		95,380	483,061	75,562	(151,656)	(1,294)	501,053
Income tax expense		(20,831)	(83,705)	(17,908)	10,889	524	(111,031)
Profit (Loss) for the period	₩	74,549	399,356	57,654	(140,767)	(770)	390,022
Attributable to:							
Equity holder of the Bank	₩	74,549	399,356	57,654	(140,767)	(874)	389,918
Non-controlling interests		-	-	-	-	104	104
	₩	74,549	399,356	57,654	(140,767)	(770)	390,022

		2014					
		Retail	Corporate and treasury	International group	Other	Consolidation adjustments	Total
Net interest income	₩	572,393	197,451	74,158	235,664	2,814	1,082,480
Net fees and commission income (expense)		134,290	58,258	12,471	(23,026)	(17)	181,976
Net other income (expense)		(600,631)	43,241	(76,606)	(107,765)	10,978	(730,783)
Operating income		106,052	298,950	10,023	104,873	13,775	533,673
Non-operating income (expenses), net		889	785	(1,476)	39,753	(36,812)	3,139
Share of profit of associates		-	-	-	-	3,944	3,944
Profit before income tax		106,941	299,735	8,547	144,626	(19,093)	540,756
Income tax expense		(22,822)	(64,103)	(1,828)	(30,930)	4,084	(115,599)
Profit for the period	₩	84,119	235,632	6,719	113,696	(15,009)	425,157
Attributable to:							
Equity holder of the Bank	₩	84,119	235,632	6,719	113,696	(15,078)	425,088
Non-controlling interests		-	-	-	-	69	69
	₩	84,119	235,632	6,719	113,696	(15,009)	425,157

(In millions of won)

6. Operating segments (continued)

(c) The following table provides information of net interest income of each operating segment from external consumers and net interest income (expenses) between operating segments for the three-month periods ended March 31, 2015 and 2014.

		2015					
		Retail	Corporate and treasury	International group	Other	Consolidation adjustments	Total
Net interest income of each operating segment from external consumers	₩	593,170	281,607	82,103	59,868	-	1,016,748
Net interest income (expenses) between operating segments		(50,626)	(91,064)	1,465	138,652	1,573	-

		2014					
		Retail	Corporate and treasury	International group	Other	Consolidation adjustments	Total
Net interest income of each operating segment from external consumers	₩	565,323	357,346	74,334	85,477	-	1,082,480
Net interest income (expenses) between operating segments		7,070	(159,895)	(176)	150,187	2,814	-

(d) Financial information of geographical area

i) The following table provides information of operating income from external consumers by geographical area for the three-month periods ended March 31, 2015 and 2014.

		Operating revenue		Operating expense		Operating income	
		2015	2014	2015	2014	2015	2014
Domestic	₩	3,141,279	3,415,691	2,744,485	2,917,475	396,794	498,216
Overseas		221,758	221,408	149,946	185,951	71,812	35,457
	₩	3,363,037	3,637,099	2,894,431	3,103,426	468,606	533,673

ii) The following table provides information of non-current assets by geographical area as of March 31, 2015 and December 31, 2014.

		March 31, 2015	December 31, 2014
Domestic	₩	2,983,662	2,900,648
Overseas		52,735	54,352
	₩	3,036,397	2,955,000

(*) Non-current assets as of March 31, 2015 and December 31, 2014 include property and equipment, intangible assets and investment properties.

(In millions of won)

7. Cash and due from banks

(a) Cash and due from banks as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Cash	₩	2,521,832	2,471,103
Deposits in won:			
Reserve deposits		5,055,899	5,668,726
Others		3,493,464	3,303,910
		8,549,363	8,972,636
Deposits in foreign currency:			
Deposits		2,264,563	2,532,297
Time deposits		2,036,698	1,899,087
Others		2,333	8,649
		4,303,594	4,440,033
Allowance for impairment		(23,057)	(23,695)
	₩	15,351,732	15,860,077

(b) Restricted due from banks as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Deposits in won:			
Reserve deposits	₩	5,055,899	5,668,726
Others		3,330,609	3,040,514
		8,386,508	8,709,240
Deposits in foreign currency:			
Deposits		564,795	476,512
Time deposits		18,785	18,686
Others		665	1,230
		584,245	496,428
	₩	8,970,753	9,205,668

(In millions of won)

8. Trading assets

Trading assets as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Debt securities:			
Government	₩	450,432	336,669
Financial institutions		1,514,270	1,429,183
Corporate bonds		1,192,438	1,212,945
Bills bought		2,388,198	2,893,390
CMA		1,043,273	1,197,304
Other		-	9,964
		6,588,611	7,079,455
Equity securities:			
Stocks		82,213	53,880
Beneficiary certificates		2,043,347	958,450
		2,125,560	1,012,330
Other:			
Gold deposits		153,000	224,556
	₩	8,867,171	8,316,341

(In millions of won)

9. Derivatives

(a) The notional amounts of derivatives as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Foreign currency related			
Over the counter:			
Currency forwards	₩	31,202,589	30,713,560
Currency swaps		13,276,313	14,267,372
Currency options		1,348,181	737,258
		45,827,083	45,718,190
Exchange traded:			
Currency futures		64,090	87,936
		45,891,173	45,806,126
Interest rates related			
Over the counter:			
Interest rate swaps		42,588,619	46,015,652
Interest rate options		1,606,000	1,846,000
		44,194,619	47,861,652
Exchange traded:			
Interest rate futures		192,370	-
Interest rate swaps(*)		5,911,100	3,664,800
		6,103,470	3,664,800
		50,298,089	51,526,452
Equity related			
Over the counter:			
Equity swaps		12,084	6,338
Equity options		606,122	719,064
		618,206	725,402
Exchange traded:			
Equity futures		36,838	6,466
Equity options		505	-
		37,343	6,466
		655,549	731,868
Commodity related			
Over the counter:			
Commodity swaps and forwards		229,478	167,448
Hedge			
Fair value hedge:			
Interest rate swaps		7,644,222	8,046,680
Net investment hedge:			
Currency forwards		221,000	219,840
		7,865,222	8,266,520
	₩	104,939,511	106,498,414

(*) The notional amount of derivatives which is settled in the 'Central Counter Party (CCP)' system.

(In millions of won)

9. Derivatives (continued)

(b) Fair values of derivative instruments as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015		December 31, 2014	
		Assets	Liabilities	Assets	Liabilities
Foreign currency related					
Over the counter:					
Currency forwards	₩	410,876	370,070	440,343	479,945
Currency swaps		234,390	285,393	248,298	270,522
Currency options		3,029	6,042	3,819	5,048
		648,295	661,505	692,460	755,515
Interest rates related					
Over the counter:					
Interest rate swaps		534,287	498,359	481,385	422,738
Interest rate options		10,695	16,809	9,395	16,615
		544,982	515,168	490,780	439,353
Equity related					
Over the counter:					
Equity swaps		34	16	-	35
Equity options		4,917	6,844	6,787	8,212
		4,951	6,860	6,787	8,247
Exchange traded:					
Equity options		-	1	-	-
		4,951	6,861	6,787	8,247
Commodity related					
Over the counter:					
Commodity swaps and forwards		818	7,074	1,866	2,100
Hedge					
Fair value hedge:					
Interest rate swaps		114,935	46,476	116,854	47,616
Net investment hedge:					
Currency forwards		310	4,158	347	3,607
		115,245	50,634	117,201	51,223
	₩	1,314,291	1,241,242	1,309,094	1,256,438

(In millions of won)

9. Derivatives (continued)

(c) Net gain (loss) on valuation of derivatives for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015		2014	
		Gain	Loss	Gain	Loss
Foreign currency					
Over the counter:					
Currency forwards	₩	120,277	114,057	111,989	77,257
Currency swaps		36,331	61,056	69,878	91,095
Currency options		1,870	3,328	1,074	1,493
		158,478	178,441	182,941	169,845
Interest rates					
Over the counter:					
Interest rate swaps		109,829	125,225	72,080	89,668
Interest rate options		2,793	3,340	1,655	1,860
		112,622	128,565	73,735	91,528
Equity					
Over the counter:					
Equity swaps		72	8	-	-
Equity options		2,290	2,575	5,845	6,463
		2,362	2,583	5,845	6,463
Commodity					
Over the counter:					
Commodity swaps and forwards		818	7,056	2,349	7
Hedge					
Fair value hedge:					
Interest rate swaps		34,814	34,702	93,209	46,563
Net investment hedge:					
Currency forwards		150	-	1,041	440
		34,964	34,702	94,250	47,003
	₩	309,244	351,347	359,120	314,846

(In millions of won)

9. Derivatives (continued)

(d) Gain or loss on fair value hedges for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015	2014
Hedged items	₩	1,346	(47,078)
Hedging instruments		(1,768)	47,265
	₩	(422)	187

(e) Hedge of net investment in foreign operations

For some of net investments in foreign operations, the hedge accounting is applied. The gain or loss on the hedging instruments which is reflected to overseas operations translation for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015	2014
Borrowings in foreign currency	₩	6,924	(2,801)
Debt securities issued in foreign currency		(32)	(9,199)
Currency swaps		(738)	466
	₩	6,154	(11,534)

10. Loans

(a) Details of loans as of March 31, 2015 and December 31, 2014 were as follows

		March 31, 2015	December 31, 2014
Household loans	₩	82,472,402	80,221,735
Corporate loans		104,774,044	102,638,114
Public and other		2,068,999	2,092,730
Loans to banks		3,996,035	4,657,991
Card receivables		15,839	26,347
		193,327,319	189,636,917
Deferred loan origination costs and fees		279,116	268,219
		193,606,435	189,905,136
Allowance for impairment		(1,660,608)	(1,579,671)
	₩	191,945,827	188,325,465

(In millions of won)

10. Loans (continued)

(b) Changes in the allowance for impairment for the three-month period ended March 31, 2015 and for the year ended December 31, 2014 were as follows:

		2015					
			Loans				
		Due from banks	Household	Corporate	Other	Other assets	Total
Beginning balance	₩	23,695	227,721	1,329,006	22,944	62,177	1,665,543
Provision for (reversal of) allowance		(638)	27,259	224,792	1,654	(422)	252,645
Write-offs		-	(14,063)	(134,535)	-	(6)	(148,604)
Effect of discounting		-	-	(7,268)	-	-	(7,268)
Allowance related to loans transferred		-	(2,093)	(29,663)	(1,889)	-	(33,645)
Recoveries		-	5,342	21,276	3	13	26,634
Others(*)		-	-	(9,878)	-	175	(9,703)
Ending balance	₩	23,057	244,166	1,393,730	22,712	61,937	1,745,602

		2014					
			Loans				
		Due from banks	Household	Corporate	Other	Other assets	Total
Beginning balance	₩	11,644	200,452	1,392,262	15,315	58,426	1,678,099
Provision for (reversal of) allowance		12,051	157,354	287,090	(2,924)	10,153	463,724
Write-offs		-	(141,364)	(381,759)	(206)	(6,476)	(529,805)
Effect of discounting		-	-	(34,702)	-	-	(34,702)
Allowance related to loans transferred		-	(5,181)	(28,179)	(4)	-	(33,364)
Recoveries		-	16,460	158,694	10,763	344	186,261
Others(*)		-	-	(64,400)	-	(270)	(64,670)
Ending balance	₩	23,695	227,721	1,329,006	22,944	62,177	1,665,543

(*) Other changes were due to debt restructuring, debt-equity swap, foreign exchange rate, etc.

(c) Changes in deferred loan origination costs for the three-month period ended March 31, 2015 and for the year ended December 31, 2014 were as follows:

		2015	2014
Beginning balance	₩	268,219	253,290
Loan originations		50,971	201,114
Amortization		(40,074)	(186,185)
Ending balance	₩	279,116	268,219

(In millions of won)

11. Available-for-sale financial assets and held-to-maturity financial assets

(a) Details of available-for-sale financial assets and held-to-maturity financial assets as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Available-for-sale financial assets:			
Debt securities:			
Government bonds	₩	3,064,748	2,843,952
Financial institutions bonds		10,701,073	9,907,702
Corporate bonds and others		5,425,965	7,251,975
Others		35,362	29,669
		19,227,148	20,033,298
Equity securities(*):			
Stocks		1,510,277	1,459,978
Equity investments		395,863	396,677
Beneficiary certificates		408,678	385,344
Others		88,917	88,315
		2,403,735	2,330,314
	₩	21,630,883	22,363,612
Held-to-maturity financial assets:			
Debt securities:			
Government bonds	₩	5,382,174	5,149,408
Financial institutions bonds		773,825	501,452
Corporate bonds and others		1,885,985	2,361,257
	₩	8,041,984	8,012,117

(*) Equity securities with no quoted market prices in active markets and of which the fair value cannot be measured reliably are recorded at cost of ₩28,596 million, ₩28,281 million as of March 31, 2015 and December 31, 2014, respectively.

(b) Gain or loss on sale of available-for-sale financial assets for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015	2014
Gain on sale of available-for-sale financial assets	₩	150,254	137,517
Loss on sale of available-for-sale financial assets		(5,140)	(2,850)
	₩	145,114	134,667

(In millions of won)

12. Property and equipment

(a) Details of property and equipment as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015		
		Acquisition cost	Accumulated depreciation	Book value
Land	₩	1,139,535	-	1,139,535
Buildings		781,748	(140,952)	640,796
Others		1,336,334	(1,116,977)	219,357
	₩	3,257,617	(1,257,929)	1,999,688

		December 31, 2014		
		Acquisition cost	Accumulated depreciation	Book value
Land	₩	1,155,856	-	1,155,856
Buildings		789,246	(137,775)	651,471
Others		1,358,267	(1,129,475)	228,792
	₩	3,303,369	(1,267,250)	2,036,119

(In millions of won)

12. Property and equipment (continued)

(b) Changes in property and equipment for the three-month period ended March 31, 2015 and for the year ended December 31, 2014 were as follows:

		2015			
		Land	Buildings	Others	Total
Beginning balance	₩	1,155,856	651,471	228,792	2,036,119
Acquisitions(*1,2)		-	1,719	15,512	17,231
Disposals and write-off(*1,3)		-	-	(1,323)	(1,323)
Depreciation		-	(7,325)	(24,634)	(31,959)
Amounts transferred from (to) investment properties		(16,326)	(5,078)	-	(21,404)
Effects of foreign currency movements		5	9	1,010	1,024
Ending balance	₩	1,139,535	640,796	219,357	1,999,688

(*1) ₩353 million transferred from construction-in progress was included.
(*2) ₩690 million of provision for the asset retirement related to newly acquired assets was included.
(*3) ₩310 million of loss on write-off was included.

		2014			
		Land	Buildings	Others	Total
	₩				
Beginning balance		1,262,137	695,527	243,369	2,201,033
Acquisitions(*1,2)		57	26,605	109,568	136,230
Disposals and write-off(*1,3)		(48)	(2,553)	(21,493)	(24,094)
Depreciation		-	(30,605)	(102,000)	(132,605)
Amounts transferred from (to) investment properties		(109,199)	(38,615)	-	(147,814)
Amounts transferred to Non-current assets held for sale		2,890	306	-	3,196
Effects of foreign currency movements		19	806	(652)	173
Ending balance	₩	1,155,856	651,471	228,792	2,036,119

(*1) ₩4,054 million transferred from construction-in progress was included.
(*2) ₩3,897 million of provision for the asset retirement related to newly acquired assets was included.
(*3) ₩1,520 million of loss on write-off was included.

12. Property and equipment (continued)

(c) Insured assets and liability insurance as of March 31, 2015 were as follows:

Type of insurance	Insured assets		Amount covered	Insurance company
Comprehensive insurance for financial institutions	Cash	₩	20,000	Samsung Fire & Marine Insurance Co., Ltd., etc.
Property insurance	Buildings & properties for business purpose		1,096,689	Samsung Fire & Marine Insurance Co., Ltd., etc.
Theft insurance	Cash & securities		55,000	Samsung Fire & Marine Insurance Co., Ltd., etc.
Compensation liability insurance for officers	-		50,000	Samsung Fire & Marine Insurance Co., Ltd., etc.
Compensation liability insurance for gas accident	-		500	Meritz Fire & Marine Insurance Co., Ltd., etc.
		₩	1,222,189	

(*) Besides the insurances listed above, the Group also maintained automobile liability insurance, medical insurance for employees, and casualty insurance protecting property and employees.

(In millions of won)

13. Intangible assets

(a) Changes in intangible assets for the three-month period ended March 31, 2015 and for the year ended December 31, 2014 were as follows:

		2015				
		Software	Development cost	Memberships	Other	Total
Beginning balance	₩	42,448	13,372	47,914	76,533	180,267
Acquisitions(*1)		33,663	7,318	-	76,974	117,955
Disposals and write-off		-	-	(594)	(1)	(595)
Amortization(*2)		(5,879)	(2,101)	-	(10,392)	(18,372)
Effects of foreign currency movements		13	-	9	1	23
Ending balance	₩	70,245	18,589	47,329	143,115	279,278

(*1) ₩58,837 million among acquisition cost of other intangible assets was accounted as accounts payable
(*2) ₩9,738 million among amortization cost of other intangible assets was included in other operating expenses.

		2014				
		Software	Development cost	Memberships	Others	Total
Beginning balance	₩	45,714	22,922	47,363	109,846	225,845
Acquisitions		12,185	1,430	3,936	9,977	27,528
Disposals and write-off		-	-	(2,861)	-	(2,861)
Impairment(*)		-	-	(547)	-	(547)
Amortization		(16,073)	(10,980)	-	(43,292)	(70,345)
Effects of foreign currency movements		622	-	23	2	647
Ending balance	₩	42,448	13,372	47,914	76,533	180,267

(*) Memberships are intangible assets with indefinite useful lives, which consist of golf and resort memberships. The Group recognizes an impairment loss when the carrying amount is less than the quoted price in the relevant markets.

(In millions of won)

14. Investments in associates

(a) Investments in associates as of March 31, 2015 and December 31, 2014 were as follows:

Investees	Country	Reporting date	Ownership (%) March 31, 2015	Ownership (%) December 31, 2014
Aju Capital Co., Ltd.(*1,2,5)	Korea	December 31	12.85	12.85
Cardif Life Insurance(*1,3)	Korea	December 31	14.99	14.99
UAMCO., Ltd.	Korea	March 31	17.50	17.50
Pohang TechnoPark 2PFV(*2)	Korea	March 31	14.90	14.90
Daewontos Co., Ltd.(*1,4)	Korea	December 31	36.33	36.33
Inhee Co., Ltd.(*1,4)	Korea	December 31	15.36	15.36
DAEGY Electrical Construction., Ltd.(*1,4)	Korea	December 31	27.45	27.45
Kukdong Engineering & Construction Co.,Ltd.(*1,2,4)	Korea	December 31	14.30	14.30
YEONWOONG SYSTEM(*1,4)	Korea	December 31	21.77	-

(*1) Financial statements as of December 31, 2014 were used for the equity method and significant transactions or events between December 31, 2014 and March 31, 2015 were properly considered.
(*2) Although the ownership interests in Aju Capital Co., Ltd., Pohang TechnoPark 2PFV and Kukdong Engineering & Construction Co., Ltd. were less than 15%, the Group used the equity method of accounting as the Group has significant influence on electing board members who are able to influence the entities' financial and operating policy decisions.
(*3) Although the ownership interest in Cardif Life Insurance Co., Ltd. was less than 15%, the Group used the equity method of accounting as the Group has significant influence through substantive operating transactions.
(*4) The Bank previously acquired the shares of Daewontos Co., Ltd., Inhee Co., Ltd., Daegy Electrical Construction., Ltd., Kukdong Engineering & Construction Co., Ltd. and YEONWOONG SYSTEM by debt-equity swap as a part of reorganization procedures where the Bank's voting right is restricted. As the reorganization procedures Daewontos Co., Ltd., Inhee Co., Ltd., Daegy Electrical Construction., Ltd., Kukdong Engineering & Construction Co., Ltd. and YEONWOONG SYSTEM were completed and voting rights were restored before 2014 and during 2015, they were reclassified as investments in associates.
(*5) The shares of Aju Capital Co., Ltd. were marketable investment securities and their market value was ₩45,036 million as of March 31, 2015 based on the quoted market price (₩6,090 per share) at that date.

(In millions of won)

14. Investments in associates (continued)

(b) Changes in investments in associates for the three-month period ended March 31, 2015 and for the year ended December 31, 2014 were as follows:

2015

Investees		Acquisition cost	Beginning balance	Acquisition (Redemption)	Share of profit of associates	Changes in accumulated other comprehensive income	Dividends received	Ending balance
Aju Capital Co., Ltd.	₩	36,971	30,426	-	1,254	(213)	(1,849)	29,618
Cardif Life Insurance Co., Ltd.		35,279	56,897	-	(1,451)	286	-	55,732
UAMCO., Ltd.		85,050	114,238	-	5,870	(1)	-	120,107
Pohang TechnoPark 2PFV		4,470	1,977	-	(1)	-	-	1,976
Daewontos Co., Ltd		-	-	-	-	-	-	-
Inhee Co., Ltd.		-	532	-	(331)	-	-	201
DAEGY Electrical Construction., Ltd.		-	44	-	(23)	-	-	21
Kukdong Engineering & Construction Co.,Ltd		9,092	7,158	-	(2,008)	279	-	5,429
YEONWOONG SYSTEM		-	-	-	103	-	-	103
	₩	170,862	211,272	-	3,413	351	(1,849)	213,187

2014

Investees		Acquisition cost	Beginning balance	Acquisition (Redemption)	Share of profit of associates	Changes in accumulated other comprehensive income	Dividends received	Ending balance
Aju Capital Co., Ltd.	₩	36,971	28,228	-	3,438	(131)	(1,109)	30,426
Cardif Life Insurance Co., Ltd.		35,279	51,634	-	953	4,394	(84)	56,897
UAMCO., Ltd.		85,050	139,269	-	10,066	(56)	(35,041)	114,238
Pohang TechnoPark 2PFV		4,470	2,847	-	(870)	-	-	1,977
Daewontos Co., Ltd		-	-	-	-	-	-	-
Inhee Co., Ltd.		-	362	-	170	-	-	532
DAEGY Electrical Construction., Ltd.		-	-	-	41	3	-	44
Kukdong Engineering & Construction Co.,Ltd		9,092	-	9,092	(1,990)	56	-	7,158
	₩	170,862	222,340	9,092	11,808	4,266	(36,234)	211,272

(In millions of won)

14. Investments in associates (continued)

(c) The financial statements of associates as of March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015					
Investees	Assets	Liabilities	Operating revenue	Profit (loss) for the period	Other comprehensive income (loss)	Total comprehensive income (loss)
Aju Capital Co., Ltd.	₩ 6,402,981	5,679,427	203,638	9,755	(1,656)	8,099
Cardif Life Insurance Co., Ltd.	3,917,336	3,545,114	88,851	(9,645)	1,904	(7,741)
UAMCO., Ltd.	4,039,838	3,332,328	157,574	33,544	(3)	33,541
Pohang TechnoPark 2PFV	14,668	1,407	-	(7)	-	(7)
Daewontos Co., Ltd.	2,930	4,273	1,929	(138)	-	(138)
Inhee Co., Ltd.	11,238	9,939	1,596	(2,159)	-	(2,159)
DAEGY Electrical Construction., Ltd.	1,130	1,056	-	(84)	-	(84)
Kukdong Engineering & Construction Co.,Ltd.	275,765	256,813	71,936	(14,046)	1,041	(13,005)
YEONWOONG SYSTEM	679	205	-	-	-	-
	₩ 14,666,565	12,830,562	525,524	17,220	1,286	18,506

	December 31, 2014					
Investees	Assets	Liabilities	Operating revenue	Profit (loss) for the year	Other comprehensive income (loss)	Total comprehensive income (loss)
Aju Capital Co., Ltd.	₩ 6,428,736	5,714,874	781,957	26,756	(1,016)	25,740
Cardif Life Insurance Co., Ltd.	3,890,674	3,510,712	483,911	5,852	29,293	35,145
UAMCO., Ltd.	4,357,490	3,688,589	548,990	57,519	(319)	57,200
Pohang TechnoPark 2PFV	14,668	1,401	-	(5,839)	-	(5,839)
Daewontos Co., Ltd.	6,139	7,344	10,954	(2)	-	(2)
Inhee Co., Ltd.	16,284	12,826	5,041	1,105	-	1,105
DAEGY Electrical Construction., Ltd.	1,278	1,119	286	148	-	148
Kukdong Engineering & Construction Co.,Ltd.	368,308	337,159	57,654	(13,917)	348	(13,569)
	₩ 15,083,577	13,274,024	1,888,793	71,622	28,306	99,928

(In millions of won)

14. Investments in associates (continued)

(d) The reconciliation of associates' financial information presented to the carrying amount of the Group's interest in the associates as of March 31, 2015 and December 31, 2014 were as follows:

Associates		March 31, 2015 Net assets (A)	Proportion of ownership interest (B)	(A) x (B)	Unrealized income and expenses	Other adjustments	Carrying amount
Aju Capital Co., Ltd.(*1)	₩	677,246	12.85%	87,026	-	(57,408)	29,618
Cardif Life Insurance Co., Ltd.		372,222	14.99%	55,832	(100)	-	55,732
UAMCO., Ltd.(*2)		686,342	17.50%	120,107	-	-	120,107
Pohang TechnoPark 2PFV		13,261	14.90%	1,976	-	-	1,976
Daewontos Co., Ltd.(*3)		(1,343)	36.33%	(488)	-	488	-
Inhee Co., Ltd.		1,299	15.36%	201	-	-	201
DAEGY Electrical Construction., Ltd.		74	27.48%	21	-	-	21
Kukdong Engineering & Construction Co., Ltd.(*4)		21,225	14.30%	3,034	-	2,395	5,429
YEONWOONG SYSTEM		474	21.77%	103	-	-	103
	₩	1,770,800		267,812	(100)	(54,525)	213,187

Associates		December 31, 2014 Net assets (A)	Proportion of ownership interest (B)	(A) x (B)	Unrealized income and expenses	Other adjustments	Carrying amount
Aju Capital Co., Ltd.(*1)	₩	668,171	12.85%	85,860	-	(55,434)	30,426
Cardif Life Insurance Co., Ltd.		379,962	14.99%	56,992	(95)	-	56,897
UAMCO., Ltd.(*2)		652,801	17.50%	114,238	-	-	114,238
Pohang TechnoPark 2PFV		13,267	14.90%	1,977	-	-	1,977
Daewontos Co., Ltd.(*3)		(1,205)	36.33%	(438)	-	438	-
Inhee Co., Ltd.		3,458	15.36%	532	-	-	532
DAEGY Electrical Construction., Ltd.		159	27.45%	44	-	-	44
Kukdong Engineering & Construction Co., Ltd.(*4)		33,318	14.30%	4,763	-	2,395	7,158
	₩	1,749,931		263,968	(95)	(52,601)	211,272

(*1) Net assets do not include non-controlling interests. Other adjustments represent cumulative impairment losses recognized in prior periods.
(*2) Net assets do not include non-controlling interests.
(*3) Other adjustments represent the unrecognized share of losses of an associate because the Group has stopped recognizing its share of losses of the associate due to cumulative losses.
(*4) Net assets do not include non-controlling interests. Other adjustments represent the goodwill arising on the acquisition.

(In millions of won)

14. Investments in associates (continued)

(e) The unrecognized share of loss on investments in associates for the three-month period ended March 31, 2015 and for the year ended December 31, 2014 were as follows:

		2015	2014
Beginning balance	₩	(438)	(437)
Unrecognized share of loss		(50)	(1)
Accumulated unrecognized share of loss	₩	(488)	(438)

15. Investment properties

(a) Investment properties as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015		
		Acquisition cost	Accumulated depreciation	Book value
Land	₩	562,412	-	562,412
Buildings		234,448	(39,429)	195,019
	₩	796,860	(39,429)	757,431

		December 31, 2014		
		Acquisition cost	Accumulated depreciation	Book value
Land	₩	546,086	-	546,086
Buildings		224,836	(32,308)	192,528
	₩	770,922	(32,308)	738,614

(In millions of won)

15. Investment properties (continued)

(b) Changes in investment properties for the three-month period ended March 31, 2015 and for the year ended December 31, 2014 were as follows:

		2015		
		Land	Buildings	Total
Beginning balance	₩	546,086	192,528	738,614
Acquisitions		-	500	500
Depreciation		-	(3,087)	(3,087)
Amounts transferred from property and equipment		16,326	5,078	21,404
Ending balance	₩	562,412	195,019	757,431

		2014		
		Land	Buildings	Total
Beginning balance	₩	436,046	160,908	596,954
Depreciation		-	(7,999)	(7,999)
Amounts transferred from property and equipment		109,199	38,615	147,814
Amounts transferred from non-current assets held for sale		841	1,000	1,841
Effects of foreign currency movements		-	4	4
Ending balance	₩	546,086	192,528	738,614

(c) Income and expenses on investment properties for the three-month periods ended March 31, 2015 and 2014 were as follows

		2015	2014
Rental income	₩	6,042	5,215
Direct operating expenses for investment properties that generate rental income		1,676	1,749

(In millions of won)

16. Other assets

Other assets as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Unsettled trades and other financial assets	₩	6,636,955	3,987,769
Domestic exchange settlement receivables		1,634,082	2,067,025
Guarantee deposits		1,098,986	1,177,578
Accrued income		768,487	803,708
Prepaid expense		156,290	95,545
Suspense payments		89,885	67,554
Sundry assets		88,756	107,818
Others		250	345
Present value discount		(50,994)	(54,894)
Allowance for impairment		(61,937)	(62,177)
	₩	10,360,760	8,190,271

17. Pledged assets

(a) Assets pledged as collateral as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Loans	₩	107,951	73,773
Securities(*1):			
Available-for-sale financial assets		507,249	574,334
Held-to-maturity financial assets		5,465,498	5,216,661
		5,972,747	5,790,995
Real estate(*2)		4,762	4,762
	₩	6,085,460	5,869,530

(*1) The carrying amounts of assets pledged as collateral that the transferees had the right to sell or repledge regardless of the Group's default as of March 31, 2015 and December 31, 2014 were ₩594,968 million, ₩523,320 million, respectively.
(*2) The amounts were based on the notification amount of pledge.

(b) The fair value of collateral held that the Group has the right to sell or repledge regardless of pledger's default as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015		December 31, 2014	
		Collateral held	Collateral sold or repledged	Collateral held	Collateral sold or repledged
Securities	₩	3,850,317	-	2,432,109	-

(In millions of won)

18. Financial liabilities designated at fair value through profit or loss

(a) Financial liabilities designated at fair value through profit or loss as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Deposits(*1,2)	₩	11,975	6,139

(*1) The Group has designated compound financial instruments involved the embedded derivatives at fair value through profit or loss in accordance with K-IFRS No.1039, *'Financial Instruments: Recognition and* Measurement'.
(*2) The carrying value of financial liabilities designated fair value through profit or loss was estimated by using valuation model adopted by the Group. The Group did not recognize profit or loss related to its own credit risk adjustment for the three-month period ended March 31, 2015 and for the year ended December 31, 2014.

(b) Maturity amounts and book values of financial liabilities designated at fair value through profit or loss as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015		
		Contractual amount due at maturity	Balance	Difference
Deposits	₩	11,942	11,975	(33)

		December 31, 2014		
		Contractual amount due at maturity	Balance	Difference
Deposits	₩	6,171	6,139	32

(c) Gain or loss (excluding interest income and expense) on financial liabilities designated at fair value through profit or loss for the three-month period ended March 31, 2015 and for the year ended December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Deposits:			
Loss on valuation	₩	(65)	-
Gain on transaction		1	-
	₩	(64)	-

(In millions of won)

19. Deposits

Deposits as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Demand deposits:			
Korean won	₩	64,920,804	62,007,754
Foreign currency		6,401,684	6,334,678
		71,322,488	68,342,432
Time deposits:			
Korean won		104,544,165	104,749,605
Foreign currency		9,069,754	9,427,981
Loss on fair value hedge		8,907	15,352
		113,622,826	114,192,938
Negotiable certificates of deposits		2,339,344	2,145,645
Note discount deposits		2,825,683	3,241,082
CMA		1,611,402	1,682,610
Others		33,823	35,165
	₩	191,755,566	189,639,872

20. Trading liabilities

Trading liabilities as of March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015			December 31, 2014		
	Interest rate (%)		Amount	Interest rate (%)		Amount
Gold deposits	-	₩	432,270	-	₩	428,936

(In millions of won)

21. Borrowings

Borrowings as of March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015		December 31, 2014	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Call money:				
Korean won	1.58~1.74	₩ 1,773,000	1.83~1.98	₩ 1,436,900
Foreign currency	0.14~15.00	733,481	0.10~9.00	345,836
		2,506,481		1,782,736
Bill sold	1.10~2.40	29,393	1.40~2.50	31,059
Bonds sold under repurchase agreements:				
Korean won	1.43~1.78	55,121	1.62	7,921
Foreign currency	0.50~3.35	374,994	0.50~5.82	368,788
		430,115		376,709
Borrowings in won:				
Borrowings from Bank of Korea	0.50~1.00	1,366,754	0.50~1.00	1,366,192
Others	0.00~5.05	3,191,635	0.00~5.05	3,315,403
		4,558,389		4,681,595
Borrowings in foreign currency:				
Overdraft due to banks	0.65~0.69	236,510	0.55~0.67	337,194
Borrowings from banks	0.35~1.62	2,845,692	0.28~8.85	2,783,837
Sub-lease	0.27~0.82	883,735	0.25~0.79	995,522
Others	0.31~0.80	1,752,918	0.48~0.68	1,738,494
		5,718,855		5,855,047
Due to Bank of Korea in foreign currency	0.10	77,189	0.10	77,179
Deferred origination costs		(1,275)		(1,504)
		₩ 13,319,147		₩ 12,802,821

(In millions of won)

22. Debt securities issued

Debt securities issued as of March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015			December 31, 2014		
	Interest rate (%)		Amount	Interest rate (%)		Amount
Debt securities issued in won:						
Debt securities issued	0.00~8.22	₩	10,340,890	0.00~8.91	₩	9,640,890
Subordinated debt securities issued	3.41~5.10		2,900,947	3.41~5.10		2,901,239
Loss on fair value hedges			38,810			34,277
Discount on debt securities issued			(21,742)			(26,825)
			13,258,905			12,549,581
Debt securities issued in foreign currency:						
Debt securities issued	0.32~4.50		3,996,759	0.32~4.50		3,997,657
Loss on fair value hedges			47,215			46,850
Discount on debt securities issued			(11,453)			(12,680)
			4,032,521			4,031,827
		₩	17,291,426		₩	16,581,408

(In millions of won)

23. Liability for defined benefit obligation

(a) Defined benefit plan assets and liabilities

The Group provides a defined benefit plan for qualified employees. Plan assets are managed by trust companies, funds, and other similar companies that are subject to local regulations and each country's business environment.

Defined benefit plan assets and liabilities as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Present value of defined benefit obligation	₩	1,005,007	999,623
Fair value of plan assets		(767,084)	(753,648)
Recognized liabilities for defined benefit obligation	₩	237,923	245,975

(b) Changes in the present value of defined benefit obligation for the three-month period ended March 31, 2015 and for the year ended December 31, 2014 were as follows:

		2015	2014
Beginning balance	₩	999,623	737,773
Current service cost		30,322	99,879
Interest expense		9,613	35,250
Remeasurements(*)		-	158,265
Effects of foreign currency movements		569	63
Benefits paid by the plan		(36,216)	(33,979)
Others		1,096	2,372
Ending balance	₩	1,005,007	999,623

(*) Remeasurements for the year ended December 31, 2014 consist of ₩3,580 million of actuarial gain arising from changes in demographic assumptions and ₩163,383 million of actuarial loss arising from changes in financial assumptions, ₩1,538 million of gain arising experience adjustments.

(c) Changes in the fair value of plan assets for the three-month period ended March 31, 2015 and for the year ended December 31, 2014 were as follows:

		2015	2014
Beginning balance	₩	753,648	670,335
Interest income		7,574	33,383
Remeasurements		-	(15,755)
Contributions paid into the plan		40,000	93,000
Benefits paid by the plan		(34,138)	(27,315)
Ending balance	₩	767,084	753,648

(In millions of won)

23. Liability for defined benefit obligation (continued)

(d) Actuarial assumptions as of March 31, 2015 and December 31, 2014 were as follows:

	December 31, 2014	Descriptions
Discount rate	4.02%	AA0 Corporate bond yields
Future salary increasing rate	2.84% + Upgrade rate	Average for last 5 years

(e) Sensitivity analysis

Sensitivity analysis of the present value of defined benefit obligation as of December 31, 2014 was as follows:

		Discount rate	Future salary increasing rate
Present value	₩	999,623	999,623
Present value when the factor rises by 100 basis points		877,225	1,146,869
Present value when the factor falls by 100 basis points		1,146,496	874,776

(f) The weighted-average duration of defined benefit obligation applied as of December 31, 2014 was 16.33 years.

(In millions of won)

24. Provisions

(a) Changes in provisions for the three-month period ended March 31, 2015 and for the year ended December 31, 2014 were as follows:

		2015					
		Asset retirement	Litigation	Unused credit	Guarantee	Others	Total
Beginning balance	₩	29,096	22,230	85,691	106,952	54,759	298,728
Provision (reversal)		(379)	(2,496)	(3,887)	(39,366)	6,168	(39,960)
Provision used		(38)	-	-	-	(3,262)	(3,300)
Foreign exchange movements		-	58	(398)	4,835	42	4,537
Others(*)		691	-	-	(4,720)	-	(4,029)
Ending balance	₩	29,370	19,792	81,406	67,701	57,707	255,976

		2014					
		Asset retirement	Litigation	Unused credit	Guarantee	Others	Total
Beginning balance	₩	25,364	94,735	91,415	92,561	59,941	364,016
Provision (reversal)		1,056	(26,178)	(7,023)	10,487	14,182	(7,476)
Provision used		(1,221)	(46,766)	-	-	(20,136)	(68,123)
Foreign exchange movements		-	439	1,299	11,604	772	14,114
Others(*)		3,897	-	-	(7,700)	-	(3,803)
Ending balance	₩	29,096	22,230	85,691	106,952	54,759	298,728

(*) Other changes were due to originations and maturities of financial guarantees recognized initially at their fair value, effect of discount rate change and acquisition cost of new leased properties relating to asset retirement.

(b) Asset retirement obligation liabilities represent the estimated cost to restore the existing leased properties which were discounted to the present value using the appropriate discount rate at the end of the reporting period. Disbursements of such costs were expected to incur at the end of the lease contract. Such costs were reasonably estimated using the average lease period and the average restoration expenses. The average lease period was calculated based on the past ten-year historical data of the expired leases. The average restoration expense was calculated based on the actual costs incurred for the past three years using the three-year average inflation rate.

(In millions of won)

25. Other liabilities

Other liabilities as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Unsettled trades and other financial liabilities	₩	6,616,350	3,907,195
Borrowing from trust account		2,000,311	2,017,810
Accrued expenses		2,374,005	2,616,317
Domestic exchange settlement payables		852,449	1,430,094
Due to agencies		2,644,141	2,226,742
Account for agency business of other institutions		516,487	641,269
Security deposits received		355,696	373,298
Foreign exchange settlement payables		240,259	226,079
Suspense payable		83,473	85,837
Unearned income		71,332	73,250
Withholding value-added tax and other taxes		85,041	93,037
Dividend payable		2,175	14,937
Sundry liabilities		135,799	25,509
Present value discount		(3,002)	(2,296)
	₩	15,974,516	13,729,078

(In millions of won)

26. Equity

(a) Equity as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Capital stock:			
Common stock	₩	7,928,078	7,928,078
Other equity instruments:			
Hybrid bonds		801,298	1,100,250
Capital surplus:			
Share premium		398,080	398,080
Others		5,084	5,084
		403,164	403,164
Capital adjustments:			
Stock options		543	(22)
Others		(30,703)	(820)
		(30,160)	(842)
Accumulated other comprehensive income:			
Net change in fair value of available-for-sale financial assets		653,004	627,834
Equity in other comprehensive income of associates, net		8,074	7,738
Foreign currency translation differences for foreign operations		(154,460)	(152,433)
Remeasurements of defined benefit obligations		(245,740)	(245,740)
		260,878	237,399
Retained earnings:			
Legal reserve(*1)		1,375,731	1,232,400
Voluntary reserve(*2)		8,719,986	7,989,920
Other reserve(*3)		75,214	62,496
Retained earnings(*4)		557,207	1,520,758
		10,728,138	10,805,574
Non-controlling interests		3,398	3,277
	₩	20,094,794	20,476,900

(*1) According to the article 40 of the Banking Act, the Bank was required to appropriate a legal reserve in an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 100% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to common stocks in connection with a free issue of shares.
(*2) The amounts include a regulatory reserve for loan losses of ₩1,738,249 million and asset revaluation surplus of ₩355,898 million as of March 31, 2015.
(*3) Other reserve was established according to the oversea branch's laws and it may be used only to reduce overseas branch's deficit.
(*4) The amounts include differences between a regulatory reserve for loan loss based on separate financial statement and consolidated financial statement of ₩5,843 million and reversal of regulatory reserve for loan loss of ₩68,177 million as of March 31, 2015.

(In millions of won, except for share data)

26. Equity (continued)

(b) Capital stock

Capital stock of the Bank as of March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015	December 31, 2014
Number of authorized shares	2,000,000,000 shares	2,000,000,000 shares
Par value per share in won	₩5,000	₩5,000
Number of issued shares outstanding	1,585,615,506 shares	1,585,615,506 shares

(c) Hybrid bonds

Hybrid bonds as of March 31, 2015 and December 31, 2014 were as follows:

Date of issue	Date of maturity		Book Value March 31, 2015	Book Value December 31, 2014	Interest rate (%)
Hybrid bonds issued in foreign currency:					
March 2, 2005	March 2, 2035	₩	-	298,951	5.66
September 20, 2006	September 20, 2036		94,761	94,761	6.82
September 20, 2006	September 20, 2036		237,144	237,144	6.82
Hybrid bonds issued in won:					
March 21, 2008	March 21, 2038		119,878	119,878	7.30
March 25, 2008	March 25, 2038		49,947	49,948	7.30
June 7, 2013	June 7, 2043		299,568	299,568	4.63
		₩	801,298	1,100,250	
Dividends on hybrid bond holders		₩	16,454	96,293	
Weighted average interest rate (%)			6.67	6.24	

(*) The above hybrid bonds are subject to early redemption option after 5 years or 10 years from the date of issuance, and the maturity can be extended under the same condition at the maturity date. In addition, if no dividend is paid for common shares, the agreed interest is also not paid.

(In millions of won)

26. Equity (continued)

(d) Changes in accumulated other comprehensive income for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015				
		Net change in fair value of available-for-sale financial assets	Equity in the other comprehensive income of associates, net	Foreign currency translation differences for foreign operations	Defined benefit plan actuarial loss	Total
Beginning balance	₩	627,834	7,738	(152,433)	(245,740)	237,399
Change due to fair value		171,805	-	-	-	171,805
Change due to other comprehensive income of associates		-	351	-	-	351
Change due to impairment		(127)	-	-	-	(127)
Change due to disposal		(138,018)	-	-	-	(138,018)
Effect of hedge accounting		(565)	-	6,153	-	5,588
Effect of foreign currency movements		111	-	(5,314)	-	(5,203)
Effect of tax		(8,036)	(15)	(2,866)	-	(10,917)
Ending balance	₩	653,004	8,074	(154,460)	(245,740)	260,878

		2014				
		Net change in fair value of available-for-sale financial assets	Equity in the other comprehensive income of associates, net	Foreign currency translation differences for foreign operations	Defined benefit plan actuarial loss	Total
Beginning balance	₩	564,023	3,441	(157,229)	(113,833)	296,402
Change due to fair value		133,892	-	-	-	133,892
Change due to other comprehensive income of associates		-	(1,285)	-	-	(1,285)
Change due to impairment		(9,953)	-	-	-	(9,953)
Change due to disposal		(125,489)	-	-	-	(125,489)
Effect of hedge accounting		1,185	-	(11,534)	-	(10,349)
Effect of foreign currency movements		142	-	8,613	-	8,755
Effect of tax		54	13	1,009	-	1,076
Ending balance	₩	563,854	2,169	(159,141)	(113,833)	293,049

(In millions of won)

26. Equity (continued)

(e) Dividends

Dividends of common stock for the year ended December 31, 2014 were as follows:

		2014
Number of issued shares outstanding		1,585,615,506
Par value per share in won	₩	5,000
Dividend rate per share		5.68%
Dividend per share in won	₩	283.80

(f) Dividends payout ratio

Dividends payout ratio for the year ended December 31, 2014 were as follows:

		2014
Dividends	₩	450,000
Profit for the year(*)		1,455,224
Dividends payout ratio to profit for the year		30.92%
Profit for the year adjusted for regulatory reserve(*)	₩	1,429,380
Dividends to profit for the year		31.48%

(*) Profit for the year and profit for the year adjusted for regulatory reserve were the amount attributable to equity holder of the Group.

27. Regulatory reserve for loan loss

The Group should calculate and disclose regulatory reserve for loan loss, in accordance with Article 29-1 and 29-2 of Regulation on Supervision of Banking Business.

(a) The regulatory reserve for loan loss as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Regulatory reserve for loan loss	₩	1,744,092	1,718,248
Provision for (reversal of) regulatory reserve for loan loss		(68,177)	25,844
	₩	1,675,915	1,744,092

(b) Profit for the period adjusted for regulatory reserve for loan loss and earnings per share adjusted for regulatory reserve for loan loss for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015	2014
Provision for (reversal of) regulatory reserve for loan loss	₩	(68,177)	70,981
Profit for the period adjusted for regulatory reserve		458,199	354,176
Earnings per share adjusted for regulatory reserve in won	₩	279	203

(In millions of won)

28. Net interest income

(a) Net interest income for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015	2014
Interest income:			
Cash and due from banks	₩	30,317	29,743
Trading assets		44,139	51,421
Available-for-sale financial assets		130,596	160,865
Held-to-maturity financial assets		74,906	82,873
Loans		1,676,449	1,785,193
Others		21,569	22,800
		1,977,976	2,132,895
Interest expense:			
Deposits		(787,259)	(839,454)
Borrowings		(40,658)	(49,795)
Debt securities issued		(114,236)	(145,740)
Others		(19,075)	(15,426)
		(961,228)	(1,050,415)
Net Interest income	₩	1,016,748	1,082,480

(b) Interest income recognized on impaired financial assets for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015	2014
Interest income	₩	7,268	7,816

(In millions of won)

29. Net fees and commission income

Net fees and commission income for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015	2014
Fees and commission income:			
Credit placement fees	₩	15,002	13,790
Commission received as electronic charge receipt		33,623	32,663
Brokerage fees		28,234	25,468
Commission received as agency		80,251	80,251
Investment banking fees		4,741	5,646
Commission received in foreign exchange activities		34,752	32,575
Asset management fees from trust accounts		14,454	11,064
Guarantee fees		13,315	13,456
Others		18,775	15,018
		243,147	229,931
Fees and commission expense:			
Credit-related fee		(9,860)	(5,613)
Brand-related fee		(12,476)	(20,675)
Service-related fees		(3,415)	(3,282)
Trading and brokerage fees		(1,396)	(1,071)
Commission paid in foreign exchange activities		(6,115)	(5,813)
Others		(12,011)	(11,501)
		(45,273)	(47,955)
Net fees and commission income	₩	197,874	181,976

30. Dividend income

Dividend income for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015	2014
Trading assets	₩	22	726
Available-for-sale financial assets		63,985	35,868
	₩	64,007	36,594

(In millions of won)

31. Net trading income

Net trading income for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015	2014
Trading assets and trading liabilities			
Debt:			
Gain on valuation of debt securities	₩	14,682	1,557
Gain on sale of debt securities		3,052	1,192
Loss on valuation of debt securities		(1,332)	(2,114)
Loss on sale of debt securities		(692)	(1,944)
		15,710	(1,309)
Equity:			
Gain on valuation of equity securities		8,389	2,221
Gain on sale of equity securities		8,904	5,096
Loss on valuation of equity securities		(1,315)	(1,088)
Loss on sale of equity securities		(600)	(2,341)
		15,378	3,888
Gold:			
Gain on valuation of gold deposit		2,994	6,548
Gain on sale of gold deposit		550	426
Loss on valuation of gold deposit		-	(37,914)
Loss on sale of gold deposit		(70)	(64)
		3,474	(31,004)
		34,562	(28,425)
Derivatives			
Foreign exchange:			
Gain on valuation and transaction		365,540	363,267
Loss on valuation and transaction		(350,662)	(319,035)
		14,878	44,232
Interest rates:			
Gain on valuation and transaction		191,173	150,666
Loss on valuation and transaction		(197,773)	(150,466)
		(6,600)	200
Equity:			
Gain on valuation and transaction		4,178	8,232
Loss on valuation and transaction		(4,614)	(8,448)
		(436)	(216)
Commodity:			
Gain on valuation and transaction		7,878	18,141
Loss on valuation and transaction		(11,148)	(7)
		(3,270)	18,134
		4,572	62,350
Net trading income	₩	39,134	33,925

(In millions of won)

32. Impairment loss on financial assets

Impairment loss on financial assets for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015	2014
Impairment loss:			
Loans and due from banks	₩	252,645	64,583
Available-for-sale financial assets		57,945	86,298
	₩	310,590	150,881

33. General and administrative expenses

General and administrative expenses for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015	2014
Employee benefits:			
Short and long term employee benefits	₩	382,710	371,544
Post-employee benefits		32,361	25,728
Termination benefits		70	33
		415,141	397,305
Amortization:			
Depreciation		31,959	34,092
Amortization of intangible assets		8,634	18,120
		40,593	52,212
Other general and administrative: expenses:			
Employee fringe benefits		20,243	26,152
Rent		61,682	64,910
Service contract expenses		38,376	43,761
Taxes and dues		16,891	16,409
Advertising		6,226	6,498
Electronic data processing expenses		15,083	15,005
Others		39,645	42,274
		198,146	215,009
	₩	653,880	664,526

34. Share-based payments

(a) Cash-settled stock options as of March 31, 2015 were as follows:

	4th grant	5th grant	6th grant	7th grant
Grant date	March 30, 2005	March 21, 2006	March 20, 2007	March 19, 2008
Exercise price in won(*1)	₩28,006	₩38,829	₩54,560	₩49,053
Number of shares granted	1,871,400	2,143,800	715,500	314,700
Contractual exercise period	Within 4years after 3 years from grant date	Within 4years after 3 years from grant date	Within 4years after 3 years from grant date	Within 4years after 3 years from grant date
Changes in number of shares granted:	-	-	-	-
Outstanding at December 31, 2014	93,426	101,963	50,513	212,579
Exercised	-	-	-	-
Outstanding at March 31, 2015(*2)	93,426	101,963	50,513	212,579
Fair value in won: (*3)	₩13,944	₩3,121	-	-

(*1) As of March 31, 2015, the granted shares are fully vested, and the weighted-average exercise price of 272,135 options outstanding was ₩39,019.
(*2) Rights of exercise for 4th grant and 5th grant are suspended as of March 31, 2015.
(*3) As of March 31, 2015, suspended grants are evaluated based on the intrinsic value, which is the difference between the closing price of Shinhan Financial Group and the exercise price.

(b) Equity-settled share-based payments

i) Equity-settled share-based payments as of March 31, 2015 were as follows:

	Content	
Grant year	2010~2013	2014~
Type(*1)	Equity-settled share-based payment	Equity-settled share-based payment
Service period	Upon appointment and promotion since April 1, 2010 (Within 3 years from grant date)	Upon appointment and promotion since January 1, 2014 (Within 1 year from grant date)
Performance conditions(*2)	Increase rate of stock price and achievement of target ROE	Increase rate of stock price and achievement of target ROE

(*1) The Group granted shares of Shinhan Financial Group. According to the commitment, the amount that the Group must pay to the Shinhan Financial Group was recognized in liabilities, and the difference between the amount recognized in liabilities and the compensation cost based on equity-settled share-based payments was recognized in equity.
(*2) ROE: Return on equity

34. Share-based payment (continued)

(b) Equity-settled share-based payments (continued)

ii) Granted shares and the fair value of grant date as of March 31, 2015 were as follows:

Grant date	Grant shares	Fair value(*1) (in won)	Estimated shares (*2)
April 1, 2010	306,400	45,150	10,471
January 11, 2011	65,200	51,500	980
January 28, 2011	49,500	50,700	4,035
April 18, 2011	15,400	46,800	1,122
January 26, 2012	49,200	44,300	31,560
February 8, 2012	30,900	46,650	19,845
March 27, 2012	4,100	44,550	2,362
August 24, 2012	10,800	36,150	4,936
October 15, 2012	4,100	37,200	2,774
January 1, 2013	183,100	40,050	106,641
March 21, 2013	4,400	37,750	1,171
May 27, 2013	14,500	40,250	9,109
August 1, 2013	4,400	41,250	2,442
January 1, 2014	109,800	47,300	103,340
February 8, 2014	5,400	44,300	4,546
April 1, 2014	4,800	47,000	3,388
October 15, 2014	2,400	47,150	473
January 1, 2015	159,000	44,500	36,016
March 18, 2015	16,800	42,650	591
	1,040,200		345,802

(*1) The fair value per share was evaluated based on the closing price of Shinhan Financial Group at each grant date. As of March 31, 2015, the fair value per share data evaluated by Shinhan Financial Group amounted to ₩41,950.

(*2) Grant shares at grant date were adjusted pursuant to increase rate of stock price (33.4% to 2013, 20.0% after 2014) and achievement of target ROE (66.6% to 2013, 80.0% after 2014) based on standard quantity applicable to the days of service among specified period of service, which allows for the determination of acquired quantity at the end of the operation period.

(In millions of won)

34. Share-based payment (continued)

(c) Stock compensation costs calculated for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015	2014
Compensation costs recorded for the period	₩	1,686	1,672

(d) Accrued expenses of the stock compensation costs and residual compensation costs as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Residual compensation costs recorded after the year	₩	9,847	5,417
Accrued expenses		16,793	20,494

(In millions of won)

35. Net other operating expenses

Net other operating expenses for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015	2014
Other operating income			
Gain on sale of assets:			
Loans	₩	26,546	4,252
Written-off loans		15,704	240
		42,250	4,492
Others:			
Gain on hedge activity from hedged items		38,260	48,208
Gain on hedge activity from hedging instruments		36,709	96,146
Reversal of allowance for acceptances and guarantee		39,397	-
Reversal of other allowance		7,733	12,796
Others		4,267	4,298
		126,366	161,448
		168,616	165,940
Other operating expense			
Loss on sale of assets:			
Loans		(2,035)	-
Others:			
Loss on hedge activity from hedged items		(36,914)	(95,286)
Loss on hedge activity from hedging instruments		(38,477)	(48,881)
Loss on allowance for acceptances and guarantee		(31)	(6,741)
Loss on other allowance		(7,139)	-
Contribution to fund		(68,607)	(59,143)
Insurance fee		(61,113)	(60,985)
Others		(30,663)	(22,219)
		(242,944)	(293,255)
		(244,979)	(293,255)
	₩	(76,363)	(127,315)

(In millions of won)

36. Non-operating income, net

Net non-operating income for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015	2014
Non-operating income			
Gain on sale of assets:			
Property and equipment	₩	5	6
Intangible assets		-	442
Investment property		105	112
		110	560
Others:			
Rental income on investment property		6,042	5,215
Others		35,491	18,067
		41,533	23,282
		41,643	23,842
Non-operating expenses			
Loss on sale of assets:			
Property and equipment		(30)	(1,021)
Intangible assets		(9)	-
Non-current assets held for sale		(29)	(62)
		(68)	(1,083)
Others:			
Investment properties depreciation		(3,087)	(1,610)
Donations		(2,122)	(2,101)
Others		(7,332)	(15,909)
		(12,541)	(19,620)
		(12,609)	(20,703)
	₩	29,034	3,139

(In millions of won)

37. Income tax expense

(a) The components of income tax expense of the Group for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015	2014
Current income tax expense	₩	115,358	139,054
Deferred taxes arising from changes in temporary differences		6,771	(24,590)
Tax adjustment charged or credited directly to equity		(11,098)	1,135
Income tax expense	₩	111,031	115,599

(b) The income tax expense calculated by applying statutory tax rates to the Group's taxable income differs from the actual tax expense in the consolidated statements of income for the three-month periods ended March 31, 2015 and 2014 for the following reasons:

		2015	2014
Profit before income tax	₩	501,052	540,756
Statutory tax rate		24.20%	24.20%
Income tax expense at statutory tax rates		121,139	130,748
Adjustments:			
Non-taxable income		(5,003)	(11,711)
Non-deductible expense		801	990
Decrease resulting from consolidated corporate tax system		(8,277)	(8,615)
Others		2,371	4,187
Income tax expense	₩	111,031	115,599
Effective tax rate		22.16%	21.38%

(In millions of won)

37. Income tax expense (continued)

(c) Changes in temporary differences and deferred tax assets (liabilities) for the three-month period ended March 31, 2015 and for the year ended December 31, 2014 were as follows:

		2015				
		Beginning balance	Decreases	Increases	Ending balance	Deferred tax assets (liabilities)(*1)
Accrued income	₩	(347,483)	(347,483)	(242,828)	(242,828)	(58,764)
Accounts receivable		(58,567)	(58,567)	(62,271)	(62,271)	(15,070)
Trading assets		(84,746)	(84,746)	(22,757)	(22,757)	(5,507)
Available-for-sale financial assets		1,171,729	62,699	115,893	1,224,923	296,431
Investments in associates and subsidiaries(*2)		43,362	(9)	-	43,371	10,496
Deferred loan origination costs and fee		(263,296)	(263,296)	(286,514)	(286,514)	(69,336)
Revaluation and depreciation on property and equipment		(449,814)	1,675	(4,860)	(456,349)	(110,436)
Derivative assets (liabilities)		(71,770)	(27,517)	753	(43,500)	(10,527)
Deposits		120,696	129,139	113,288	104,845	25,372
Accrued expenses		330,472	361,829	118,976	87,619	21,204
Defined benefit obligations		868,023	-	39,401	907,424	219,597
Plan assets		(753,648)	-	(7,574)	(761,222)	(184,216)
Other provisions		191,776	191,776	191,776	191,776	46,410
Allowance for guarantees and acceptance		106,952	106,952	106,952	106,952	25,882
Allowance for advanced depreciation		(181,031)	(86)	-	(180,945)	(43,789)
Allowance for expensing depreciation		(2,618)	(231)	-	(2,387)	(578)
Deemed dividends		5,513	-	-	5,513	1,334
Net change in fair value of available-for-sale financial assets		(828,276)	(828,276)	(861,483)	(861,483)	(208,479)
Donation payables		49,300	49,300	41,667	41,667	10,083
Allowance and bad debt		192,503	192,503	208,282	208,282	53,930
Compensation expenses associated with stock option		2,196	2,118	1,621	1,699	411
Fictitious dividends		3,909	2	7	3,914	947
Others		264,399	62,897	43,659	245,161	59,330
		309,581	(449,321)	(506,012)	252,890	64,725
Temporary differences not qualified for deferred tax assets or liabilities:						
Investments in associates and subsidiaries(*2)		(11,532)	-	(28,746)	(40,278)	(9,747)
	₩	321,113	(449,321)	(477,266)	293,168	74,472

(*1) Deferred tax assets of overseas subsidiaries have decreased by ₩3 million due to foreign currency exchange rate changes.
(*2) The effect of income taxes by the valuation of equity method was reasonably estimated based on the both plausibility and the applicable amount of deferred income tax belonging to each associate investee.

(In millions of won)

37. Income tax expense (continued)

(c) Changes in temporary differences and deferred tax assets (liabilities) (continued)

		2014				
		Beginning balance	Decreases	Increases	Ending balance	Deferred tax assets (liabilities)(*1)
Accrued income	₩	(441,833)	(441,833)	(347,483)	(347,483)	(84,091)
Accounts receivable		(8,133)	(8,133)	(58,567)	(58,567)	(14,173)
Trading assets		(67,935)	(118,756)	(135,567)	(84,746)	(20,509)
Available-for-sale financial assets		1,730,484	919,944	361,189	1,171,729	283,558
Investments in associates and subsidiaries(*2)		(59,147)	(102,509)	-	43,362	10,494
Deferred loan origination costs and fee		(46,552)	(87,737)	(304,481)	(263,296)	(63,718)
Revaluation and depreciation on Property and equipment		(446,441)	6,473	3,100	(449,814)	(108,855)
Derivative assets (liabilities)		(970)	55,193	(15,607)	(71,770)	(17,368)
Deposits		106,159	119,482	134,019	120,696	29,208
Accrued expenses		200,644	201,669	331,497	330,472	79,974
Defined benefit obligations		602,286	27,316	293,053	868,023	210,062
Plan assets		(602,286)	(27,315)	(178,677)	(753,648)	(182,383)
Other provisions		299,765	299,765	191,776	191,776	46,410
Allowance for guarantees and acceptance		92,561	92,561	106,952	106,952	25,882
Allowance for advanced depreciation		(180,945)	-	(86)	(181,031)	(43,810)
Allowance for expensing depreciation		(2,850)	(232)	-	(2,618)	(634)
Deemed dividends		5,513	-	-	5,513	1,334
Net change in fair value of available-for-sale financial assets		(744,094)	(744,094)	(828,276)	(828,276)	(200,443)
Donation payables		50,306	50,306	49,300	49,300	11,931
Allowance and bad debt		159,419	159,419	192,503	192,503	50,117
Compensation expenses associated with stock option		3,299	3,221	2,118	2,196	531
Fictitious dividends		3,966	57	-	3,909	946
Others		(518,441)	(718,795)	64,045	264,399	63,986
		134,775	(313,998)	(139,192)	309,581	78,449
Temporary differences not qualified for deferred tax assets or liabilities:						
Investments in associates and subsidiaries(*2)		(10,356)	(76,500)	(77,676)	(11,532)	(2,791)
	₩	145,131	(237,498)	(61,516)	321,113	81,240

(*1) Deferred tax assets of overseas subsidiaries have increased by ₩19 million due to foreign currency exchange rate changes.
(*2) The effect of income taxes by the valuation of equity method was reasonably estimated based on the both plausibility and the applicable amount of deferred income tax belonging to each associate investee.

(In millions of won)

37. Income tax expense (continued)

(d) Changes in tax effects that were directly charged or credited to equity for the three-month periods ended March 31, 2015 and 2014 were as follows:

		March 31, 2015		December 31, 2014		
		Amount before tax	Tax effects	Amount before tax	Tax effects	Changes in Tax effects
Net change in fair value of available-for-sale financial assets	₩	861,483	(208,479)	828,277	(200,443)	(8,036)
Equity in other comprehensive income of associates		8,007	67	7,656	82	(15)
Foreign currency translation differences for foreign operations		(126,062)	(28,399)	(126,901)	(25,533)	(2,866)
Remeasurements of defined benefit obligations		(324,196)	78,456	(324,196)	78,456	-
Other		822	(200)	77	(19)	(181)
	₩	420,054	(158,555)	384,913	(147,457)	(11,098)

		March 31, 2014		December 31, 2013		
		Amount before tax	Tax effects	Amount before tax	Tax effects	Changes in Tax effects
Net change in fair value of available-for-sale financial assets	₩	743,871	(180,017)	744,094	(180,071)	54
Equity in other comprehensive income of associates		2,105	64	3,390	51	13
Foreign currency translation differences for foreign operations		(138,941)	(20,200)	(136,020)	(21,209)	1,009
Remeasurements of defined benefit obligations		(150,176)	36,343	(150,176)	36,343	-
Other		(210)	51	33	(8)	59
	₩	456,649	(163,759)	461,321	(164,894)	1,135

(In millions of won, except per share data)

37. Income tax expense (continued)

(e) The current tax assets and liabilities as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Current tax assets:			
Income taxes paid	₩	7,488	7,033
Current tax liabilities:			
Payable due to consolidated tax system	₩	224,538	168,652
Income taxes payables		9,600	2,047
	₩	234,138	170,699

(f) The deferred tax assets (liabilities) and current tax assets (liabilities) presented on a gross basis prior to any offsetting as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Deferred tax assets	₩	1,183,282	1,194,441
Deferred tax liabilities		1,108,810	1,113,201
Current tax assets		49,890	267,071
Current tax liabilities		276,540	430,737

38. Earnings per share

Earnings per share for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015	2014
Profit for the period	₩	389,918	425,088
Less: dividends on hybrid bonds		(16,454)	(32,439)
Profit available for common stock		373,464	392,649
Weighted average number of common shares outstanding		1,585,615,506	1,585,615,506
Basic and diluted earnings per share in won	₩	236	248

Considering that the Group had no dilutive potential ordinary shares and that stock options were not included in the calculation of diluted earnings per share because they were anti-dilutive for the reporting periods presented, diluted earnings per share equal basic earnings per share for the three-month periods ended March 31, 2015 and 2014.

(In millions of won)

39. Commitments and contingencies

(a) Guarantees, acceptances and credit commitments as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Guarantees:			
Guarantee outstanding	₩	10,232,128	10,775,530
Contingent guarantees		3,691,613	4,334,310
	₩	13,923,741	15,109,840
Commitments to extend credit:			
Loan commitments in won	₩	51,955,385	52,196,405
Loan commitments in foreign currency		22,002,321	20,194,874
ABS and ABCP purchase commitments		2,155,538	1,986,308
Others		1,309,882	1,215,108
	₩	77,423,126	75,592,695
Endorsed bills:			
Secured endorsed bills	₩	44,603	51,043
Unsecured endorsed bills		11,114,566	10,914,587
	₩	11,159,169	10,965,630
Loans sold with repurchase agreement	₩	2,099	2,099

(b) Provision for acceptances and guarantees

Allowance for acceptances and guarantees, as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Guarantees outstanding	₩	10,232,128	10,775,530
Contingent guarantees		3,691,613	4,334,310
ABS and ABCP purchase commitments(*)		2,155,538	1,986,308
Secured endorsed bills		44,603	51,043
	₩	16,123,882	17,147,191
Allowance for acceptances and guarantees	₩	67,701	106,952
Ratio (%)		0.42	0.62

(*) ABS: Asset Backed Securities
ABCP: Asset Backed Commercial Paper

(In millions of won)

39. Commitments and contingencies (continued)

(c) Legal contingencies

Pending litigations in which the Group was involved as a defendant as of March 31, 2015 were as follows:

Case	Number of Claim		Claim amount	Description
Claimed uncollected receivables of goods	1	₩	43,761	A plaintiff claimed uncollected receivables of goods against the Bank since the plaintiff had delivered goods based on a bank guarantee forged by the Bank issued. The Bank has paid the amount in full which is ordered to pay by ruling of its first trial, and is currently in its second trial.
Compensation for a loss	1		47,200	The plaintiff has filed a lawsuit against the Bank claiming that the Bank should compensate for a loss of the damaged right of management insisting the Bank had purchased the shares of Shinho Paper Co., Ltd. (currently known as Artone Paper Co., Ltd.) while being aware that the sale had been executed against the will of the members of Aram Corporate Restructuring Association. The first appeal has been ruled in favor of the plaintiff. The Bank has appealed and such appeal is currently pending at the second appeal. As of March 31, 2015, the Bank believes that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The Bank has paid the amount in full which is ordered to pay by ruling of its first and second trial. The Bank is currently in its third trial.
Refund a cost of the fixed collateral establishment	1		218	The plaintiffs have filed the lawsuits against the Bank claiming that the Bank should refund a cost of the fixed collateral establishment insisting a loan agreement was unfair and invalid since it prescribed that the cost should be paid by the borrower. As of March 31, 2015, There have been no losses of lawsuits from terminated or ongoing litigations, and therefore, the Bank is currently in its first trial.
Contract void check and the return of unfair profits	3		19,652	As of March 31, 2015, the Bank set as allowance for the lawsuits that has filed to nullify investor's obligations under the KIKO contract. The cases are currently pending at the second appeal or the final appeal. The Bank believes that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The Bank has recorded a provision or a liability related to this claim.
Others	136		173,781	It includes various cases, such as compensation for a loss claim. The Bank recognizes provisions based on the progress of relevant lawsuits.
	142	₩	284,612	

(In millions of won)

39. Commitments and contingencies (continued)

(c) Legal contingencies (continued)

As of March 31, 2015, the Group recorded a provision of ₩19,792 million for litigation for certain of the above lawsuits. Additional losses may be incurred from these legal actions besides the current provision established by the Group, but the amount of loss is not expected to have a material adverse effect on the Group's consolidated financial position or results of operations.

40. Cash flows

(a) Cash and cash equivalents reported in the accompanying consolidated statements of cash flows as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Cash	₩	2,521,832	2,471,103
Reserve deposits		5,055,899	5,668,726
Other deposits		7,774,001	7,720,248
Cash and due from banks		15,351,732	15,860,077
Restricted due from banks		(8,965,671)	(9,181,973)
Due with original maturities of less than three months		(2,179,413)	(2,141,900)
	₩	4,206,648	4,536,204

(b) Significant non-cash activities for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015	2014
Dividend payable of hybrid bonds	₩	2,175	7,545
Debt-equity swap		24,071	43,853
Payable of purchased intangible assets		58,837	-

(In millions of won)

41. Related parties

(a) Significant balances with the related parties as of March 31, 2015 and December 31, 2014 were as follows:

Related party	Account		March 31, 2015	December 31, 2014
The Parent company				
Shinhan Financial Group	Deposits	₩	3	120,813
	Current tax liabilities		224,538	168,652
	Other liabilities		29,579	34,213
Entities under common control				
Shinhan Card Co., Ltd.	Derivative assets		15,718	12,269
	Other assets		1,387	1,793
	Deposits		123,385	97,333
	Derivative liabilities		-	60
	Provisions		19	19
	Other liabilities		22,736	19,027
Shinhan Investment Corp.	Derivative assets		8,515	5,898
	Loans		9,620	9,655
	Allowances		(39)	(61)
	Other assets		22,105	17,760
	Deposits		202,535	193,038
	Derivative liabilities		6,087	4,411
	Provisions		13	54
	Other liabilities		30,592	29,448
Shinhan Life Insurance	Derivative assets		13,311	12,657
	Other assets		8	8
	Deposits		6,106	6,862
	Derivative liabilities		1,551	1,601
	Provisions		2	2
	Other liabilities		38,886	38,748
Shinhan Capital Co., Ltd.	Other assets		-	1
	Deposits		12,886	15,071
	Provisions		4	4
	Other liabilities		1,384	1,319
Jeju Bank	Loans		4,510	4,964
	Allowances		(1)	(3)
	Other assets		19	27
	Deposits		3,105	1,567
	Other liabilities		1,254	1,140
Shinhan Credit Information Co., Ltd.	Deposits		8,131	10,511
	Other liabilities		1,438	1,452

(In millions of won)

41. Related parties (continued)

(a) Significant balances with the related parties (continued)

Related party	Account		March 31, 2015	December 31, 2014
Entities under common control (continued)				
Shinhan Private Equity, Inc.	Loans	₩	7,239	3,500
	Allowances		(25)	(19)
	Other assets		20	-
	Deposits		268	168
	Provisions		4	5
Shinhan BNP Paribas AMC	Deposits		100,326	119,522
	Other liabilities		1,717	2,034
SHC Management Co., Ltd.	Deposits		100	100
	Other liabilities		-	3
Shinhan Data system	Deposits		3,351	2,481
	Other liabilities		4,830	4,458
Shinhan Aitas	Other assets		8	6
	Deposits		10,385	10,255
	Other liabilities		78	100
Investments in associates of the Group and entities under common control				
Aju Capital Co., Ltd.	Trading assets		49,983	49,980
	Loans		200,000	200,000
	Allowances		(614)	(614)
	Deposits		968	1,184
	Provisions		78	78
Cardif Life Insurance	Deposits		667	194
	Provisions		1	1
UAMCO., Ltd.	Deposits		19,837	28,801
	Provisions		22	50
Pohang TechnoPark2PFV	Deposits		14,666	14,666
Kukdong Engineering & Construction Co.,Ltd.	Deposits		4,856	6,986
BNP Paribas Cardif General Insurance	Deposits		19	7
Miraeasset 3rd Investment Fund	Deposits		1,174	1,777
KDB Daewoo Securities Platinum PEF	Deposits		23	2,025
Dream High Fund Ⅲ	Deposits		275	301
SH Rental Service	Deposits		58	-
SP New Technology Business investment Fund Ⅰ	Deposits		326	-
Midas Dong-A Snowball Venture Fund	Deposits		500	-
IBKS-Shinhan Creative Economy New Technology Fund	Deposits		3,000	-

41. Related parties (continued)

(a) Significant balances with the related parties (continued)

Related party	Account		March 31, 2015	December 31, 2014
Key management personnel				
	Loans	₩	1,743	2,718
	Allowance		-	(1)

(In millions of won)

41. Related parties (continued)

(b) Significant transactions with the related parties for the three-month periods ended March 31, 2015 and 2014 were as follows:

Related Party	Account		2015	2014
The Parent company				
Shinhan Financial Group	Other operating income	₩	679	633
	Interest expense		(486)	(89)
	Fees and commission expense		(11,342)	(18,795)
Entities under common control				
Shinhan Card Co., Ltd.	Interest income		46	57
	Fees and commission income		42,437	43,147
	Gain related to derivatives		5,160	2,089
	Other operating income		475	284
	Interest expense		(93)	(201)
	Fees and commission expense		(7)	(12)
	Loss related to derivatives		(150)	(424)
	Other operating expense		(10)	-
Shinhan Investment Corp.	Interest income		301	617
	Fees and commission income		817	782
	Gain related to derivatives		3,422	1,787
	Other operating income		868	516
	Interest expense		(618)	(375)
	Loss related to derivatives		(2,497)	(1,097)
	Provision for allowance		22	1
	Other operating expense		(165)	(156)
Shinhan Life Insurance	Interest income		12	15
	Fees and commission income		3,264	3,314
	Gain related to derivatives		1,709	1,328
	Other operating income		469	495
	Interest expense		(216)	(278)
	Loss related to derivatives		(190)	(261)
Shinhan Capital Co.,Ltd.	Gain related to derivatives		29	-
	Other operating income		211	212
	Interest expense		(62)	(109)
Jeju Bank	Interest income		12	29
	Other operating income		114	8
	Interest expense		(7)	(8)
	Provision for allowance		2	(2)
Shinhan Credit Information Co., Ltd	Other operating income		54	34
	Interest expense		(63)	(78)
	Fees and commission expense		(1,226)	(1,054)

(In millions of won)

41. Related parties (continued)

(b) Significant transactions with the related parties (continued)

Related Party	Account		2015	2014
Entities under common control (continued)				
Shinhan Private Equity, Inc.	Interest income	₩	69	45
	Other operating income		1	-
	Provision for allowance		(6)	21
Shinhan BNP Paribas AMC	Fees and commission income		6	-
	Other operating income		16	4
	Interest expense		(606)	(687)
	Fees and commission expense		(538)	(448)
SHC management Co., Ltd.	Interest expense		(1)	(1)
Shinhan Data System	Other operating income		70	65
	Interest expense		(35)	(23)
	Other operating expense		(5,000)	(4,940)
Shinhan Savings Bank	Other operating income		10	7
Shinhan Aitas	Fees and commission income		27	17
	Other operating income		13	1
	Interest expense		(60)	(74)
KREDIT private equity REIT No.1	Interest expense		-	(12)
Investments in associates the Group and entities under common control				
Aju Capital Co., Ltd.	Interest income		2,006	320
	Fees and commission income		19	-
	Other operating income		3	-
	Provision for allowance		-	275
	Other operating expense		-	(1)
Cardif Life Insurance	Fees and commission income		16	12
UAMCO., Ltd	Interest income		-	27
	Fees and commission income		2	1
	Other operating expense		28	-
Pohang TechnoPark2PFV	Interest expense		(4)	(4)
Kukdong Engineering & Construction Co., Ltd.	Fees and commission income		4	-
	Interest expense		(5)	-
	Fees and commission expense		(1)	-
BNP Paribas Cardif General Insurance	Fees and commission income		1	-
Miraeasset 3rd Investment Fund	Interest expense		(1)	-
Dream High Fund Ⅲ	Interest expense		(1)	-
Key management personnel				
	Interest income		18	19

(In millions of won)

41. Related parties (continued)

(c) Details of transactions with key management for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015	2014
Short and long term employee benefits	₩	4,846	4,527
Post-employment benefits		60	59
Share-based payment transactions		573	905
	₩	5,479	5,491

(d) The guarantees provided between the related parties as of March 31, 2015 and December 31, 2014 were as follows:

Guarantor	Guaranteed Parties		Amount of guarantees March 31, 2015	Amount of guarantees December 31, 2014	Account
Shinhan Bank	Shinhan Card Co., Ltd.	₩	500,000	500,000	Unused credit
	Shinhan Investment Corp.		-	9,893	Performance guarantees
			181,000	181,000	Unused credit
	Shinhan Life Insurance		50,000	50,000	Unused credit
	Shinhan Capital Co., Ltd.		60,000	60,000	Unused credit
	Shinhan Private Equity, Inc.		4,143	4,248	Unused credit
	Shinhan BNP Paribas AMC		242,845	192,849	Security underwriting commitment
	SHC Management Co., Ltd.		94	94	Performance guarantees
	KoFC Shinhan Frontier Champ 2010-4 PEF		26,834	26,834	Security underwriting commitment
	Aju Capital Co., Ltd.		50,000	50,000	Unused credit
			50,000	50,000	Security underwriting commitment
	Cardif Life Insurance		10,000	10,000	Unused credit
	UAMCO., Ltd.		50,000	112,200	Unused credit
			179,900	179,900	Security underwriting commitment
		₩	1,404,816	1,427,018	

(e) Details of collaterals provided to the related parties as of March 31, 2015 and December 31, 2014 were as follows:

	Related party	Pledged assets		March 31, 2015 Carrying amount	March 31, 2015 Amounts collateralized	December 31, 2014 Carrying amount	December 31, 2014 Amounts collateralized
Entities under common control	Shinhan Investment Corp.	Securities	₩	171,458	34,580	155,303	34,041
	Shinhan Life Insurance	Securities		10,376	10,376	10,385	10,385
			₩	181,834	44,956	165,688	44,426

(In millions of won)

41. Related parties (continued)

(f) Details of collaterals provided by the related parties as of March 31, 2015 and December 31, 2014 were as follows:

	Related party	Pledged assets		March 31, 2015	December 31, 2014
Entities under common control	Shinhan Investment Corp.	Deposits	₩	22,000	22,000
		Real estate		91,974	91,974
	Shinhan Life Insurance	Government bonds		7,656	7,446
	Shinhan Capital Co., Ltd.	Deposits		11,200	11,200
	Jeju Bank	Government bonds		20,000	20,000
	SHC Management Co., Ltd.	Deposits		100	100
Investments in associates	Cardif Life Insurance	Government bonds		12,758	12,770
			₩	165,688	165,490

(In millions of won)

42. Investments in subsidiaries

(a) Financial positions for the Bank and its subsidiaries as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015			December 31, 2014		
		Total assets	Total liabilities	Total equity	Total assets	Total liabilities	Total equity
Shinhan Bank	₩	247,089,166	227,132,606	19,956,560	242,075,869	221,704,012	20,371,857
Shinhan America		1,070,311	917,172	153,139	1,057,143	906,062	151,081
Shinhan Canada		373,312	335,377	37,935	377,086	335,864	41,222
Shinhan Europe		412,952	342,176	70,776	356,019	277,610	78,409
Shinhan China		4,113,393	3,723,588	389,805	3,977,209	3,599,289	377,920
Shinhan Asia		302,696	115,201	187,495	309,478	126,229	183,249
Shinhan Kazakhstan		93,615	24,230	69,385	172,109	102,687	69,422
Shinhan Khmer		145,390	111,568	33,822	142,350	109,738	32,612
Shinhan Japan		4,654,602	4,360,033	294,569	4,828,433	4,542,653	285,780
Shinhan Vietnam		2,000,175	1,601,564	398,611	2,010,873	1,625,063	385,810
Structured Entities		5,291,149	5,461,206	(170,057)	5,132,803	5,301,309	(168,506)

(b) Comprehensive income statements for the Bank and its subsidiaries for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015			2014		
		Operating income	Profit (Loss) for the period	Total comprehensive income (loss)	Operating income	Profit (Loss) for the period	Total comprehensive income (loss)
Shinhan Bank	₩	3,174,915	351,553	380,327	3,458,165	423,065	425,179
Shinhan America		12,170	1,675	2,058	11,715	2,164	5,332
Shinhan Canada		2,930	(25)	(3,287)	3,291	241	(783)
Shinhan Europe		3,973	603	(7,633)	3,479	1,094	1,834
Shinhan China		51,775	9,310	11,884	43,098	5,235	1,230
Shinhan Asia		6,081	5,294	4,246	3,410	2,179	7,407
Shinhan Kazakhstan		1,928	799	(37)	2,756	584	(11,284)
Shinhan Khmer		2,306	1,034	1,210	2,347	690	1,021
Shinhan Japan		36,115	8,945	8,789	50,565	50	8,415
Shinhan Vietnam		29,943	13,601	12,801	24,722	5,398	9,529
Structured Entities		68,236	(1,997)	1,974	48,122	(505)	(2,893)

43. Interests in unconsolidated structured entities

(a) The nature and extent of interests in unconsolidated structured entities

The Group involved in assets-backed securitization, structured financing, beneficiary certificates and other structured entities and characteristics of these structured entities are as follows:

	Description
Assets-backed securitization	Securitization vehicles are established to buy assets from originators and issue asset-backed securities in order to facilitate the originators' funding activities and enhance their financial soundness. The Group is involved in the securitization vehicles by purchasing (or committing to purchase) the asset-backed securities issued and/or providing other forms of credit enhancement. The Group does not consolidate a securitization vehicle if (i) the Group is unable to make or approve decisions as to the modification of the terms and conditions of the securities issued by such vehicle or disposal of such vehicles' assets, (ii) (even if the Group is so able) if the Group does not have the exclusive or primary power to do so, or (iii) if the Group does not have exposure, or right, to a significant amount of variable returns from such entity due to the purchase (or commitment to purchase) of asset-backed securities so issued or subordinated obligations or by providing other forms of credit support.
Project financing	Structured entities for project financing are established to raise funds and invest in a specific project such as M&A (Mergers and Acquisitions), BTL (Build-Transfer-Lease), shipping finance, etc. The Group is involved in the structured entities by originating loans, investing in equity, or providing credit enhancement
Investment fund	Investment fund is a type of financial instrument where investment funds raise funds from the general public to invest in a group of assets such as stocks or bonds and distribute their income and capital gains to their investors. The Group is involved in investment fund by investing in various investment funds.

(In millions of won)

43. Interests in unconsolidated structured entities (continued)

(a) The nature and extent of interests in unconsolidated structured entities (continued)

i) The size of unconsolidated structured entities as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015			
		Assets-backed securitization	Structured financing	Investment fund	Total
Total assets	₩	12,531,099	27,848,000	6,852,966	47,232,065

		December 31, 2014			
		Assets-backed securitization	Structured financing	Investment fund	Total
Total assets	₩	18,405,975	31,290,465	7,739,222	57,435,662

ii) Income and expense from unconsolidated structured entities for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015			
		Assets-backed securitization	Structured Financing	Investment fund	Total
Income					
Interest income	₩	3,367	27,297	169	30,833
Fees and commission income		3,852	1,080	7	4,939
Dividend income		-	2,142	38,297	40,439
Other		49	649	3	701
	₩	7,268	31,168	38,476	76,912
Expense	₩	93	58	939	1,090

		2014			
		Assets-backed securitization	Structured Financing	Investment fund	Total
Income					
Interest income	₩	4,075	32,623	-	36,698
Fees and commission income		2,337	381	-	2,718
Dividend income		-	-	9,034	9,034
Other		34	771	-	805
	₩	6,446	33,775	9,034	49,255
Expense	₩	-	-	218	218

(In millions of won)

43. Interests in unconsolidated structured entities (continued)

(a) The nature and extent of interests in unconsolidated structured entities (continued)

iii) Book value of the assets the Group has transferred to unconsolidated structured entities were as follows:

Type		December 31, 2014
Korea housing finance corporation MBS2014-17	₩	67,800

(b) Nature of risk associated with interests in unconsolidated structured entities

i) The carrying amounts of the assets and liabilities recognized relating to its interests in unconsolidated structured entities as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015			
		Assets-backed securitization	Structured Financing	Investment fund	Total
Assets:					
Loans	₩	242,537	2,565,335	-	2,807,872
Trading assets		814,055	48,000	-	862,055
Derivative assets		19,283	-	-	19,283
Available-for-sale Financial assets		105,330	89,121	636,491	830,942
	₩	1,181,205	2,702,456	636,491	4,520,152

		December 31, 2014			
		Assets-backed securitization	Structured Financing	Investment fund	Total
Assets:					
Loans	₩	368,112	2,497,972	3,589	2,869,673
Trading assets		573,919	48,877	-	622,796
Derivative assets		42	-	-	42
Available for sale Financial assets		330,807	224,342	622,859	1,178,008
	₩	1,272,880	2,771,191	626,448	4,670,519
Liabilities:					
Other liabilities	₩	1,200	-	-	1,200

(In millions of won)

43. Interests in Unconsolidated structured Entities (continued)

ii) Exposure to risk relating to interests in unconsolidated structured entities as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015			
		Assets-backed securitization	Structured Financing	Investment fund	Total
Assets owned	₩	1,181,205	2,702,456	636,491	4,520,152
Purchase commitments		458,832	73,037	98,710	630,579
Providing unused credit		1,659,736	389,406	1,879	2,051,021
Guarantees		-	28,047	-	28,047
	₩	3,299,773	3,192,946	737,080	7,229,799

		December 31, 2014			
		Assets-backed securitization	Structured Financing	Investment fund	Total
Assets owned	₩	1,272,880	2,771,191	626,448	4,670,519
Purchase commitments		325,195	30,000	103,702	458,897
Providing unused credit		1,631,113	110,224	-	1,741,337
Guarantees		-	28,888	-	28,888
	₩	3,229,188	2,940,303	730,150	6,899,641

(In millions of won)

44. Information of trust business

(a) Total assets with trust business as of March 31, 2015 and December 31, 2014 and operating revenue for the three-month periods ended March 31, 2015 and 2014 were as follows:

		Total assets		Operating revenue	
		March 31, 2015	December 31, 2014	March 31, 2015	March 31, 2014
Consolidated	₩	3,936,786	3,882,632	50,658	34,920
Unconsolidated		26,121,142	27,103,450	144,702	115,732
	₩	30,057,928	30,986,082	195,360	150,652

(b) Significant balances with trust business as of March 31, 2015 and December 31, 2014 were as follows:

		March 31, 2015	December 31, 2014
Borrowings from trust accounts	₩	2,000,311	2,017,811
Accrued revenues from asset management fee from trust accounts		17,102	16,227
Accrued interest expenses		793	526

(c) Significant transactions with trust business for the three-month periods ended March 31, 2015 and 2014 were as follows:

		2015	2014
Asset management fee	₩	14,454	11,064
Interest on borrowings from trust account		11,353	12,862

OFFERING CIRCULAR SUPPLEMENT
TO THE OFFERING CIRCULAR DATED APRIL 2, 2015

SHINHAN BANK

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

US$6,000,000,000
Global Medium Term Note Program

This offering circular supplement (the "**Offering Circular Supplement**") is prepared in connection with the U.S.$6,000,000,000 Global Medium Term Note Program (the "Program") of Shinhan Bank (the "**Issuer**" or the "**Bank**") and is supplemental to, and should be read in conjunction with, the offering circular dated April 2, 2015 prepared in connection with the Program (the "**Original Offering Circular**"). The statements appearing on the cover page and pages i to v of the Original Offering Circular are deemed repeated herein, except that references therein to the "offering circular" are deemed to be to the Original Offering Circular as supplemented by this Offering Circular Supplement.

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

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

Words and expressions defined in the Original Offering Circular shall have the same meanings when used in this Offering Circular Supplement. The Issuer accepts responsibility for the information contained in this Offering Circular Supplement. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information. Save as disclosed in this Offering Circular Supplement, there has been no material change and no material new matter has arisen since the date of the Original Offering Circular. If the information in this Offering Circular Supplement differs from the information in the Original Offering Circular, the information in this Offering Circular Supplement shall govern and an investor contemplating purchasing any Notes should rely on the information in this Offering Circular Supplement.

Arranger

HSBC

Dealers

BNP PARIBAS
Crédit Agricole CIB
HSBC
Shinhan Asia Limited

BofA Merrill Lynch
Deutsche Bank
J.P. Morgan
Shinhan Investment Corp.

The date of this offering circular supplement is April 14, 2015.

Supplemental Information

1. The following shall be added to the end of the first paragraph on page 88 (under the heading "Risk Factors — Risks Relating to Law, Regulation and Government Policy — The Government may encourage targeted lending to certain sectors in furtherance of policy objectives, and the Bank may take this factor into account.") of the Original Offering Circular:

   "In furtherance of the policy to expand the proportion of fixed rate housing loans, the Financial Services Commission implemented "Relief Debt Conversion" program from March 24 to March 27, 2015 and March 30 to April 3, 2015, respectively, under which borrowers of eligible housing loans (namely, loans that have been in existence for one year or more since the original loan date, with no delinquency in the past six months, with principal amounts of ₩500 million or less and for houses valued at ₩900 million or less that are on a floating rate basis and/or an interest payment only basis) might convert such loans to new fixed rate loans in respect of which the borrowers would be required to repay the principal and interest in installment for a term of 10, 15, 20 or 30 years without a grace period, *provided that* the new loans pass the loan-to-value ratio of 70% and the debt-to-income ratio of 60%. The borrowers were allowed to convert the original loans only at the banks that extended such loans. The banks holding the newly converted fixed rate loans are required to sell such loans to Korea Housing Finance Corporation, a government-controlled entity, which will then securitize such loans and issue mortgage-backed securities (backed by such loans) to be purchased by the banks who sold the loans in proportion to the amounts of the loans sold, and the banks will be required to hold such securities for a period of one year, after which the bank can sell or dispose of such securities in the market or otherwise. According to the Financial Supervisory Commission, under this program, approximately 345,000 borrowers converted loans in the aggregate amount of ₩33.9 trillion to fixed rate loans, of which the Bank accounted for approximately 13.1%. In the event that market interest rates increase from those applicable during this program's implementation in March and April 2015, the Bank may experience valuation or realization losses on the mortgage-backed securities to be held by it. Due to the prevailing interest rate environment and other market conditions, the Bank also may not be able to sell or otherwise dispose of the mortgage backed securities in the market or otherwise in amounts or at prices commercially reasonable to the Bank. In addition, as a result of this program the Bank may incur additional costs from recalibrating its asset portfolio and asset-liability management policy. Any of these developments could adversely affect the Bank's results of operation and financial condition."

2. Under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Business Segment — International Banking", in relation to the discussion of the increase in net other expense for the international banking segment of the Bank to 2014 from 2013 at the end of the third paragraph on page 135 of the Original Offering Circular, the phrase "primarily due to an increase in appraisal loss resulting from an increase in credit cost associated with investment bank loans made in China prior to the recent global financial crisis that underwent workouts during 2013 and an increase in general and administrative expense relating to an increase in the Bank's international branch offices" shall be replaced in entirety with the following: "primarily due to an increase in bad debt expense relating to loans in the Bank's Vietnamese subsidiary arising largely from an increase in loans made by such subsidiary in Vietnam due in part to its active marketing".

3. Under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Business Segment — Other Banking Services" of the Original Offering Circular:

   (a) in relation to the discussion of the decrease in net interest income for the other banking services segment of the Bank to 2014 from 2013 at the end of the second paragraph on page 136 of the Original

Offering Circular, the phrase "primarily due to a decrease in the average balance of loans made by the Bank's other banking segment resulting from substantial repayment of such loans in 2014" shall be replaced in entirety with the following: "primarily due to an increase in interest expense largely resulting from an increase in the average balance of deposits in the Bank's principal and/or interest-guaranteed trust accounts which are subject to consolidation".

(b) in relation to the discussion of the decrease in net fees and commission for the other banking services segment of the Bank to 2014 from 2013 at the end of the third paragraph on page 136 of the Original Offering Circular, the phrase "primarily due to an increase in consolidation adjustments relating to commission expenses for Won-denominated guarantees among affiliates" shall be replaced in entirety with the following: "primarily due to the netting-out effect of consolidation adjustments relating to commission income received by the Bank's corporate banking segment from a mortgage-backed asset securitization vehicle".

(c) in relation to the discussion of the increase in net other expense for the other banking services segment of the Bank to 2014 from 2013 at the end of the fourth paragraph on page 136 of the Original Offering Circular, the phrase "primarily due to an increase in provision for credit losses attributable to an increase in provision for loan losses of a consolidated special purpose company" shall be replaced in entirety with the following: "primarily due to the netting-out effect of consolidation adjustments relating to an increase in foreign currency translation losses for foreign currency-denominated assets as recorded by the Bank's corporate banking segment".

SHINHAN BANK

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

US$6,000,000,000
Global Medium Term Note Program

On March 5, 2010, Shinhan Bank (the "**Issuer**" or the "**Bank**") established a US$6,000,000,000 Global Medium Term Note Program (the "**Program**", as amended, supplemented or restated), and as of the same date, the Issuer prepared an offering circular, as amended or supplemented from time to time, which describes the Program. This offering circular updates the Program and supersedes any previous offering circular describing the Program. Any Notes (as defined below) issued under the Program on or after the date of this offering circular are issued subject to the provisions described herein. This does not affect any Notes issued before the date of this offering circular.

Under this Program, the Issuer may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). The Notes may be issued in bearer or registered form (respectively "**Bearer Notes**" and "**Registered Notes**"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Program will not exceed US$6,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

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

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

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

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

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

The Notes of each Series (as defined under "*Terms and Conditions of the Notes*") will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued only outside the United States to non-U.S. persons in reliance on the exemption from registration provided by Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and Registered Notes may be issued both outside the United States to non-U.S. persons in reliance on the exemption from registration provided by Regulation S under the Securities Act and within the United States or to U.S. persons in private transactions (i) to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act ("**QIBs**") or (ii) to "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions ("**Institutional Accredited Investors**") who agree to purchase the Notes for their own account and not with a view to the distribution thereof. See "*Form of the Notes*" for a description of the manner in which Notes will be issued. Notes are subject to certain restrictions on transfer. See "*Subscription and Sale and Transfer and Selling Restrictions*".

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

The Notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act of Korea, as amended (the "**FSCMA**"), and may not be offered, sold, delivered or transferred, directly or indirectly, in Korea or to, or for the account or benefit of, any Korean resident (as defined in the Foreign Exchange Transaction Act of Korea) for a period of one year from the date of issuance of the Notes, except (i) if Article 2-2-2, Paragraph 2, Item 3 of the Regulation on the Issuance of Securities and Public Disclosure of Korea is applicable, the Notes may be offered, sold, delivered or transferred between or among Korean Qualified Institutional Investors as specified in Article 2-2, Paragraph 2, Item 4 of the above-mentioned regulation or (ii) as otherwise permitted by applicable Korean laws and regulations.

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

Arranger

HSBC

Dealers

BNP PARIBAS	**BofA Merrill Lynch**
Crédit Agricole CIB	**Deutsche Bank**
HSBC	**J.P. Morgan**
Shinhan Asia Limited	**Shinhan Investment Corp.**

The date of this offering circular is April 2, 2015.

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

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

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

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

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

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

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

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

U.S. INFORMATION

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

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

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

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

NOTICE TO NEW HAMPSHIRE RESIDENTS

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

FORWARD LOOKING STATEMENTS

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

- the risk of adverse impacts from an economic downturn in Korea and globally;

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

- the condition of and changes in the Korean, Asian or global economies, including changes in consumer confidence and spending;

- future levels of non-performing loans;

- the Issuer's growth and expansion, including whether the Issuer succeeds with its business strategy;

- changes in interest rates and changes in government regulation and licensing of the Issuer's businesses in Korea and in other jurisdictions where the Issuer may operate; and

- competition in the financial services industry.

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

CERTAIN DEFINED TERMS AND CONVENTIONS

Unless otherwise specified or the context otherwise requires, in this offering circular:

- all references to "**we**", "**us**", "**our**", the "**Issuer**" and the "**Bank**" shall mean Shinhan Bank; and

- all references to "**our holding company**", "**SFG**" and "**Shinhan Financial Group**" shall mean Shinhan Financial Group Co., Ltd., of which the Issuer is a wholly-owned subsidiary.

All references to "**Korea**" and the "**Republic**" contained in this offering circular shall mean The Republic of Korea. All references to the "**Government**" shall mean the government of The Republic of Korea. The "**Financial Services Commission**" or the "**FSC**" shall mean the Financial Services Commission of Korea, and the "**Financial Supervisory Service**" or the "**FSS**" shall mean the executive body of the FSC.

All references in this offering circular to "**U.S. dollars**", "**dollars**", "**US$**" and "**$**" refer to the lawful currency of the United States of America; all references in this offering circular to "**Won**" and "**₩**" refer to the lawful currency of Korea; all references in this offering circular to "**€**", "**Euro**" and "**euro**" refer to the lawful currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended; all references in this offering circular to "**Chinese Yuan**", "**CNY**", "**Renminbi**" and "**RMB**" are to the lawful currency of the People's Republic of China (the "**PRC**"); all references in this offering circular to "**Yen**" and "**¥**" refer to the lawful currency of Japan; and all references in this offering circular to "**S$**" refer to the lawful currency of Singapore. The Issuer maintains its accounts in Won. For convenience only, certain Won amounts have been translated into U.S. dollars. Unless otherwise specified, all such conversions were made at the market average exchange rate announced by Seoul Money Brokerage Services, Ltd. in Seoul for U.S. dollars against Won (the "**Market Average Exchange Rate**"). Unless otherwise stated, the translations of Won into U.S. dollars as of December 31, 2014 were made at the Market Average Exchange Rate in effect on such date, which was ₩1,099.2 = US$1.00. The Market Average Exchange Rate has been highly volatile recently and the U.S. dollar amounts referred to in this offering circular should not be relied upon as an accurate reflection of the Issuer's results of operations. The Issuer expects this volatility to continue in the near future. 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. The Market Average Exchange Rate on April 1, 2015 was ₩1,109.4 = US$1.00.

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

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless stated otherwise, all financial information contained in this offering circular is presented on a consolidated basis in accordance with International Financial Reporting Standards as adopted by Korea ("**Korean IFRS**") together with, where applicable, accounting and reporting guidelines under Korean accounting standards applicable to the banking industry. Financial and other information contained in this offering circular regarding individual borrowers, groups or categories of borrowers or classifications by industry, geography, size or other factors, including information as to loans, credits, total exposures, allowances, collateral values, non-performing loans and other items, is derived solely from the Issuer's internal management information systems.

Under the Korean Banking Act of 1950, as amended (the "**Banking Act**"), assets accepted in trust by a bank in Korea must be segregated from its other assets in the accounts of that bank. Accordingly, banks, including the Issuer, engaged in the banking and trust businesses must maintain two separate accounts, the bank account and the trust account, and two separate sets of records, which provide details of their respective banking and trust businesses. All financial information contained in this offering circular relating to the Issuer is presented with respect to the Issuer's bank account only, unless stated otherwise.

ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer is a corporation organized under the laws of Korea. Substantially all of the Issuer's directors and officers and certain other persons named in this offering circular reside in Korea, and all or a significant portion of the assets of the directors and officers and certain other persons named in this offering circular and substantially all of the Issuer's assets are located in Korea. As a result, it may not be possible for you to effect service of process within the United States upon such persons or to enforce against them or against the Issuer in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated on the U.S. federal securities laws.

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In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the stabilizing manager(s) ("Stabilizing Manager(s)") (or persons acting on behalf of any Stabilizing Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager(s) (or person(s) acting on behalf of a Stabilizing Manager(s)) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may 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 Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilization action or over-allotment must be conducted by the relevant Stabilizing Manager(s) (or person(s) acting on behalf of any Stabilizing Manager(s)) in accordance with all applicable laws and rules.

DOCUMENTS INCORPORATED BY REFERENCE

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

(a) the publicly available audited annual consolidated and unaudited interim consolidated financial statements (if any) of the Issuer for the most recent financial period; see "*General Information*" for a description of the financial statements currently published by the Issuer; and

(b) all supplements or amendments to this offering circular circulated by the Issuer from time to time, except that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this offering circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this offering circular.

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

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

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

AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with sales of the Notes, the Issuer will be required under the amended and restated Agency Agreement dated December 7, 2012 (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") between the Issuer and The Bank of New York Mellon, London Branch, as the fiscal agent (the "**Fiscal Agent**"), to furnish, upon request, to a Holder (as defined in "*Form of the Notes — General*") of a Note and a prospective investor designated by such Holder, the information required to be delivered under Rule 144A(d)(4) under the Securities Act unless at the time of the request the Issuer is a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), or the Issuer is exempt from the registration requirements of Section 12(g) of the Exchange Act (and therefore is required to publish on its web site, in English, certain information pursuant to Rule 12g3-2(b) under the Exchange Act). In accordance with the Agency Agreement, the Fiscal Agent also will make available for inspection by holders of the Notes or, in certain cases, arrange for the mailing to such holders of the Notes, certain reports or communications received from us. See "*Terms and Conditions of the Notes — Notices*".

Copies of the Issuer's articles of incorporation and the Agency Agreement are available free of charge from the specified offices of the Fiscal Agent. The Issuer has prepared audited annual consolidated financial statements as of and for the years ended December 31, 2012, 2013 and 2014 which will be available at the office of the Fiscal Agent.

GENERAL DESCRIPTION OF THE PROGRAM

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

This offering circular and any supplement will only be valid for listing Notes on the SGX-ST in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Program, does not exceed US$6,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Program from time to time:

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

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

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

SUMMARY OF THE PROGRAM

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

Issuer	Shinhan Bank (in relation to each Tranche of Notes, the applicable Pricing Supplement will indicate whether the Issuer is acting through its principal office in Korea or through Shinhan Bank, New York Branch or Shinhan Bank, London Branch)
Description	Global Medium Term Note Program
Arranger	The Hongkong and Shanghai Banking Corporation Limited
Dealers	BNP Paribas, acting through its Hong Kong branch, Crédit Agricole Corporate and Investment Bank, Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, Merrill Lynch International, Shinhan Asia Limited and Shinhan Investment Corp. and any other Dealers appointed in accordance with the Program Agreement.
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale and Transfer and Selling Restrictions*").
Principal Paying Agent and Fiscal Agent	The Bank of New York Mellon, London Branch
Euroclear/Clearstream Registrar and Euroclear/Clearstream Transfer Agent	The Bank of New York Mellon (Luxembourg) S.A.
Exchange Agent, DTC Paying Agent, DTC Registrar and DTC Transfer Agent	The Bank of New York Mellon
CMU Lodging Agent, CMU Paying Agent, CMU Registrar and CMU Transfer Agent	The Bank of New York Mellon, Hong Kong Branch

Program Size	Up to US$6,000,000,000 (or its equivalent in other currencies calculated as described under "*General Description of the Program*") outstanding at any time. The Issuer may increase the amount of the Program in accordance with the terms of the Program Agreement.
Distribution	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Redenomination	The applicable Pricing Supplement may provide that certain Notes may be redenominated in Euro (to the extent permitted under the applicable Korean laws and regulations). The relevant provisions applicable to any such redenomination are contained in Condition 5.
Maturities	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes	The Notes will be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and vice versa.
Fixed Rate Notes	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes	Floating Rate Notes will bear interest at a rate determined: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer.

	The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.
Index Linked Notes...........................	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.
Other Provisions in Relation to Floating Rate Notes and Index Linked Interest Notes	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.
	Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Dual Currency Notes.........................	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes...........................	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest other than in case of late payment.
Redemption	The Pricing Supplement relating to each Tranche of Notes will indicate either that the Notes of such Tranche cannot be redeemed prior to their stated maturity (other than in specified installments (see below), if applicable, or for taxation reasons (in the case of Subordinated Notes, only with the prior approval of the FSS or of such other relevant regulatory authority in Korea, if necessary) or, in the case of Senior Notes, following an Event of Default or, in the case of Subordinated Notes, following a Subordination Event), or that such Notes will be redeemable at the option of the Issuer (only with, in the case of Subordinated Notes, the prior approval of the FSS, or of such other relevant regulatory authorities in Korea, if necessary) and/or (except in the case of Subordinated Notes) the Noteholders, upon giving not less than 15 nor more than 30 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Pricing Supplement) to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Pricing Supplement.

	The applicable Pricing Supplement may provide that Notes may be redeemable in two or more installments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.
Denomination of Notes	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer except that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. Unless otherwise stated in the applicable Pricing Supplement, the minimum denomination of each Definitive IAI Registered Note (as defined under "*Form of the Notes*") will be US$500,000 or its approximate equivalent in other Specified Currencies.
Taxation	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction (as defined in Condition 9), except as required by applicable law. In the event that any such deduction is made, the Issuer will, except in certain limited circumstances provided in Condition 9, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge	The terms of the Notes will contain limitations on liens as further described in Condition 4. For the avoidance of doubt, under the Act on Issuance of Covered Bonds, which was enacted on January 14, 2014 and became effective from April 15, 2014 in Korea, the issuance of covered bonds by the Issuer and any arrangement relating to the segregation or "ring-fencing" of any part of the Issuer's property, assets or revenues (whether present or future) for the purpose thereof shall be permitted, *provided* that such covered bonds are issued and such arrangement is entered into, respectively, in compliance with the Act on Issuance of Covered Bonds and that such property, assets and revenues are intended to form a part of the pool of the assets in respect of which a priority of claim in favor of the covered bondholders may be given.
Cross Acceleration	The terms of the Notes will contain a cross acceleration provision as further described in Condition 11.
Status of the Senior Notes	The Senior Notes and any relative Receipts and Coupons will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 4, unsecured obligations of the Issuer and will rank *pari passu* among themselves and will rank at least *pari passu* with all other present and future unsecured (subject to Condition 4) and unsubordinated obligations of the Issuer, save for such as may be preferred by mandatory provisions of applicable law.

Status of the Subordinated Notes	The Subordinated Notes and any relative Receipts and Coupons will constitute direct, general, unsecured and subordinated obligations of the Issuer which will at all times rank *pari passu* and ratably without any preference among themselves, at least *pari passu* with all other subordinated obligations which do not rank or are not expressed by their terms to rank junior or senior to the Subordinated Notes and in priority to claims of holders of all classes of equity (including holders of preference shares (if any)) of the Issuer. The rights of holder of Subordinated Notes will be subordinated in right of payment in the manner provided in Condition 3(b).
Listing..	Approval in-principle has been received from the SGX-ST for the listing and quotation of Notes that may be issued under the Program and which are agreed, at or prior to the time of issue thereof, to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. For so long as a Series of Notes is listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in another currency). The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).
Governing Law...............................	The Notes will be governed by, and construed in accordance with, New York law except for Condition 3(b), which will be governed by, and construed in accordance with, Korean law.
Selling Restrictions..........................	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom and Germany), Korea, Japan, Singapore, Hong Kong, People's Republic of China and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See "*Subscription and Sale and Transfer and Selling Restrictions*".

FORM OF THE NOTES

Certain capitalized terms used herein are defined in "*Terms and Conditions of the Notes*".

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

Bearer Notes

Each Tranche of Bearer Notes will be initially issued in the form of either a temporary bearer global note (a "**Temporary Bearer Global Note**") or a permanent bearer global note (a "**Permanent Bearer Global Note**" and, together with Temporary Bearer Global Note, the "**Bearer Global Notes**") as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to either (i) a common depositary (the "**Common Depositary**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream**") or (ii) a sub-custodian for the Hong Kong Monetary Authority ("**HKMA**") as operator of the Central Moneymarkets Unit Service (the "**CMU Service**").

While any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream and/or The Bank of New York Mellon, Hong Kong Branch (the "**CMU Lodging Agent**") and (in the case of a Temporary Bearer Global Note delivered to the Common Depositary for Euroclear and Clearstream) Euroclear and/or Clearstream, as applicable, has given a similar certification (based on the certifications it has received) to the Principal Paying Agent.

On or after the date (the "**Exchange Date**") which is 40 days after a Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge and provided that if it is a Partly Paid Note all installments of the subscription monies due before the date of such exchange have been paid) upon request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) for Definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of Definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as required by U.S. Treasury regulations in accordance with the terms of the Temporary Bear Global Note unless such certification has already been given pursuant to the preceding paragraph. Definitive Bearer Notes will only be delivered outside the United States. The CMU Service may require that any such exchange for a Permanent Bearer Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report (as defined in the rules of the CMU Service) or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) have so certified. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for Definitive Bearer Notes is improperly withheld or refused. The Bearer Notes will be subject to certain restrictions on transfer set forth therein or will bear a legend regarding such restrictions.

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

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

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for Definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (a) not less than 60 days' written notice (i) in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream, from Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein and/or (ii) in the case of Notes held through the CMU Service, from the relevant account holders therein to the CMU Lodging Agent as described therein; or (b) only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default (as defined in Condition 11 (*Events of Default*)) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, and in the case of Notes cleared through the CMU Service, the CMU Service, have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered if the Notes had been represented by the Permanent Bearer Global Note in definitive form. The Issuer will give prompt notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer will appoint and maintain a Paying Agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the Permanent Bearer Global Note is exchanged for Definitive Bearer Notes. In addition, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the Definitive Bearer Notes, including details of the Paying Agent in Singapore. In the event of the occurrence of an Exchange Event, in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) and/or, in the case of Notes held through the CMU Service, the relevant account holders therein, may give notice to the Principal Paying Agent or, as the case may be, the CMU Lodging Agent, requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent or, as the case may be, the CMU Lodging Agent, requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent or, as the case may be, the CMU Lodging Agent.

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

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

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

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

Registered Notes

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

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

Registered Global Notes will be deposited with either (i) a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("**DTC**") for the accounts of its participants, including Euroclear and Clearstream, (ii) a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream or (iii) a sub-custodian for the HKMA as operator of the CMU Service, in each case, as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form. Unless otherwise stated in the applicable Pricing Supplement, the minimum denomination of each Global Note shall be €100,000 or its approximate equivalent in other Specified Currencies.

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

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

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provisions to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7(b) (*Payments — Presentation of Notes, Receipts and Coupons*)) immediately preceding the due date for payment in the manner provided in that Condition.

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

Transfer of Interests

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

CMU Notes

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

General

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

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

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

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

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 11 (*Events of Default*). In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then holders of interests in such Global Note credited to their accounts with Euroclear, Clearstream, the CMU Service or DTC, as the case may be, may require Euroclear, Clearstream, the CMU Service or DTC, as applicable, to deliver Definitive Notes in registered form in exchange for their interest in such Global Note in accordance with the standard operating procedures of Euroclear, Clearstream, the CMU Service or DTC, as applicable.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer will appoint and maintain a Paying Agent in Singapore where the Notes may be presented or surrendered for payment or redemption, in the event that the Global Note is exchanged for definitive Notes. In addition, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the Paying Agent in Singapore.

Form of Applicable Pricing Supplement

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

[Date]

Shinhan Bank

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the US$6,000,000,000
Global Medium Term Note Program**

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the "**Conditions**") set forth in the offering circular dated [date], as amended from time to time. This Pricing Supplement is supplemental to and must be read in conjunction with such offering circular.

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

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

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

1.	Issuer:	Shinhan Bank, acting through its [principal office in Korea/ [London/New York*] Branch]
2.	(i) Series Number:	[●]
	(ii) Tranche Number:	[●]
		(if re-opening fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
	(iii) Re-opening:	[Yes/No] *[Specify terms of initial or eventual fungibility]*
3.	Specified Currency or Currencies†:	[●]
4.	Aggregate Nominal Amount:	
	(i) Series:	[●]
	(ii) Tranche:	[●]

* For a Note issuance by Shinhan Bank, acting through its New York Branch, U.S. tax implications should be considered.

† In respect of Notes denominated in Renminbi, purchasers of Notes should note that Renminbi is not freely convertible at present. All payments in respect of such Notes shall be made solely by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong in accordance with applicable laws and regulations. The Issuer cannot be required to make payment by any other means (including in any other currency or in bank notes, by cheque or by transfer to a bank account in the People's Republic of China).

5.	(i)	Issue Price of Tranche:	[●]% of the Aggregate Nominal Amount *[plus accrued interest from [insert date] (in the case of fungible re-opening issues only, if applicable)]*
	(ii)	Net Proceeds:	[●]
	(Required only for listed issues)		[●]
	(iii)	Use of Proceeds:	[●]
6.	(i)	Specified Denominations:	*(N.B. In the case of Registered Notes, this means the minimum integral amount in which transfers can be made. For Registered Global Notes, consider including language substantially to the following effect (however, appropriate amendments should be made for different currencies)* *"[US$200,000] / [€100,000] and integral multiples of [US$1,000] / [€1,000] in excess thereof")* *(N.B. For Bearer Notes with a Specified Denomination and higher integral multiples above the minimum denomination, consider including language substantially to the following effect (however, appropriate amendments should be made for different currencies):* *("[US$200,000] / [€100,000] and integral multiples of [US$1,000] / [€ 1,000] in excess thereof, up to and including [US$399,000] / [€199,000] and, for so long as the Notes are represented by a Global Note (as defined below) and Euroclear and Clearstream so permit, the Notes shall be tradable only in the minimum authorized denomination of [US$200,000] / [€100,000] and higher integral multiples of [US$1,000] [€1,000], notwithstanding that no definitive notes will be issued with a denomination above [US$399,000]/ [€199,000].")*
	(ii)	Calculation Amount:	[●] *(If there is only one Specified Denomination, insert the Specified Denomination. If there is more than one Specified Denomination, insert the highest common factor. N.B. there must be a common factor in the case of two or more Specified Denominations)*
7.	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date:	[●]
8.	Maturity Date:		[*Fixed rate — specify date/Floating rate* — Interest Payment Date falling in or nearest to *[specify month and year]]* *(NB: (i) Lower Subordinated Notes shall have a minimum maturity of five years and (ii) Upper Subordinated Notes shall have a minimum maturity of 10 years and may not be perpetual)*

9.	Interest Basis:	[[●]% Fixed Rate] [[LIBOR/EURIBOR/HIBOR] +/- [●]% Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] *[specify other]* (further particulars specified below)
10.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Installment] *[specify other]*
11.	Change of Interest Basis or Redemption/Payment Basis:	*[Specify details of any provisions for change of Notes into another Interest Basis or Redemption/ Payment Basis]*
12.	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	Status of the Notes:	[Senior/Subordinated]‡ *[If subordinated, specify either Upper Subordinated or Lower Subordinated]*
14.	Listing:	[Singapore Exchange Securities Trading Limited/*specify other*/ None]
15.	Method of Distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16.	Fixed Rate Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(i) Rate(s) of Interest:	[●]% per annum [payable [annually/ semi-annually/quarterly] in arrears] *(If payable other than annually, consider amending Condition 6 (Interest))*
	(ii) Interest Payment Date(s)	([●] in each year up to and including the Maturity Date]/ *[specify other]*) *(N.B.: This will need to be amended in the case of long or short coupons)*
	(iii) Fixed Coupon Amount(s): *(applicable to Notes in definitive form)*	[[●] per Calculation Amount] / [As per Condition 6(a)(II)]

‡ *Eligibility of Subordinated Notes in Korea or UK, US or any other jurisdiction where the foreign branch through which the Notes are being issued is located, the inclusion of a substitution or amendment provision which would permit the Issuer to make such changes to the terms as are necessary to reflect the eventual bail-in rules without the need for the consent of the Noteholders, should be considered.*

	(iv) Broken Amount(s): *(applicable to Notes in definitive form)*	[[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]]/ [As per Condition 6(a)(II)] *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount]*
	(v) Day Count Fraction:	[30/360 or Actual/Actual (ICMA)/*specify other*] / [Not Applicable][§]
	(vi) Determination Date(s):	[●] in each year *[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B.: This will need to be amended in the case of regular interest payment dates which are not of equal duration. N.B.: Only relevant where Day Count Fraction is Actual/ Actual (ICMA)]*
	(vii) Business Center(s):	[Hong Kong or [ ]][**] [Not Applicable]
	(viii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Condition 6(a)(I) applies/Condition 6(a)(II) applies. The Principal Paying Agent will act as the Calculation Agent. / None/*give details*]
17.	Floating Rate Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(i) Specified Period(s)/Specified Interest Payment Dates:	[●]
	(ii) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/*[specify other]*]
	(iii) Additional Business Center(s):	[●] *[(Insert New York City for U.S. dollar denominated Notes to be held through DTC and for non-U.S. dollar denominated Notes where exchange into U.S. dollars is contemplated for DTC participants holding through Euroclear and Clearstream)]*
	(iv) Manner in which the Rate of Interest and Interest Amount are to be determined:	[Screen Rate Determination/ISDA Determination/*specify other*]
	(v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	[●]
	(vi) Screen Rate Determination:	
	— Reference Rate:	[●] *(Either LIBOR, EURIBOR, HIBOR or other, although additional information is required if other — including fall back provisions in the Agency Agreement)*

§ *Applicable if Condition 6(a)(I) is specified as being applicable in paragraph 16(viii).*

** *Applicable if Condition 6(a)(II) is specified as being applicable in paragraph 16(viii).*

— Interest Determination Date(s):	[●] *(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or Euro LIBOR), first day of each Interest Period if Sterling LIBOR or Hong Kong dollar HIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or Euro LIBOR)*
— Relevant Screen Page:	[●] *(In the case of EURIBOR, if not Reuters Page EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
(vii) ISDA Determination:	
— Floating Rate Option:	[●] *(If not on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, the Issuer shall describe the basis here)*
— Designated Maturity:	[●]
— Reset Date:	[●]
(viii) Margin(s):	[+/-] [●]% per annum
(ix) Minimum Rate of Interest:	[●]% per annum
(x) Maximum Rate of Interest:	[●]% per annum
(xi) Day Count Fraction:	[●]% per annum [Actual/365 Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 30E/360 [ISDA] Other] (See Condition 6 (*Interest*) for alternatives)
(xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
18. Zero Coupon Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
(i) Accrual Yield	[●]% per annum
(ii) Reference Price:	[●]
(iii) Any other formula/basis of determining amount payable:	[●]

	(iv) Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 8(e) (*Redemption and Purchase — Early Redemption Amounts*) — *(iii)* and Condition 8(j) (*Redemption and Purchase — Late Payment on Zero Coupon Notes*)] (*Consider applicable day count fraction if non-U.S. dollar denominated*)
19.	Index Linked Interest Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(i) Index/Formula:	*[give or annex details]*
	(ii) Calculation Agent responsible for calculating the principal and/or interest due:	[●]
	(iii) Provisions for determining coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[●]
	(iv) Specified Period(s)/Specified Interest Payment Dates:	[●]
	(v) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/specify other]
	(vi) Additional Business Center(s):	[●]
	(vii) Minimum Rate of Interest:	[●]% per annum
	(viii) Maximum Rate of Interest:	[●]% per annum
	(ix) Day Count Fraction:	[●]
20.	Dual Currency Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(i) Rate of Exchange/method of calculating Rate of Exchange:	[●] *[give details]*
	(ii) Calculation Agent, if any, responsible for calculating the principal and/or interest payable:	[●]
	(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv) Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

21.	Issuer Call:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●]
	(b) Maximum Redemption Amount:	[●]
	(iv) Notice period (if other than as set out in the Conditions):	[●] *(N.B. If setting notice periods which are different from those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
22.	Investor Put:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) Notice period (if other than as set out in the Conditions):	[●] *(N.B. If setting notice periods which are different from those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
23.	Final Redemption Amount of each Note:	[●] [per Calculation Amount/specify other]
24.	Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 8(e) (*Redemption and Purchase — Early Redemption Amounts*):	[●] [per Calculation Amount/specify other]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25.	Form of Notes:	[Bearer Notes: [Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]‡] [Temporary Bearer Global Note exchangeable for Definitive Notes on and after the Exchange Date] [Permanent Bearer Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]][3]] [Registered Notes: Regulation S Global Note (US$[●] nominal amount) [registered in the name of a nominee for DTC/a common depositary for Euroclear and Clearstream/held through the CMU Service]/Rule 144A Global Note (US$[●] nominal amount registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream/held through the CMU Service]/Definitive IAI Registered Notes (*specify nominal amounts*)]
26.	Additional Financial Center(s) or other special provisions relating to Payment Dates:	[Not Applicable/*give details*] *(Note that this item relates to the place of payment and not Interest Period end dates to which items 17(iii) and 19(vi) relate; insert New York City for U.S. dollar denominated Notes to be held through DTC)*
27.	Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature):	[Not Applicable/*give details*]
28.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details*] [New forms of Global Note may be required for Partly Paid issues]
29.	Details relating to Installment Notes:	[Not Applicable/*give details*]
	(i) Installment Amount(s):	[Not Applicable/*give details*]
	(ii) Installment Date(s):	[Not Applicable/*give details*]

‡ *N.B. — Regard should be given to the specific requirements of the relevant clearing system(s), if any.*

3 *Ensure that this is consistent with the wording in the "Form of the Notes" section in the offering circular and the Notes themselves. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 above includes language substantially to the following effect: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000". Furthermore, such Specified Denomination construction is not permitted in relation to any issuance of Notes which is to be represented on issue by a Temporary Bearer Global Notes exchangeable for Definitive Notes.*

30. Redenomination applicable:	Redenomination [not] applicable *[(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates)]*
31. Other terms or special conditions:	[Not Applicable/*give details*]

DISTRIBUTION

32. (i) If syndicated, names of Managers:	[Not Applicable/*give names*]
(ii) Stabilizing Manager (if any):	[Not Applicable/*give name*]
33. If non-syndicated, name of relevant Dealer:	[●]
34. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable:	[TEFRA D/TEFRA C/TEFRA not applicable (for Bearer Notes with a maturity of one year or less (including unilateral rollovers and extensions) or Registered Notes)]
35. Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

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

ISIN:	[●]
Common Code:	[●]
CUSIP:	[●]
CINS:	[●]
(insert here any other relevant codes such as a CMU instrument number)	

[LISTING APPLICATION

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the listing of the US$6,000,000,000 Global Medium Term Note Program of Shinhan Bank.]

***RESPONSIBILITY**

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

By: ____________________________________

Duly authorized signatory
Name:
Title:

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1 (*Form, Denomination and Title*), 5 (*Redenomination*), 6 (*Interest*), 7 (*Payments*), 8 (*Redemption and Purchase* (except Condition 8(b) (*Redemption and Purchase — Redemption for Tax Reasons*)), 12 (*Replacement of Notes, Receipts, Coupons and Talons*), 13 (*Principal Paying Agent, Registrar, Exchange Agent, Paying and Transfer Agents*), 14 (*Exchange of Talons*), 15 (*Notices*) (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 17 (*Further Issues*), they will not necessitate the preparation of a supplement to this offering circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this offering circular will be prepared, if appropriate.

TERMS AND CONDITIONS OF THE NOTES

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

This Note is one of a Series (as defined below) of Notes issued by Shinhan Bank (the "**Issuer**"). References herein to the "**Notes**" shall be references to the Notes of this Series and shall mean (i) in relation to any Notes represented by a global note (a "**Global Note**"), units of the lowest Specified Denomination in the Specified Currency, (ii) any Global Note in bearer form (each a "**Bearer Global Note**"); (iii) any Global Notes in registered form (each a "**Registered Global Note**"), (iv) any definitive Notes in bearer form ("**Definitive Bearer Notes**" and, together with the Bearer Global Notes, the "**Bearer Notes**")) issued in exchange (or part exchange) for a Global Note in bearer form and (v) any definitive Notes in registered form ("**Definitive Registered Notes**" and, together with Registered Global Notes, "**Registered Notes**") (whether or not issued in exchange for a Global Note in registered form). The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Amended and Restated Agency Agreement (as modified and/or supplemented and/or restated from time to time, the "**Agency Agreement**") dated December 7, 2012 and made between, the Issuer, The Bank of New York Mellon, London Branch as fiscal agent (the "**Fiscal Agent**"), principal paying agent (the "**Principal Paying Agent**") and calculation agent (the "**Calculation Agent**"), The Bank of New York Mellon (Luxembourg) S.A. as transfer agent (the "**Euroclear/Clearstream Transfer Agent**") and registrar (the "**Euroclear/Clearstream Registrar**"), in each case, with respect to Notes to be held in and/or cleared through Euroclear or Clearstream (each as defined below), The Bank of New York Mellon as exchange agent (the "**Exchange Agent**"), paying agent (the "**DTC Paying Agent**"), transfer agent (the "**DTC Transfer Agent**") and registrar (the "**DTC Registrar**"), in each case, with respect to Notes to be held in and/or cleared through the DTC (as defined below), and The Bank of New York Mellon, Hong Kong Branch as CMU lodging agent (the "**CMU Lodging Agent**"), paying agent (the "**CMU Paying Agent**"), registrar (the "**CMU Registrar**") and transfer agent (the "**CMU Transfer Agent**"), in each case, with respect to Notes to be held in and/or cleared through the CMU Service (as defined below). The Principal Paying Agent, the DTC Paying Agent, the CMU Paying Agent and other paying agents appointed under the Agency Agreement are referred to as "**Paying Agents**", and any of them, as "**Paying Agent**". The Euroclear/Clearstream Transfer Agent, the DTC Transfer Agent and the CMU Transfer Agent and other transfer agents appointed under the Agency Agreement are referred to as "**Transfer Agents**", and any of them as "**Transfer Agent**". The Euroclear/Clearstream Registrar, the DTC Registrar and the CMU Registrar are referred to as the "**Registrars**", and any of them, as "**Registrar**". The references herein to Fiscal Agent, Calculation Agent, Exchange Agent, Registrar, Paying Agent, Transfer Agent and CMU Lodging Agent (each, an "**Agent**"), shall include any respective successor thereof, and the references herein to Paying Agents, Registrars and Transfer Agents shall include any respective additional or successors thereto. For purposes of these Terms and Conditions, all references to the Registrar or the Transfer Agent shall, with respect to a Series of Notes to be held in and/or cleared through Euroclear or Clearstream, be deemed to be a reference to The Bank of New York Mellon (Luxembourg) S.A. in its capacity as Euroclear/ Clearstream Registrar or Euroclear/Clearstream Transfer Agent, as applicable, and all references to the Paying Agent, the Registrar or the Transfer Agent shall, (i) with respect to a Series of Notes to be held in and/or cleared through DTC, be deemed to be a reference to The Bank of New York Mellon in its capacity as DTC Paying

Agent, DTC Registrar or DTC Transfer Agent, as applicable, and (ii) with respect to a Series of Notes to be held in and/or cleared through the CMU Service, be deemed to be a reference to The Bank of New York Mellon, Hong Kong Branch in its capacity as CMU Paying Agent, CMU Registrar or CMU Transfer Agent, as applicable, and all such references shall be construed accordingly.

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

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

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

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

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

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

1. Form, Denomination and Title

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

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

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

Definitive Bearer Notes are issued with Coupons attached and, if applicable, Talons and Receipts attached, unless they are Zero Coupon Notes, in which case reference to Coupons and Couponholders in these Terms and Conditions are not applicable. If a definitive Bearer Note is redeemable in installments, it will be issued with receipts ("**Receipts**") attached for the payment of installments of principal prior to such Bearer Note's stated maturity. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

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

"**Authorized Denomination**" means:

(i) in the case of a Registered Global Note, unless otherwise specified in the applicable Pricing Supplement, US$200,000 (or its equivalent in any other currency rounded upwards as specified in the relevant Pricing Supplement) and higher integral multiples of US$1,000, or the higher denomination or denominations specified in the applicable Pricing Supplement; and

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

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

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

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

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

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

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

2. Transfers of Registered Notes

(a) Transfers of interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, the CMU Service, Euroclear or Clearstream, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will be exchangeable for Definitive Registered Notes if (i) Euroclear, Clearstream, the CMU Service or DTC, as the case may be, notifies the Issuer that it is unwilling or unable to continue as depositary for such Registered Global Note, (ii) if applicable, DTC ceases to be a "**Clearing Agency**" registered under the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**") or either Euroclear, Clearstream or the CMU Service, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces its intention permanently to cease business, and a successor depositary or alternative clearing system satisfactory to the Issuer and the Registrar and, in the case of CMU Notes, the CMU Lodging Agent is not available, (iii) an Event of Default (as defined in Condition 11) has occurred and is continuing with respect to such Notes or (iv) the Issuer has or will become subject to adverse tax consequences which would not be suffered if the Notes had been represented by the Registered Note in definitive form. Upon the occurrence of any of the events described in the preceding sentence, the Issuer will cause the appropriate Definitive Registered Notes to be delivered, *provided that*, notwithstanding the above, no Definitive Registered Notes will be issued until expiry of the applicable Distribution Compliance Period, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorized denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of DTC, the CMU Service, Euroclear or Clearstream, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee or a sub-custodian for DTC, the CMU Service, Euroclear or Clearstream, as the case may be, shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee or sub-custodian of DTC, the CMU Service, Euroclear or Clearstream, as the case may be, or such successor's nominee or sub-custodian.

(b) Transfers of Definitive Registered Notes

Subject as provided in Conditions 2(c), (d) and (e) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Definitive Registered Note may be transferred in whole or in part (in the authorized denominations set out in the applicable Pricing Supplement). In order to effect any such transfer (a) the holder or holders must surrender (i) the Definitive Registered Note for registration of the transfer of the Definitive Registered Note (or the relevant part of the Definitive Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorized in writing and (ii) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (b) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable requirements as the Issuer and the Registrar or, as the case may be, the relevant Transfer Agent may from time to time prescribe (the initial such regulation being set out in Schedule 9 of the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within five business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations) authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail to such address as the transferee may request, a new Definitive Registered Note of a like aggregate nominal amount to the Definitive Registered Note (or the relevant part of the Definitive Registered Note) transferred. In the case of the transfer of part only of a Definitive Registered Note, a new Definitive Registered Note in respect of the balance of the Definitive Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

(c) Transfers of interests in Regulation S Global Notes

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

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

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

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

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

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

(d) Transfers of interests in Legended Notes

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

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

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

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

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

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

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

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

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

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

(e) Exchanges and transfers of Registered Notes generally

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

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

(f) Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 8(c), the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

(g) Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered during (i) the period of 15 days ending on the due date for any redemption or payment of principal or interest or payment on such Note and

(ii) during the 15 days before any dates on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 8.3, (iii) after any such Note has been called for redemption or (iv) during the period of seven (7) days ending (and including) on any Record Date (as defined below).

(h) Costs of registration

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

(i) Definitions

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

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

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

"**Legended Note**" means Registered Notes in definitive form that are issued to Institutional Accredited Investors and Registered Notes (whether in definitive form or represented by a Registered Global Note) sold in private transactions to QIBs in accordance with the requirements of Rule 144A, which notes bear a legend specifying certain restrictions on transfer;

"**QIB**" means a "**qualified institutional buyer**" within the meaning of Rule 144A;

"**Regulation S**" means Regulation S under the Securities Act;

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

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

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

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

3. *Status of the Notes*

(a) Status of Senior Notes

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

(b) Status of Subordinated Notes

This Condition 3(b) applies only to *Notes whose status is specified in the applicable Pricing Supplement as Subordinated. Subordinated Notes shall be either Upper Subordinated Notes (the "**Upper Subordinated Notes**") or Lower Subordinated Notes (the "**Lower Subordinated Notes**"). Upper Subordinated Notes and Lower Subordinated Notes are together referred to in these Terms and Conditions as "**Subordinated Notes**".*

Subordinated Notes and any relative Receipts and Coupons constitute direct, general, unsecured and subordinated (as described below) obligations of the Issuer which rank *pari passu* among themselves and in priority to claims of holders of all classes of equity (including holders of preference shares (if any)) of the Issuer.

(i) Provisions relating to Subordinated Notes generally

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

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

(3) If, on or prior to the Maturity Date or at any time while any amount is due and outstanding under any Subordinated Notes, a Restructuring Event (as defined below) occurs and so long as it continues, any amounts which become due then or thereafter under the Subordinated Notes (including overdue amounts) shall not be payable unless and until the total amount of any and all Senior Indebtedness of the Issuer is paid in full or provided to be paid in full.

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

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

In these Conditions:

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

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

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

a "**Restructuring Event**" shall mean a determination by the Prime Bank, the Creditor Banks Council or the Creditor Financial Institutions Council (each, as defined under the Korean Corporate Restructuring Promotion Law (No. 6504 of August 14, 2001), as amended or any law of Korea with an effect similar to the Korean Corporate Restructuring Promotion Law), as the case may be, that a restructuring process under any successor legislation to the Korean Corporate Restructuring Promotion Law or any law of Korea with an effect similar to the Korean Corporate Restructuring Law should be implemented for the Issuer;

"**Senior Indebtedness of the Issuer**" shall mean all deposits and other liabilities of the Issuer (other than (i) those which are subject to provisions equivalent to the payment conditions in paragraph (1), (2), (3) or (4) above and (ii) those which rank or are expressed to rank *pari passu* with or junior to the Subordinated Notes); and a "**Subordination Event**" shall mean any Bankruptcy Event, Restoration Event, Restructuring Event or Foreign Event.

(ii) Special Provisions relating to Upper Subordinated Notes

(1) Interest Payment Deferrals

If the Issuer is not, or would be caused by any interest payment on any Subordinated Notes not to be, in compliance with the Capital Adequacy Ratio Requirement (as defined below) on any Interest Payment Date, the Issuer may, at its option, defer (in whole but not in part) payment of interest on such Subordinated Notes until the date specified below and any such failure to pay will not constitute a default by the Issuer for any purpose; provided, however, that the Issuer shall not declare or pay any dividends on any capital stock of the Issuer or make any payments in respect of liabilities of the Issuer (other than liabilities under the Lower Subordinated Notes and any other indebtedness which are subject to provisions equivalent to the payment conditions of the Lower Subordinated Notes or rank, or are expressed to rank, *pari passu* with the Lower Subordinated Notes) that rank equally with or junior to the Subordinated Notes unless and until any and all Interest in Arrears (as defined below) and other accrued interest on the Subordinated Notes, including Additional Interest (as defined below), have been paid in full.

Any interest in respect of Subordinated Notes not paid on an Interest Payment Date, together with any other interest in respect of the Subordinated Notes not paid on any other Interest Payment Date, will, so long as the same remains unpaid, constitute "**Interest in Arrears**". Until paid (whether before or after the Maturity Date), Interest in Arrears will bear interest ("**Additional Interest**") at a rate that is 1.00% per annum over the interest rate payable on the relevant Subordinated Note at that time. In addition, the principal of the relevant Subordinated Notes, if not paid on the Maturity Date, will also bear interest at a rate that is 1.00% per annum over the interest rate that otherwise would be payable on such Subordinated Notes at that time.

Interest in Arrears and accrued interest, including Additional Interest, thereon may, at the option of the Issuer, be paid in whole or in part at any time upon the expiration of not less than 14 days' notice to such effect given to the Principal Paying Agent and to the holders of the Notes.

Interest in Arrears and other accrued interest, including Additional Interest, in respect of Subordinated Notes will (subject to Conditions 3(b)(i) and 3(b)(ii)(2)) become due in full on whichever is the earliest of (1) the next Compulsory Interest Payment Date (as defined below), (2) the Maturity Date or the date fixed for any redemption pursuant to the provisions of Condition 8 (Redemption and Purchase) or (3) the occurrence of a Subordination Event. If notice is given by the Issuer of its intention to pay the whole or any part of Interest in Arrears and other accrued interest, including Additional Interest, the Issuer shall be obligated (subject to the conditions set forth in Conditions 3(b)(i) and 3(b)(ii)(2)) to do so upon the expiration of such notice. As used herein:

"**Compulsory Interest Payment Date**" means an Interest Payment Date for the relevant Subordinated Notes, as of which date the Issuer, based upon its best estimates, is in compliance with the Capital Adequacy Ratio Requirement, *provided that*, any payment of interest on such Subordinated Notes will not cause the Issuer, based upon its best estimates, not to be in compliance with the Capital Adequacy Ratio Requirement; and

"**Capital Adequacy Ratio Requirement**" means the requirement for the minimum risk-weighted total capital ratio of the Issuer, determined in accordance with the guidelines of the Financial Supervisory Service of Korea (the "**FSS**"), which currently is 8.0%.

(2) Solvency Condition

Payments of principal of, and interest on, the Subordinated Notes are conditional upon the Issuer not being an Insolvent Financial Institution (as defined below) at the time of payment by the Issuer, and no principal or interest shall be payable in respect of the Subordinated Notes, except to the extent that the Issuer could make the necessary payment and still not become an Insolvent Financial Institution. For the purposes of this paragraph, an "**Insolvent Financial Institution**" means any of the following:

(i) a financial institution (a)(i) whose liabilities exceed its assets according to an actual investigation of conditions of its operations or (ii) which clearly has difficulty in operating its ordinary business as its liabilities exceed its assets due to the occurrence of any adverse financial incident or non-performing claims, in each case involving large amounts, and (b) which the Financial Services Commission of Korea (the "**FSC**") or the Operating Committee of the Korea Deposit Insurance Corporation (the "**Operating Committee**") determines to be an "Insolvent Financial Institution". In this case, the valuation and calculation of liabilities and assets shall be made according to the standards set in advance by the FSC;

(ii) a financial institution which is under suspension of (a) payment of claims such as deposits (including the principal, interest, profit, insurance proceeds, various payments and other agreed monetary claims) or (b) repayment of money borrowed from other financial institutions; or

(iii) a financial institution which is deemed by the FSC or the Operating Committee to be having difficulty in paying claims such as deposits (including the principal, interest, profit, insurance proceeds, various payments and other agreed monetary claims) or repaying borrowed money without fund support from outside or separate borrowings (excluding borrowing in ordinary financial transactions).

Failure by the Issuer to make payments of principal of, and interest on, the Subordinated Notes while the Issuer remains an Insolvent Financial Institution (an "**Insolvency Period**") shall not constitute a default by the Issuer for any purpose; provided, however, that, while Subordinated Notes are outstanding, the Issuer shall not declare or pay any dividends on any capital stock of the Issuer or make any payments in respect of liabilities of the Issuer (other than liabilities under the Lower Subordinated Notes and any other indebtedness which are subject to provisions equivalent to the payment conditions of the Lower Subordinated Notes or rank, or are expressed to rank, *pari passu* with the Lower Subordinated Notes) that rank equally with or junior to the Subordinated Notes.

Payments of principal of, and interest on, the Subordinated Notes not made during an Insolvency Period will (subject to Condition 3(b)(i)) become payable on whichever is the earlier of (1) the Issuer ceasing to be an Insolvent Financial Institution and (2) the occurrence of a Subordination Event. Until paid (whether before or after the Maturity Date), payments of interest on Subordinated Notes not made during an Insolvency Period will bear additional interest at a rate that is 1.00% per annum over the interest rate payable on such Subordinated Notes at that time. In addition, if the Insolvency Period is continuing on and after the Maturity Date, the principal on the Subordinated Notes will also bear interest at a rate that is 1.00% per annum over the interest rate that otherwise would be payable on the Subordinated Notes at that time.

4. Negative Pledge

(a) Negative Pledge

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

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

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

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

without, in any such case and at the same time, according to the holders of the Senior Notes either the same security as is available for the benefit of the holders of such International Investment Securities or such other security as shall be approved for the purpose by an Extraordinary Resolution (as defined in the Agency Agreement) of the holders of the Senior Notes.

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

(b) Interpretation

In these Conditions:

"**International Investment Securities**" means notes, bonds, debentures, certificates of deposit or investment securities of any person which:

(i) by their terms either are payable, or confer a right to receive payment, in any currency other than Won or are denominated in Won and more than one-half of the aggregate principal amount of which is initially distributed outside Korea by or with the authorization of the Issuer;

(ii) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market outside Korea; and

(iii) are not (A) securities issued in accordance with a securitization plan pursuant to the Asset-Backed Securitization Act of Korea (or other similar laws of Korea); or (ii) securities or instruments serviced primarily by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite period and which are commonly regarded as asset-backed securities.

5. Redenomination

(a) Redenomination

Where redenomination is specified in the applicable Pricing Supplement as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Agent, Euroclear and Clearstream and at least 30 days' prior notice to the Noteholders in accordance with Condition 15 (*Notices*), elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in Euro.

The election will have effect as follows:

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

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

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

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

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

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

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

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

(b) Definitions

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

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

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

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

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

6. Interest

(a) Interest on Fixed Rate Notes

(I) In the case of Fixed Rate Notes where Conditions 6(a)(I) is specified as being applicable in the applicable Pricing supplement, the following provisions will apply instead of Condition 6(a)(II):

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

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

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

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

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

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

In these Conditions:

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

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

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

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

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

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

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

In this Condition 6(a)(I):

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

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

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

(II) In the case of Fixed Rate Notes where Conditions 6(a)(II) is specified as being applicable in the applicable Pricing supplement, the following provisions will apply instead of Condition 6(a)(I):

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

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

The Calculation Agent will, as soon as practicable after 11:00 a.m. (Hong Kong time) on the second business day before the beginning of each Fixed Interest Period (each an "**Interest Determination Date**"), calculate the amount of interest payable per Calculation Amount for the relevant Fixed Interest Period. The determination of the amount of interest payable per Calculation Amount by the Calculation Agent shall (in the absence of manifest error and after confirmation by the Issuer) be final and binding upon all parties.

The Calculation Agent will cause the amount of interest payable per Calculation Amount for each Fixed Interest Period and the relevant Interest Payment Date to be notified to each of the Paying Agents and to be notified to Noteholders as soon as possible after their determination but in no event later than the fourth business day thereafter. The amount of interest payable per Calculation Amount and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 11, the accrued interest per Calculation Amount shall nevertheless continue to be calculated as previously by the Calculation Agent in accordance with this Condition 6(a)(II) but no publication of the amount of interest payable per Calculation Amount so calculated need be made.

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

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

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

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

In this Condition 6(a)(II):

"**business day**" means a day (other than a Saturday, Sunday or public holiday) upon which commercial banks are generally open for business and settlement of Renminbi payments in the Business Center as specified in the applicable Pricing Supplement; and

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

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

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

(i) Interest Payment Dates

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

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

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

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

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

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

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

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

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

In this Condition, "**Business Day**" means a day which is a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and, in the case of an issue of CMU Notes, Hong Kong and, in case of an issue of Registered Notes represented by a Global Note registered in the name of DTC, New York city, and any Additional Business Center specified in the applicable pricing supplement; *provided that*, in relation to any payments, "Business Day" shall mean the Payment Day (as defined in Condition 8) applicable to such Payment.

(ii) Rate of Interest

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

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant

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

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

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

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

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

When this sub-paragraph (A) applies, in respect of each relevant Interest Period the Agent will be deemed to have discharged its obligations under Condition 6(b)(iv) in respect of the determination of the Rate of Interest if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this sub-paragraph (A).

(B) Screen Rate Determination for Floating Rate Notes

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

(A) the offered quotation; or

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

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

(2) If the Relevant Screen Page is not available or, if in the case of Condition 6(b)(ii)(B)(1)(A) above, no such offered quotation appears or, in the case of Condition 6(b)(ii)(B)(1)(B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph the Principal Paying Agent shall request each of the Reference Banks (as defined below) to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Principal Paying Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

(3) If on any Interest Determination Date one only or none of the Reference Banks provides the Principal Paying Agent with such offered quotations as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Principal Paying Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Principal Paying Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Principal Paying Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Principal Paying Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), *provided that*, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

(4) "**Reference Banks**" means, in the case of Condition 6(b)(ii)(B)(1)(A) above, those banks whose offered rates were used to determine such quotation when such quotation last appeared on the

Relevant Screen Page and, in the case of Condition 6(b)(ii)(B)(1)(B) above, those banks whose offered quotations last appeared on the Relevant Screen Page when no fewer than three such offered quotations appeared.

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

(C) Prime Rate Determination for Floating Rate Notes

(1) Where Prime Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will equal:

(A) the rate as published in H.15(519) (as defined below) under the heading “Bank Prime Loan” (the “**Prime Rate**”); or

(B) if such rate is not so published by 9:00 a.m. (New York City time) on the Interest Determination Date, the arithmetic mean (rounded, if necessary, to the fourth decimal place, with 0.00005 being rounded upwards) of the rates of interest publicly announced by each bank named on the Reuters Screen USPRIME1 (as defined below) as such bank’s prime rate or base lending rate as in effect on such Interest Determination Date, or

(C) if fewer than four such rates appear on the Reuters Screen USPRIME1 for such Interest Determination Date, the arithmetic mean (rounded, if necessary, to the fourth decimal place, with 0.00005 being rounded upwards) of the prime rates or base lending rates (quoted on the basis of the actual number of days in the year divided by 360) as of the close of business on such Interest Determination Date publicly announced by three major banks in New York City, selected by the Principal Paying Agent, as each of their prime rates or base lending rates, in each case plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent, *provided that*, if the Prime Rate is not published in H.15(519) or fewer than three banks selected as aforesaid by the Principal Paying Agent are quoting as mentioned in the previous sub-paragraph, the Rate of Interest with respect to such Interest Period shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

(2) “**H.15(519)**” means the weekly statistical release entitled “Statistical Release H.15(519), Selected Interest Rates”, published by the Board of Governors of the United States Federal Reserve System, or any successor published publication.

(3) “**Reuters Screen USPRIME1**” means the display designed as page “USPRIME1” on the Reuters Monitor Money Rates Service (or such other page as may replace the USPRIME1 page on that service for the purpose of displaying prime rates or base lending rates of major United States banks).

(D) Federal Funds Rate Determination for Floating Rate Notes

(1) Where Federal Fund Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will equal the rate for Federal Funds (the "**Federal Funds Rate**"):

(A) as published in H.15(519) under the heading "Federal Funds (Effective)"; or

(B) if such rate is not so published by 9:00 a.m. (New York City time) on the Interest Determination Date, then as published in Composite Quotations under the heading "Federal Funds/Effective Rate", in each case plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent; or

(2) if such rates are not published by 3:00 p.m. (New York City time) on the Interest Determination Date, the Principal Paying Agent shall determine the Rate of Interest on the Interest Determination Date as the arithmetic mean (rounded, if necessary, to the fourth decimal place, with 0.00005 being rounded upwards) of the rates for the last transaction in overnight Federal Funds arranged by three leading brokers of Federal Funds transactions in New York City, selected by the Principal Paying Agent, as of 9:00 a.m. (New York City time) on such Interest Determination Date plus or minus (as appropriate) the Margin (if any); or

(3) if the Federal Funds Rate is not determined in accordance with Condition 6(b)(ii)(D)(1) above or if fewer than three brokers selected as aforesaid by the Principal Paying Agent are quoting as mentioned in the previous sub-paragraph, the Rate of Interest with respect to such Interest Period shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

(E) Treasury Rate Determination for Floating Rate Notes

(1) Where Treasury Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will equal the treasury bills rate (the "**Treasury Bills Rate**") being:

(A) the rate for the auction on the relevant Interest Determination Date (for the purposes of this paragraph (E), as defined below) of direct obligations of the United States ("**Treasury Bills**") having the Index Maturity specified in the applicable Pricing Supplement, as such rate is published in H.15(519) under the heading "U.S. Government Securities/Treasury Bills/ Auction Average (Investment)"; or

(B) if such rate is not so published by 3:00 p.m. (New York City time) on the Interest Determination Date, the auction average rate (expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) as otherwise announced by the United States Department of the Treasury; or

(C) in the event that the results of the auction of Treasury Bills having the specified Index Maturity are not published or reported as provided in sub-paragraphs (E)(1)(A) or (E)(1)(B) above, by 3:00 p.m. (New York City time) on such Interest Determination Date, or if no such auction is held during such week, then the rate as published in H.15(519) under the heading "U.S. Government Securities/Treasury Bills/Secondary Market" on the Interest Determination Date for the Index Maturity specified and in the applicable Pricing Supplement; or

(D) in the event no such rate is published as provided in the previous sub-paragraph, by 3:00 p.m. (New York City time) on such Interest Determination Date, the yield to maturity (expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) of the arithmetic mean (rounded, if necessary, to the fourth decimal place, with 0.00005 being rounded upwards) of the secondary market bid rates, as of approximately 3:30 p.m. (New York City time) on such Interest Determination Date, of three leading primary United States government securities dealers in New York City, selected by the Principal Paying Agent, for the issue of Treasury Bills with a remaining maturity closest to the applicable Index Maturity,

in each case plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent, *provided that*, if the Rate of Interest cannot be determined in accordance with Conditions 6(b)(ii)(E)(1)(A)-(D) above the Rate of Interest with respect to such Interest Period shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

(2) For the purposes of this paragraph (E) only, the "**Interest Determination Date**" in respect of each Interest Period will be the day of the week in which the relevant Interest Period commences on which Treasury Bills would normally be auctioned. Treasury Bills are usually sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is usually held on the following Tuesday, except that such auction may be held on the preceding Friday. If, as a result of a legal holiday, an auction is so held on the preceding Friday, such Friday will be the Interest Determination Date. If an auction date shall fall on the first day of an Interest Period, then, in respect of such Interest Period, the Treasury Bills Rate applicable to the Rate of Interest for the period up to (but excluding) the first Business Day immediately following such auction date will be the Treasury Bills Rate as determined at the last preceding Interest Determination Date, and thereafter the applicable Treasury Bills Rate shall be the Treasury Bills Rate determined on such Interest Determination Date.

(iii) Minimum and/or Maximum Interest Rate

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

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

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same. See Clause 8.6 and Schedule 10 of the Agency Agreement.

The Principal Paying Agent will calculate the amount of interest (the "**Interest Amount**") payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

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

(B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub- unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

"**D1**" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

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

(v) Notification of Rate of Interest and Interest Amounts

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

(vi) Certificates to be Final

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

(c) Dual Currency Notes

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

(d) Partly Paid Notes

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

(e) Accrual of Interest

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

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

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

7. Payments

(a) Method of Payment

Subject as provided below:

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

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

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto ("**FATCA**"). References to "**Specified Currency**" will include any successor currency under applicable law.

(b) Payments in respect of Definitive Bearer Notes, Receipts and Coupons

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

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

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

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

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

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

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

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

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

In the case of definitive Bearer Notes held in the CMU Service, payment will be made at the direction of the bearer to the CMU Accountholders and such payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

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

(c) Payments in respect of Bearer Global Notes

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

(d) Payments in respect of Registered Notes

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

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

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

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

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

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

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

(e) General provisions applicable to payments

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

(f) Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes "**Payment Day**" means any day which (subject to Condition 10) is:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in

(A) in the case of Notes in definitive form only, the relevant place of presentation;

(B) London and such other city where the relevant Paying Agent is located;

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

(ii) either (A) in relation to any sum payable in a Specified Currency other than Euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial center of the country of the relevant Specified Currency (and which if the Specified Currency is Australian dollars, New Zealand dollars or Renminbi shall be Melbourne, Wellington or Hong Kong, respectively); or (B) in relation to any sum payable in Euro, a day on which the TARGET 2 System is open; and/or

(iii) in relation to any sum payable in a Specified Country and/or one or more Additional Financial Centers specified in the applicable Pricing Supplement, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the Additional Financial Centers or, if no currency is indicated, generally in each of the Additional Financial Centers; and/or

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

(g) Interpretation of Principal and Interest

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

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

(ii) the Final Redemption Amount of the Notes;

(iii) the Early Redemption Amount of the Notes;

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

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

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

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

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

(h) Renminbi Currency Event

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

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

For the purposes of this Condition 7(h) and unless stated otherwise in the applicable Pricing Supplement:

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

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

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

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

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

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

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

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

8. Redemption and Purchase

(a) At Maturity

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

(b) Redemption for Tax Reasons

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

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

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided (1) in the case of Subordinated Notes, the prior approval of the Financial Supervisory Service of Korea or such other relevant regulatory authorities in Korea shall have been obtained, if necessary, and (2) that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

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

Notes redeemed pursuant to this Condition 8(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) Redemption at the Option of the Issuer

If the Issuer is specified in the applicable Pricing Supplement as having an option to redeem, the Issuer shall, having (1) in the case of Subordinated Notes, obtained the prior approval of the FSS or such other relevant regulatory authorities in Korea, if necessary, and (2) given:

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

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

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date; provided, however, that in the case of Subordinated Notes, if such Subordinated Notes are recognized as Tier II supplementary capital under the Regulation on the Supervision of the Banking Business and its Detailed Regulations in effect at the issuance date, such redemption may be subject to the prior approval of the FSS pursuant to the above-described regulations in effect at the applicable time relating to, *inter alia*, capital adequacy ratios, replacement capital and interest rates. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of definitive Notes, the Notes to be redeemed will be selected individually by lot (in such place as the Principal Paying Agent may approve and in such manner as the Principal Paying Agent shall deem to be appropriate and fair) not more than 30 days prior to the date fixed for redemption (such date of selection, the "**Selection Date**") and a list of the notes called for redemption will be published in accordance with Condition 15 not less than 30 days prior to such date. In the case of a partial redemption of

Notes represented by a Global Note, the relevant interests in the Notes to be redeemed will be selected in accordance with the rules of Euroclear and/or Clearstream (to be reflected in the records of Euroclear and Clearstream as either a pool factor or a reduction in nominal amount, at their discretion) and/or DTC and/or the CMU Service.

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

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

If the holders of Senior Notes are specified in the applicable Pricing Supplement as having an option to redeem, upon the holder of any Senior Note giving to the Issuer in accordance with Condition 15 not less than 15 nor more than 30 days' notice or such other period of notice as is specified in the applicable Pricing Supplement, the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, in whole (but not in part), such Senior Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition 8(d) (*Redemption and Purchase — Redemption of the Senior Notes Only at the Option of the Noteholders (Investor Put)*) in any multiple of their lowest Specified Denomination.

If the Senior Note to be redeemed is in definitive form and is not held through Euroclear, Clearstream, DTC or the CMU Service, to exercise the right to require redemption of such Senior Note the holder of such Senior Note must deliver such Senior Note at the specified office of any Paying Agent (in the case of a Bearer Note) or any Transfer Agent (in the case of a Registered Note) at any time during normal business hours of such Paying Agent or Transfer Agent, as the case may be, falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or Transfer Agent (a "**Put Notice**") and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2 (*Transfers of Registered Notes*).

If the Senior Note to be redeemed is represented by a Global Note or is in definitive form and held through Euroclear, Clearstream, DTC or the CMU Service, to exercise the right to require redemption of such Senior Note, the holder of such Senior Note must, within the notice period, give notice to the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) of such exercise in accordance with the standard procedures of Euroclear, Clearstream, DTC and the CMU Service (which may include notice being given on such holder's instruction by Euroclear, Clearstream, DTC, the CMU Service or any depositary, as the case may be, for them to the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) by electronic means or notice given to the CMU Lodging Agent) in a form acceptable to Euroclear, Clearstream, DTC, the CMU Service and the CMU Lodging Agent from time to time and, if such Senior Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) or the CMU Lodging Agent, as the case may be, for notation accordingly.

If this Senior Note is in definitive form, the Put Notice must be accompanied by this Senior Note or evidence satisfactory to the Paying Agent concerned that this Senior Note will, following delivery of the Put Notice, be held to its order or under its control.

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

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

(e) Early Redemption Amounts

For the purpose of Condition 8(b) and Condition 11, the Notes will be redeemed at the Early Redemption Amount calculated as follows:

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

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

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

Early Redemption Amount = RP x (1 + AY) y where:

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

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

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

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

(f) Installments

If the Notes are repayable in installments, they will be redeemed in the Installment Amounts and on the Installment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 8(e).

(g) Partly Paid Notes

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

(h) Purchases

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

(i) Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to Condition 8(h) (together with all unmatured Receipts and Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent (which shall notify the Registrar of such cancelled Notes in the case of Registered Notes) and cannot be reissued or resold.

(j) Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 8(a), 8(b), 8(c) or 8(d) above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 8(e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

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

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

(k) Obligation to redeem

Upon the expiry of any notice as is referred to in Condition 8(b), 8(c) or 8(d), the Issuer shall be bound to redeem the Notes to which the notice referred at the relevant redemption price applicable at the date of such redemption together with, if appropriate, interest accrued to (but excluding) the relevant redemption date.

9. Taxation

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

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

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

(iii) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day (assuming that day to have been a Payment Day (as defined in Condition 7(e) Payments — Payment Day); or

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

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

(vi) where such withholding or deduction is imposed on a payment received by or on behalf of a holder of a Note, Receipt or Coupon who would be able to avoid such withholding or deduction by making a declaration of non-residence or other similar claim for exemption and does not make such declaration or claim;

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

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

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

As used herein:

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

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

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

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

10. Prescription

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

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 7(b) or any Talon which would be void pursuant to Condition 7(b).

11. Events of Default

(a) Events of Default applicable to Senior Notes only

The occurrence and continuance of one or more of the following events will constitute events of default (each an "**Event of Default**") under the Notes:

(i) *Non-payment*: default is made in the payment of any amount of principal or interest in respect of any of the Senior Notes on the due date for payment thereof and such default remains unremedied for, in the case of default in the payment of principal, seven days, or, in the case of default in the payment of interest, 14 days thereafter;

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

(iii) *Cross-acceleration*: any Indebtedness (as defined below) in aggregate exceeding US$10,000,000 (or its equivalent in one or more other currencies) of the Bank either (1) becoming due and payable prior to the due date for payment thereof by reason of acceleration following a default by the Bank or (2) not being repaid by the Bank at, and remaining unpaid after, maturity (as extended by the period of grace, if any) applicable thereto, or any guarantee given by the Bank in respect of Indebtedness of any other person not being honored and remaining dishonored after becoming due and called; *provided that*, in the case of (1) above, if any such default under any such Indebtedness shall be cured or waived, then the default under the Notes shall be deemed to have been cured and waived;

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

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

In these Conditions:

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

(2) "**Indebtedness**" means all obligations created, incurred or assumed by a Person for the payment or repayment of moneys relating to or in connection with (a) any indebtedness of a Person in respect of moneys borrowed by it; (b) any indebtedness of a Person under acceptance or documentary credit facilities; (c) any indebtedness of a Person under bills, bonds, debentures, notes or similar instruments on which a Person is liable; (d) any obligations of a Person under leases which in accordance with accounting principles generally accepted in Korea are required to be capitalized for financial reporting purposes; (e) any indebtedness of a Person (whether actual or contingent) for moneys owing under any instrument entered into by a Person in respect of the acquisition cost of assets payment of which is deferred for a period in excess of six months after acquisition thereof, and (f) indebtedness of a Person (actual or contingent) under guarantees, security, indemnities or other commitments designed to assure any creditors in respect of the payment of any indebtedness of any other person.

In each and every such case of an Event of Default described in (i) through (v) above, unless the principal of all of the Notes shall already have become due and payable, the holders of not less than 25% in aggregate principal amount of the Notes then outstanding, by written notice as provided in the Agency Agreement, may declare the entire principal of all the Notes, and the interest accrued thereon, to be due and payable immediately, provided however, that if any of the events specified in (iv) and (v) shall have occurred, the aggregate principal amount of the Notes then outstanding shall automatically become due and payable without regard to the giving of any such notice. If, at any time after the principal of the Notes shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Bank shall pay or deposit with the Principal Paying Agent a sum sufficient to pay all matured installments of interest upon all the Notes and the principal of any and all Notes that shall have become due otherwise than by acceleration (with interest upon such principal and, to the extent that the payment of such interest is enforceable under applicable law, on overdue installments of interest) and reasonable compensation and expenses of the Principal Paying Agent, and if any and all Events of Default under the Notes, other than the non-payment of the principal of Notes that shall have become due by acceleration, shall have been cured, waived or otherwise remedied, then and in every such case the holders of a majority in aggregate principal amount of the Notes then outstanding may, by written notice, waive all defaults and rescind and annul such declaration and its consequences.

(b) Events of Default applicable to Subordinated Notes only

(i) If any Subordination Event shall occur and be continuing then, in any such event, the holder of any Subordinated Note may by written notice to the Issuer declare such Note to be forthwith due and payable upon receipt of such notice by the Issuer whereupon such Note shall become due and repayable at its principal amount plus accrued interest (if any).

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

(iii) The only action the holder of a Subordinated Note may take in Korea against the Issuer on acceleration of the Subordinated Notes is to petition for the liquidation of, or for the commencement of reorganization proceedings in relation to, the Issuer in Korea (subject to the satisfaction of the relevant requirements of applicable law) or to prove in the liquidation or other applicable proceedings in respect of the Issuer in Korea.

12. Replacement of Notes, Receipts, Coupons and Talons

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

13. Agents

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

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

(i) there will at all times be a Principal Paying Agent and a Registrar;

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

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

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

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

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

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

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the second paragraph of Condition 7(b). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency or of a Paying Agent failing to become or ceasing to become exempt from withholding pursuant to FATCA, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 15.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust for or with any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent and for relief from responsibility in certain circumstances, and entitles any of them to enter into business transactions with the Issuer without being liable to account to the Noteholders, Receiptholders or Couponholders for any resulting profit.

14. Exchange of Talons

On and after the Fixed Interest Date or the Interest Payment Date, as appropriate, on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bearer Note to which it appertains) a further Talon, subject to the provisions of Condition 12. Each Talon shall, for the purposes of these Terms and Conditions, be deemed to mature on the Fixed Interest Date or the Interest Payment Date (as the case may be) on which the final Coupon comprised in the relative Coupon sheet matures.

15. Notices

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an overseas address) by air mail to holders at their respective addresses as recorded in the Register and will be deemed to have been validly given on the fourth day after the date of such mailing.

All notices regarding the Bearer Notes shall be published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the Financial Times.

The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

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

Notices or demanded to be given or made by any holder of the Notes shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes).

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

16. Meetings of Noteholders, Modification and Waiver

(a) Meetings requiring majority consent

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by (i) Extraordinary Resolution or (ii), if in the case of any Notes Condition 16(b) is specified in the applicable Pricing Supplement as being applicable, the affirmative vote of each Noteholder of such Series then outstanding, of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or Noteholders holding not less than 10% in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50% in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, Receipts or Coupons to which Condition 16(b) is not specified as applicable (including modifying the date of maturity of the Notes or any date for payment of interest thereof, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, Receipts or Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one third, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

(b) Meetings requiring unanimous consent

If this Condition 16(b) is specified in the applicable Pricing Supplement as being applicable to the Notes of any Series then, notwithstanding anything herein to the contrary, no action at any meeting of Noteholders of such Series, and no modification, amendment, or supplement to the Notes, these Terms and Conditions or relevant provisions of the Agency Agreement, may:

(i) change the due date for the payment of the principal (including premium or redemption amounts, if any, and, in the case of Zero Coupon Notes, the Amortized Face Amount or other amount payable in respect thereof) or interest, if any, in respect of any Note of such Series;

(ii) reduce the principal amount (including premium or redemption amounts, if any, and, in the case of Zero Coupon Notes, the Amortized Face Amount or other amount payable in respect thereof) in respect of any Note of such Series, the portion of such principal amount which is payable upon acceleration of the maturity of such Notes, the interest rate thereon or the premium payable upon redemption thereof;

(iii) change the obligation of the Issuer to pay additional amounts on any Note of such Series pursuant to Condition 9;

(iv) change the Specified Currency in which or the required places at which payment with respect to principal (including premium or redemption amounts, if any, and, in the case of Zero Coupon Notes, the Amortized Face Amount or other amount payable in respect thereof) or interest, if any, in respect of Notes of such Series is payable;

(v) impair the right to institute suit for the enforcement of any such payment on or with respect to any Note of such Series;

(vi) amend the procedures provided for or the circumstances under which the Notes of such Series may be redeemed;

(vii) reduce the proportion of the principal amount of Notes of such Series the consent of the Noteholders of which is necessary to modify or amend the Agency Agreement or these Terms and Conditions or to make, take or give consent, waiver or other action provided hereby or thereby to be made, taken or given; or

(viii) reduce the percentage of aggregate principal amount of Notes outstanding required for the adoption of a resolution or the quorum required at any meeting of Noteholders at which a resolution is adopted, in each case, unless such action or modification, amendment or supplement is approved by the affirmative vote of all Noteholders of such Series then outstanding.

(c) Modifications

The Principal Paying Agent and the Issuer may agree, subject to Condition 16(b) (if applicable) and without the consent of the Noteholders, Receiptholders or Couponholders, to:

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

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

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

17. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders, Receiptholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes; *provided that*, in the case of Bearer Notes initially represented by interests in a Temporary Bearer Global Note exchangeable for interests in a Permanent Bearer Global Note or definitive Bearer Notes, such consolidation will occur only upon certification of non-U.S. beneficial ownership and exchange of interests in the Temporary Bearer Global Note for interests in the Permanent Bearer Global Note or definitive Bearer Notes; provided further that, further notes must (A) be issued with no more than a de minimis amount of original issue discount, or (B) be part of a "qualified reopening" for United States federal income tax purposes.

18. Provision of Information

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

19. Governing Law and Submission to Jurisdiction

The Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, the laws of the State of New York, except that that in the case of Subordinated Notes, Condition 3(b) is governed by and shall be construed in accordance with Korean law. The Issuer will agree that any legal action, suit, or proceeding arising out of or based upon the Agency Agreement, the Notes, the Receipts or the Coupons may be instituted in any New York State or U.S. Federal court located in the Borough of Manhattan, The City of New York. The Issuer will appoint Shinhan Bank, New York Branch as its authorized agent upon whom process may be served in connection with any such action and will irrevocably consent to the jurisdiction of any such court in respect of any such proceeding. The Issuer will also waive, to the extent permissible under applicable law, any objection which the Issuer may now or hereafter have to the laying of venue of any such proceeding and any claim that such proceeding brought in such court has been brought in an inconvenient forum.

USE OF PROCEEDS

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

EXCHANGE RATES

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

Year Ended December 31,	**At End of Period**	**Average**[(1)]	**High**	**Low**
		(Won per US$1.00)		
2010	1,138.9	1,156.3	1,261.5	1,104.0
2011	1,153.3	1,108.1	1,199.5	1,049.5
2012	1,071.1	1,126.9	1,181.8	1,071.1
2013	1,055.3	1,094.7	1,161.3	1,050.1
2014	1,090.9	1,052.3	1,117.7	1,008.9
October	1,073.1	1,060.3	1,074.4	1,043.9
November	1,112.1	1,097.9	1,114.7	1,077.0
December	1,090.9	1,102.6	1,117.7	1,080.8
2015 (through April 1)	1,109.4	1,100.4	1,133.9	1,077.3
January	1,090.8	1,088.9	1,108.7	1,077.3
February	1,099.2	1,098.4	1,109.8	1,088.3
March	1,105.0	1,112.6	1,133.9	1,096.5
April (through April 1)	1,109.4	1,109.4	1,109.4	1,109.4

Source: Seoul Money Brokerage Services, Ltd.

Note:

(1) Represents the average of the Market Average Exchange Rate on the last trading day of each month during the relevant period.

In addition to other information contained in this offering circular, you should consider carefully the risks described below. These risks are not the only ones that the Bank faces. Additional risks not currently known to the Bank or those which the Bank currently believes are immaterial may also impair its business operations. The Bank's business, financial condition or results of operations could be materially adversely affected by any of these risks.

Risks Relating to the Bank's Business

Difficult conditions and turbulence in the Korean and global economy and financial markets may adversely affect the Bank's business, asset quality, capital adequacy and earnings.

Most of the Bank's assets are located in, and the Bank generates most of its income from, Korea. Accordingly, the Bank's business and profitability are largely dependent on the general economic and social conditions in Korea, including interest rates, inflation, exports, personal expenditures and consumption, unemployment, demand for business products and services, debt service burden of households and businesses, the general availability of credit, the asset value of real estate and securities and other factors affecting the financial well-being of the Bank's corporate and retail customers.

The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy. In light of the ongoing general economic weakness and political turbulence in Europe, signs of cooling economy for China and the continuing political instability in the Middle East and the former republics of the Soviet Union, including Russia, among others, significant uncertainty remains as to the global economic prospects in general and has adversely affected, and may continue to adversely affect, the Korean economy. In addition, as the Korean economy matures, it is increasingly exposed to the risk of a "scissor effect", namely being pursued by competitors in less advanced economies while not having fully caught up with competitors in advanced economies, which risk is amplified by the fact that Korean economy is heavily dependent on exports. The Korean economy also continues to face other difficulties, including sluggishness in domestic consumption and investment, weakness in the real estate market, rising household debt, potential declines in productivity due to aging demographics and a rise in youth unemployment. Any future deterioration of the global and Korean economies could adversely affect the Bank's business, financial condition and results of operations.

In particular, difficulties in financial and economic conditions could result in significant deterioration in the quality of the Bank's assets and accumulation of higher provisioning, allowances for loan losses and charge-offs as an increasing number of the Bank's corporate and retail customers declare bankruptcy or insolvency or otherwise face increasing difficulties in meeting their debt obligations. For example, during the recent global financial crisis in 2008 to 2009, the Bank's delinquent and non-performing loans increased significantly before returning largely to pre-crisis levels in 2009 due in part to the Bank's preemptive measures and improvements in the general economy. In 2011 and 2012, the continuing slump in the real estate market and the shipbuilding industry led to increased delinquency among the Bank's corporate borrowers in the construction, real estate leasing, shipbuilding and shipping industries (and in certain cases, even insolvency, corporate restructurings and/or voluntary arrangements with creditors, as was the case for the current and former member companies of the STX Group and Keangnam Enterprises Co., Ltd., to which the Bank has limited exposure). The sustained slump in the real estate market also led to increased delinquency among the Bank's retail borrowers, and in particular, borrowers with collective loans for pre-sale of newly constructed apartment units. Accordingly, the Bank's delinquency ratio (based on delinquency of one or more month) was 0.61% in 2012, before decreasing to 0.39% in 2013 and decreasing further to 0.31% in 2014 primarily due to the Bank's active efforts to reduce its exposure to such troubled industries and other at-risk borrowers through preemptive risk management policies and increased lending to borrowers with high-quality credit profiles as part of the Bank's strategic initiative to improve its asset quality. There is no assurance, however, that the Bank will not experience further loan losses from borrowers in these industries since the quality of their assets may further deteriorate due to the continued slump in these industries or for other reasons.

Moreover, as was the case during the recent global financial crisis, depending on the nature of the difficulties in the financial markets and general economy, the Bank may be forced to scale back certain of its core lending activities and other operations and/or borrow money at a higher funding cost or face a tightening in the net interest spread, any of which may have a negative impact on its earnings and profitability. Furthermore, while the Bank currently maintains its capital adequacy ratio at a level higher than the required regulatory minimum, there is no guarantee that an even higher capital requirement will not be imposed by the Government in case of a renewed economic crisis. In addition, given the highly integrated nature of financial systems and economic relationships worldwide, there may be other unanticipated systemic or other risks that may not be presently predictable. Any of these risks if materialized may have a material adverse effect on the Bank's business, liquidity, financial condition and results of operations.

Competition in the Korean financial services industry is intense, and may further intensify.

Competition in the Korean financial services industry is, and is likely to remain, intense, including as a result of the sustained low interest rate environment (which narrows opportunities to make profit based on the spread between lending rates and funding rates), the continuing sluggishness in the general economy, the growing maturation and saturation of the industry as a whole, the entry of new market participants and deregulation, among others. The Bank competes principally with other national commercial banks in Korea, but also faces competition from a number of additional banking institutions, including branches and subsidiaries of foreign banks operating in Korea, regional banks, government-owned development banks and Korea's specialized banks, such as Korea Development Bank, the Industrial Bank of Korea and the National Association of Agriculture and Fisheries, as well as various other types of financial service providers, including savings institutions (such as mutual savings and finance companies, credit unions and credit cooperatives), investment companies (such as securities brokerage firms, merchant banking corporations and asset management companies) and life insurance companies. As of December 31, 2014, Korea had seven major nationwide domestic commercial banks (including Citibank Korea Inc. and Standard Chartered Bank Korea Limited, both of which are domestic commercial banks acquired by global financial institutions), six regional commercial banks and branches and subsidiaries of 40 foreign banks. Foreign financial institutions, many of which have greater experiences and resources than the Bank does, may continue to enter the Korean market and compete with the Bank in providing financial products and services either by themselves or in partnership with existing Korean financial institutions.

In the small- and medium-sized enterprise and retail banking segments, which have been the Bank's traditional core businesses, competition is expected to increase further. In recent years, Korean banks, including the Bank, have increasingly focused on stable asset growth based on quality credit, such as corporate borrowers with high credit ratings, loans to "small office, home office" ("**SOHO**") with high levels of collateralization, and mortgage and home equity loans within the limits of prescribed loan-to-value ratios and debt-to-income ratios. This shift in focus toward stable growth based on less risky assets has intensified competition as banks compete for the same limited pool of quality credit by engaging in price competition or by other means. The Bank has traditionally focused, and will continue to focus, on enhancing profitability rather than increasing asset size or market share, and has avoided, to the extent practicable, engaging in price competition by way of lowering lending rates. In addition, such competition may result in lower net interest margin and reduced overall profitability, especially if the low interest rate environment were to continue for a significant period of time. Therefore, if competing financial institutions seek to expand market share by lowering their lending rates, the Bank may suffer customer loss, especially among customers who select their lenders principally on the basis of lending rates. In response thereto or for other strategic reasons, the Bank may subsequently lower its lending rates to stay competitive, which could lead to a decrease in its net interest margins and outweigh any positive impact on the net interest margin from a general rise in market interest rates. Any future decline in the Bank's customer base or its net interest margins could have an adverse effect on its financial condition and results of operations.

Consolidation among the Bank's rival institutions may also add competition in the markets in which the Bank conducts business. The Korean banking industry may undergo further consolidation either voluntarily or as part of government-led initiatives, including privatization, although the Government announced in March 2013 that it would no longer pursue privatization of Korea Development Bank and Industrial Bank of Korea. Some of the financial institutions resulting from these developments may, by virtue of their increased size, expanded business scope and more efficient operations, provide greater competition for the Bank. For example, partly to facilitate the sale of Woori Bank, one of the four leading commercial banks in Korea in terms of assets, Woori Financial Group was dissolved in November 2014 and was merged into Woori Bank, with all previous subsidiaries of Woori Financial Group currently being subsidiaries of Woori Bank. While recent efforts by the Government to sell Woori Bank have not been successful, the Government was able to sell Woori Investment & Securities, a leading brokerage firm, to the National Agricultural Cooperative Federation. If one of major competitors or a foreign financial institution were to acquire Woori Bank or any of its major operating subsidiaries, the consolidated entity may have a greater scale of operations, including a larger customer base, and financial resources than us, which may hurt the Bank's ability to compete effectively. In addition, in April 2013, Korea Exchange Bank became part of Hana Financial Group after acquisition of the former by the latter in February 2012, and in October 2014, Korea Exchange Bank entered into an agreement to be merged into Hana Bank, one of the major commercial banks in Korea. Any of these developments may place the Bank at a competitive disadvantage and outweigh any potential benefit to the Bank in the form of opportunities to acquire new customers who are displeased with the level of services at the newly reorganized entities or to provide credit facilities to corporate customers who wish to maintain relationships with a wide range of banks in order to diversify their sources of funding.

As the Korean economy further develops and new business opportunities arise, more competitors may enter the financial services industry. Furthermore, recently as online service providers with large-scale user networks, such as Daum Kakao, make significant inroads in providing virtual payment services through a system based on a growing convergence of financial services and technology commonly referred to as "fintech", competition for online customers is growing not just among commercial banks, but also from online service providers. Accordingly, the commercial banks are facing increasing pressure to upgrade their service platforms to attract and maintain online users, which represents a growing customer base compared to traditional customers who have primarily conducted banking in-person at physical banking branches. In addition, large non-financial institutions, such as mobile telecommunications companies, which on a combined basis service most of the Korean population, may expand entry into the Korean credit card and consumer finance businesses by way of convergence with the existing and future mobile telephone networks. Accordingly, a widespread consumer acceptance of mobile phone payment services in lieu of credit card services could add to competitive threat to the existing credit card service providers, including the Bank's credit card subsidiary.

Recently, following the global financial crisis, the Government has subjected Korean financial institutions to stricter regulatory requirements and guidelines in areas of asset quality, capital adequacy, liquidity and residential and other lending practices, which has had a dampening effect on competition. The FSC has recently implemented the capital requirements of Basel III, whose minimum requirements were phased in sequentially from December 1, 2013 for full implementation by January 1, 2015, based on the guidelines set forth in the amended Regulation on the Supervision of the Banking Business and the Detailed Regulation on the Supervision of the Banking Business. In addition, the FSC is currently implementing the Basel III requirements relating to liquidity coverage ratio which are to be phased in subsequently from January 1, 2015 for full implementation by January 1, 2019. The FSC also announced that it would implement the Basel III requirements relating to countercyclical capital buffer in 2016. However, there is no assurance that these measures will continue to curb competition or that the Government will not reverse or reduce such measures or introduce other deregulatory measures, which may further intensify competition in the Korean financial services industry.

If, despite its efforts to adopt to the changing macroeconomic environment and comply with new regulations, the Bank is unable to compete effectively in the changing business and regulatory environment, its profit margin and market share may erode and its future growth opportunities may become limited, which could adversely affect its business, financial condition and results of operations.

The Bank has significant exposure to small- and medium-sized enterprises, and financial difficulties experienced by such enterprises may result in a deterioration of its asset quality.

One of the Bank's core banking businesses has historically been and continues to be lending to small- and medium-sized enterprises (as defined in "*Business — Business Overview — The Bank's Principal Activities — Corporate Banking Services — Small- and Medium-sized Enterprises Banking*"). The Bank's loans to such enterprises amounted to ₩56,816 billion as of December 31, 2012, ₩60,596 billion as of December 31, 2013 and ₩66,258 billion as of December 31, 2014, representing 33.2%, 34.4% and 34.9%, respectively, of the Bank's total loan portfolio as of such dates.

Compared to loans to large corporations, which tend to be better capitalized and weather business downturns with greater ease, or loans to individuals and households, which tend to be secured with homes and with respect to which the borrowers are therefore less willing to default, loans to small- and medium-sized enterprises have historically had a relatively higher delinquency ratio. Many small- and medium-sized enterprises represent sole proprietorships or small businesses dependent on a relatively limited number of suppliers or customers and tend to be affected to a greater extent than large corporate borrowers by fluctuations in the Korean and global economy. In addition, small- and medium-sized enterprises often maintain less sophisticated financial records than large corporate borrowers. Therefore, it is generally more difficult for the Bank to judge the level of risk inherent in lending to these enterprises, as compared to large corporations. In addition, many small- and medium-sized enterprises are dependent on business relationships with large corporations in Korea, primarily as suppliers. Any difficulties encountered by those large corporations would likely hurt the liquidity and financial condition of related small- and medium- sized enterprises, including those to which the Bank has exposure, also resulting in an impairment of their ability to repay loans. As large Korean corporations continue to expand into China and other countries with lower labor costs and other expenses through relocating their production plants and facilities to such countries, such development may have a material adverse impact on such small- and medium-sized enterprises.

Financial difficulties experienced by small- and medium-sized enterprises as a result of, among other things, recent economic difficulties in Korea and globally and aggressive marketing and intense competition among banks to lend to this segment in recent years, coupled with the Bank's efforts to counter asset quality deterioration through conservative lending policy, have led to a fluctuation in the asset quality of the Bank's loans to this segment. As of December 31, 2012, 2013 and 2014, the Bank's delinquent loans to small- and medium-sized enterprises were ₩651 billion, ₩559 billion and ₩527 billion, respectively, representing delinquency ratios (net of charge-offs and loan sales) of 1.15%, 0.92% and 0.80%, respectively. If the ongoing difficulties in the Korean or global economy were to continue or further aggravate, the delinquency ratio of the Bank's loans to small- and medium-sized enterprises may rise significantly.

Of particular concern is the Bank's significant exposure to enterprises in the real estate and leasing and construction industries. As of December 31, 2014, the Bank had outstanding loans to enterprises in the real estate and leasing and construction industries (many of which are small- and medium-sized enterprises) of ₩17,639 billion and ₩3,148 billion, respectively, representing 9.30% and 1.66%, respectively, of the Bank's total loan portfolio as of such date. The Bank also has other exposure to borrowers in these sectors of the Korean economy, including extending guarantees for the benefit of such companies and holding debt and equity securities issued by such companies. In addition, the Bank has exposure to borrowers in the shipbuilding and shipping industries, which have yet to stage a meaningful turnaround.

The enterprises in the real estate development and construction industries in Korea, which are heavily concentrated in the housing market, continue to experience sluggish growth due to stagnant real estate demand and depressed real estate prices largely due to a combination of excessive supply of residential property, sustained efforts by the Government to stem speculation in the housing market, ongoing economic sluggishness in Korea and globally and the demographic changes in the Korean population. The Bank also has limited exposure to real estate project financing, particularly by construction companies that have built residential units in provinces outside the metropolitan Seoul area, which have experienced a relatively low rate of pre-sales, the proceeds from which the construction companies primarily rely on as a key source for liquidity and cash flow.

Any of the foregoing developments may result in deterioration in the asset quality of the Bank. See "*Description of Assets and Liabilities — Credit Exposures to Companies in Workout and Recovery Proceedings*". The Bank has been taking active steps to curtail delinquency among its small- and medium-sized enterprise customers, including by way of strengthening loan application review processes and closely monitoring borrowers in troubled sectors. Despite such efforts, there is no assurance that the delinquency ratio for the Bank's loans to small- and medium-sized enterprises will not rise in the future, especially if the Korean economy were to face renewed difficulties and as a result, the liquidity and cash flow of these borrowers deteriorate. A significant rise in the delinquency ratios among these borrowers would lead to increased charge-offs and higher provisioning and reduced interest and fee income, which would have a material adverse effect on the Bank's business, financial condition and results of operations.

A limited portion of the Bank's credit exposure is concentrated in a relatively small number of large corporate borrowers, and future financial difficulties experienced by them may have an adverse impact on the Bank.

Of the Bank's 10 largest corporate exposures as of December 31, 2014, three were companies that are or were members of the main debtor groups as identified by the Governor of the FSS, which are largely comprised of *chaebol*s. As of such date, the total amount of the Bank's exposures to the main debtor groups was ₩17,357 billion, or 9.6%, of its total exposure. As of that date, the Bank's single largest outstanding exposure to a main debtor group (mostly comprised of chaebols) amounted to ₩4,197 billion, or 2.32%, of its total exposures. See "*Description of Assets and Liabilities — Loan Portfolio — Exposure to Main Debtor Groups*". Largely due to the continued stagnation in the shipbuilding and construction industries, current and former member companies of the STX Group, one the leading conglomerates in Korea, entered into voluntary arrangements with their creditors (including the Bank) to improve their credit situation, and in October 2013, Keangnam Enterprises Co., Ltd., a large construction company in Korea, entered into workout proceedings. In October 2014, Dongbu Steel also entered into a voluntary arrangement with its creditors led by Korea Development Bank, but the Bank's exposure to this company remains limited. Partly as a result of its active past efforts to reduce exposure to the shipbuilding and construction sectors, the Bank currently has limited exposure to the aforementioned troubled companies However if the credit quality of the Bank's exposure to large corporations, including those in the main debtor groups, declines, the Bank may be required to record additional loan loss provisions in respect of loans and impairment losses in respect of securities, which would adversely affect its financial condition, results of operations and capital adequacy. The Bank cannot assure you that the allowances it has established against these exposures will be sufficient to cover all future losses arising from such exposures, especially in the case of a prolonged or renewed economic downturn.

In addition, according to the annual evaluation conducted pursuant to the Corporate Restructuring Promotion Act in relation to exposure to troubled companies (which examines each large corporation with credit exposure of ₩50 billion or more and small- to –medium enterprises with credit exposure of ₩5 billion to ₩50 billion), in 2012, the Bank had an aggregate exposure of ₩142.0 billion to four conglomerates (for which it set out provisions in the aggregate amount of ₩86 billion) and an aggregate exposure of ₩19 billion to one small- to medium-sized enterprise (for which it set out provisions in the aggregate amount of ₩19 billion), in 2013, the Bank had an aggregate exposure of ₩28 billion to two conglomerates (for which it set out provisions in the aggregate amount of ₩20 billion) and an aggregate exposure of ₩21 billion to two small- to medium-sized enterprises (for which it set out provisions in the aggregate amount of ₩15 billion) and in 2014, the Bank had an aggregate exposure of ₩177 billion to one conglomerate (for which it set out provisions in the aggregate amount of ₩118 billion) and an aggregate exposure of ₩234 billion to fifteen small- to medium-sized enterprises (for which it set out provisions in the aggregate amount of ₩105 billion).

As of December 31, 2014, six main debtor groups to which the Bank has credit exposure remained subject to restructuring programs or were otherwise making significant efforts to improve their financial conditions, such as by obtaining intragroup loans and entering into agreements to further improve their capital structures. There is no assurance that there will not be future restructuring with the Bank's major corporate customers or that such restructuring will not result in significant losses to the Bank with less than full recovery. In addition, bankruptcies or financial difficulties of large corporations, including *chaebol* groups, may have the adverse ripple effect of triggering delinquencies and impairment of the Bank's loans to small- and medium-sized enterprises that supply parts or labor to such corporations. If the Bank experiences future losses from its exposure to large corporations, including *chaebol* groups, it may have a material adverse impact on the Bank's business, financial condition and results of operations. See "*Description of Assets and Liabilities — Loan Portfolio — Exposure to Main Debtor Groups*".

Liquidity, funding management and credit ratings are critical to the Bank's ongoing performance.

Liquidity is essential to the Bank's business as a financial intermediary, and the Bank may seek additional funding in the near future to satisfy liquidity needs, meet regulatory requirements, enhance its capital levels or fund the growth of its operations as opportunities arise.

For example, Basel III includes an international framework for liquidity risk measurement, standards and monitoring, as noted above, including a new minimum liquidity standard, known as the liquidity coverage ratio ("**LCR**"), which is designed to ensure that banks have an adequate stock of unencumbered high quality liquid assets ("**HQLA**") that can be easily and speedily converted into cash in the private marketplace to survive a significant stress scenario lasting 30 calendar days. The LCR is computed as (a) the value of a banking organization's HQLA, divided by (b) its total expected net cash outflows over the next 30 calendar days under stress scenarios. The minimum LCR is 100%. In January 2013, the Basel Committee on Banking Supervision (the "**Basel Committee**") released a revised formulation of the LCR, one of two quantitative liquidity measures approved in December 2010 as part of Basel III. The Basel Committee extended the timetable for full phase-in of the LCR to the effect that the minimum LCR has become 60% as of January 1, 2015 and will thereafter rise by an annual increment of 10% so that the minimum LCR will be 100% as of January 1, 2019. In December 2014, the Financial Services Commission promulgated regulations to implement the liquidity requirements of Basel III, including raising the minimum LCR to 80% as of January 1, 2015 and will thereafter by an annual increment of 5% so that the minimum LCR for commercial banks in Korea will be 100% as of January 1, 2019.

A substantial part of the liquidity and funding requirements for the Bank is met through short-term customer deposits, which typically roll over upon maturity. While the volume of the Bank's customer deposits has generally been stable over time, customer deposits have from time to time declined substantially due to the popularity of other, higher-yielding investment opportunities, namely stocks and mutual funds, for example, during times of bullish stock markets. During such times, the Bank was required to obtain alternative funding at higher costs. There is no assurance that a similar development will not occur in the future. In addition in recent years, the Bank has faced increasing pricing competition from its competitors with respect to its deposit products. If the Bank does not continue to offer competitive interest rates to its deposit customers, it may lose its business from such customers, which has traditionally provided a stable and low-cost source of funding. In addition, even if the Bank is able to match its competitors' pricing, doing so may result in an increase in its funding costs, which may have an adverse impact on its results of operations.

The Bank also raises funds in capital markets and borrows from other financial institutions, the cost of which depends on market rates and the general availability of credit and the terms of which may limit its ability to pay dividends, make acquisitions or subject itself to other restrictive covenants. While the Bank currently is not facing liquidity difficulties in any material respect, if the Bank is unable to obtain the funding that it needs on terms commercially acceptable to it for an extended period of time for whatever reason, it may not be able to ensure its financial viability, meet regulatory requirements, implement its strategies or compete effectively.

Credit ratings affect the cost and other terms upon which the Bank is able to obtain funding. Domestic and international rating agencies regularly evaluate the Bank, and their ratings of the Bank's long-term debt are based on a number of factors, including its financial strength as well as conditions affecting the financial services industry and the Korean economy in general. There can be no assurance that the rating agencies will maintain the Bank's current ratings or outlooks or that the Bank will not experience a downgrade in its credit ratings and outlooks for reasons related to the general Korean economy or reasons specific to the Bank. Any downgrades in the Bank's credit ratings and outlooks will likely increase its cost of funding, limit its access to capital markets and other borrowings, or require it to provide additional credit enhancement in financial transactions, and could increase the amount of regulatory liquidity the Bank will be required to hold when Basel III liquidity requirements become effective, any of which could adversely affect its liquidity, net interest margins and profitability, and in turn, its business, financial condition and results of operations.

Changes in interest rates, foreign exchange rates, bond and equity prices, and other market factors have affected and will continue to affect the Bank's business.

The most significant market risks that the Bank faces are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realized between lending and borrowing costs. Changes in foreign currency exchange rates, particularly in the Won to U.S. dollar exchange rates, affect the value of the Bank's assets and liabilities denominated in foreign currencies, the reported earnings of the Bank's non-Korean subsidiaries and income from foreign exchange dealings, and substantial and rapid fluctuations in exchange rates may cause difficulty in obtaining foreign currency-denominated financing in the international financial markets on commercial terms acceptable to the Bank or at all. The performance of financial markets may affect bond and equity prices and, therefore, cause changes in the value of the Bank's investment and trading portfolios. While the Bank has implemented risk management systems to mitigate and control these and other market risks to which it is exposed, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects such changes could have on the Bank's business, financial condition and results of operations.

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

Since the onset of the global financial crisis in the second half of 2008, Korea, like many other countries, has experienced a low interest rate environment despite some marginal fluctuations, in part due to the Government's policy to stimulate the economy through active rate-lowering measures. Since January 1, 2011, the base interest rate set by the Bank of Korea has remained within the band between 1.75% and 3.25%. In March 2015, the base interest rate was set at the historic low of 1.75%.

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

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

The Bank is required to maintain its capital ratios above a minimum required level, and the failure to so maintain could result in the suspension of some or all of its operations.

The Bank, like other commercial banks in Korea, is required to maintain specified capital adequacy ratios. For example, effective January 1, 2015, the Bank is currently required to maintain a minimum Tier I capital adequacy ratio of 6.0%, and a total capital (BIS) ratio of 8.0%. These ratios measure the respective regulatory capital as a percentage of risk-weighted assets on a consolidated basis and are determined based on guidelines of the FSC. As of December 31, 2014, the Tier I capital adequacy ratio and the total capital (BIS) ratio of the Bank on a consolidated basis were 13.34% and 15.43%, respectively.

While the Bank currently maintains capital adequacy ratios in excess of the required regulatory minimum levels, the Bank may not be able to continue to satisfy its capital adequacy requirements for a number of reasons, including an increase in risky assets and provisioning expenses, substitution costs related to the disposal of problem loans, declines in the value of its securities portfolio, adverse changes in foreign currency exchange rates, changes in the capital ratio requirements, the guidelines regarding the computation of capital ratios, or the framework set by the Basel Committee upon which the guidelines of the FSC are based, or other adverse developments affecting the Bank's asset quality or equity capital.

In December 2010, the Basel Committee issued final rules in respect of (i) a global regulatory framework for more resilient banks and banking systems and (ii) an international framework for liquidity risk measurement, standards and monitoring, which together are commonly referred to as "Basel III". The new minimum capital requirements, including the minimum common equity Tier I requirement of 4.5% and additional capital conservation buffer requirement of 2.5%, are currently being implemented in phases until January 1, 2019. Additional countercyclical capital buffer requirements are also expected to be phased in starting in 2016, which will range at the discretion of national regulators between 0% and 2.5% of risk-weighted assets. Basel III introduces a minimum leverage ratio requirement that is currently proposed at 3% on a preliminary basis. The Basel Committee issued the full text of Basel III's leverage ratio framework and disclosure in January 2014. Public disclosure of the components of the leverage ratio is required starting January 1, 2015. The final calibration of the leverage ratio and any further adjustments to its definition are currently expected to be completed by 2017 and full compliance therewith is expected to be required beginning January 1, 2018. The Bank is currently in compliance with the Basel Committee's capital requirement for the trading book and complex securitization exposures. On January 13, 2011, the Basel Committee issued further minimum capital requirements to ensure that all classes of capital instruments fully absorb losses at the point of non-viability before taxpayers are exposed to loss. Instruments issued on or after January 1, 2013 may only be included in regulatory capital if the new requirements are met. The capital treatment of securities issued prior to this date will be phased out over a ten-year period commencing January 1, 2013.

The Regulation on the Supervision of the Banking Business was amended, effective December 1, 2013, to implement the capital requirements under Basel III in Korea. Under the amended Regulation on the Supervision of the Banking Business, commercial banks in Korea will be required to maintain a minimum total capital adequacy (BIS) ratio of 8.0%, a minimum common equity ratio of 4.5% and a minimum Tier I capital ratio of 6.0%, which minimum requirements were phased in from December 1, 2013 to the effect that commercial banks in Korea are required to comply with such ratios from January 1, 2015. The Regulation on the Supervision of the Banking Business was further amended, effective December 26, 2014, to implement the liquidity coverage ratio requirements under Basel III. Under the amended Regulation on the Supervision of the Banking Business, commercial banks in Korea are required to maintain a minimum liquidity coverage ratio of 100%, which minimum requirements will be phased in from January 1, 2015 to the effect that commercial banks in Korea are required to comply with such ratio from January 1, 2019. Capital conservation buffer requirements will be phased in from January 1, 2016 to the effect that commercial banks in Korea will be required to maintain a capital conservation buffer of 2.5% as of January 1, 2019.

The Bank is currently in compliance with Basel III requirements as implemented in Korea since December 1, 2013. New requirements under Basel III may require an increase in the Bank's credit risk capital requirements in the future, which may require the Bank to either improve its asset quality or raise additional capital.

There is no assurance that the Bank will continue to be able to be in compliance with Basel III requirements, and if the Bank's capital adequacy ratios were to fall below the required levels, the FSC might impose penalties ranging from a warning to suspension or revocation of its business licenses. In order to maintain the capital adequacy ratios above the required levels, the Bank may be required to raise additional capital through equity financing, but there is no assurance that it will be able to do so on commercially favorable terms or at all and, even if successful, any such capital raising may have a dilutive effect on the Bank's shareholders with respect to their interest in the Bank.

A decline in the value of the collateral securing the Bank's loans or the Bank's inability to fully realize the collateral value may adversely affect the Bank's credit portfolio.

Most of the Bank's mortgage and home equity loans are secured by borrowers' homes, other real estate, other securities and guarantees (which are principally provided by the Government and other financial institutions), and a substantial portion of the Bank's corporate loans are also secured, including by real estate. As of December 31, 2014, the secured portion of the Bank's loans amounted to ₩110,652 billion, or 58.3% of its total loans. There is no assurance that the collateral value will not materially decline in the future. The Bank's general policy for mortgage and home equity loans is to lend up to 40% to 70% of the appraised value of the collateral and to periodically re-appraise such collateral. However, in light of the sustained downturn in the real estate market in Korea, the value of the collateral may fall below the outstanding principal balance of the underlying mortgage loans. Borrowers of such under-collateralized mortgage loans may be forced to pay back all or a portion of such mortgage loans or, if unable to meet the collateral requirement through such repayment, sell the underlying collateral, which sales may lead to a further decline in the price of real estate in general and set off a chain reaction for other borrowers due to the further decline in the value of collateral. Declines in real estate prices reduce the value of the collateral securing the Bank's mortgage and home equity loans, and such reduction in the value of collateral may result in the Bank's inability to cover the uncollectible portion of its secured loans. A decline in the value of the real estate or other collateral securing the Bank's loans, or its inability to obtain additional collateral in the event of such decline, may result in the deterioration of its asset quality and require the Bank to make additional loan loss provisions. In Korea, foreclosure on collateral generally requires a written petition to a Korean court. Foreclosure procedures in Korea generally take seven months to one year from initiation to collection depending on the nature of the collateral, and foreclosure applications may be subject to delays and administrative requirements, which may result in a decrease in the recovery value of such collateral. There can be no assurance that the Bank will be able to realize the full value of collateral as a result of, among others, delays in foreclosure proceedings, defects in the perfection of collateral and general declines in collateral value. The Bank's failure to recover the expected value of collateral could expose it to significant losses.

Guarantees received in connection with the Bank's real estate financing may not provide sufficient coverage.

The Bank, alone or together with other financial institutions, provides financing to real estate development projects, which are concentrated largely in the construction of residential complexes. Developers in Korea commonly use project financing to acquire land and pay for related project development costs. As a market practice, lenders in project financing, including the Bank, generally receive from general contractors a performance guarantee for the completion of projects by the developers as well as a payment guarantee for the loans raised by a special purpose financing vehicle established by the developers in order to procure the construction orders, as the developers tend to be small and highly leveraged. As of December 31, 2014, the total outstanding amount of the Bank's real estate project financing-related exposure was approximately ₩1.8 trillion, which represents a significant decrease over the years as the Bank has actively reduced new exposures in this area in light of the sustained downturn in the Korean real estate market. However, if defaults were to significantly increase under the Bank's existing loans to real estate development projects and the general contractors fail to pay the guaranteed amount necessary to cover the amount of the Bank's financings, this may have an adverse effect on the Bank's business, financial condition and results of operations.

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

In the normal course of the Bank's banking activities, it makes various commitments and incurs certain contingent liabilities in the form of guarantees and acceptances. Financial guarantees, which are contracts that require the Bank to make specified payments to reimburse the beneficiary of the guarantee for a loss such beneficiary incurs because the debtor in respect of which the guarantee is given fails to make payments when due in accordance with the terms of the relevant debt instrument, are recognized initially at fair value, and such initial fair value is amortized over the life of the financial guarantee. Other guarantees are recorded as off-balance sheet items in the notes to the Bank's financial statements and those guarantees that the Bank has confirmed to make payments are recorded on the statements of financial position. As of December 31, 2014, the Bank had aggregate guarantees and acceptances of ₩15,109.8 billion, for which it provided allowances for losses of ₩107.0 billion.

Such guarantees and acceptances include refund guarantees provided by the Bank to shipbuilding companies, which involve guaranteeing a refund payment of the initial cash payment (typically 25% of the contract amount for ship orders) received by shipbuilders from buyers in the event that such shipbuilders are unable to deliver the ships in time or otherwise default under the shipbuilding contracts. Small- and medium-sized shipbuilding companies continue to face financial difficulties due to the sluggishness of the global economy and the resulting slowdown in shipbuilding orders, which has increased the risk that they may default on their shipbuilding contracts and the Bank may have to make payments under the refund guarantees. The refund guarantees provided by the Bank to small- and medium-sized shipbuilding companies amounted to ₩83 billion as of December 31, 2014. If there is significant deterioration in the quality of assets underlying the Bank's guarantees and acceptances, the Bank's allowances may be insufficient to cover actual losses resulting in respect of these liabilities, or the losses it incurs on the relevant guarantees and acceptances may be larger than the outstanding principal amount of the underlying loans.

The Bank may experience significant losses from its investments and, to a lesser extent, trading activities due to market fluctuations.

The Bank enters into and maintains large investment positions in fixed income products, primarily through its treasury and investment operations. These activities are described in "*Business — Business Overview — Corporate and Investment Banking Services — Treasury*" and "*— Securities Investment and Trading*". The Bank also maintains smaller trading positions, including equity and equity-linked securities and derivative financial instruments, as part of its banking operations. Taking these positions entails making assessments about financial market conditions and trends. The revenues and profits that the Bank derives from many of these positions and related transactions are dependent on market prices, which are beyond the Bank's control. When the Bank owns assets such as debt or equity securities, a decline in market prices, for example, as a result of fluctuating market interest rates or stock market indices, can expose it to trading and valuation losses. If market prices move in a way that the Bank has not anticipated, it may experience losses. In addition, when markets are volatile and subject to rapid changes in price directions, actual market prices may be contrary to the Bank's assessments and lead to lower than anticipated revenues or profits, or even result in losses, with respect to the related transactions and positions.

The Bank may generate losses from its commission- and fee-based business.

The Bank provides, and seeks to expand the offerings of, commission- and fee-based services. Downturns in stock markets typically lead to a decline in the volume of transactions that the Bank executes for its customers and, therefore, to a decline in its non-interest revenues. In addition, because the fees that the Bank charges for managing its clients' portfolios are often based on the size of the assets under management, a downturn in the stock market, which has the effect of reducing the value of its clients' portfolios or increasing the amount of withdrawals, also generally reduces the fees the Bank receives from its trust account management and other asset management services. Even in the absence of a market downturn, below-market performance by the Bank's various account services may result in increased withdrawals and reduced cash inflows, which would reduce the revenue it receives from these services. In addition, protracted declines in asset prices can reduce liquidity for assets held by the Bank and lead to material losses if the Bank cannot close out or otherwise dispose of deteriorating positions in a timely way or at commercially reasonably prices.

The Bank may incur losses associated with its counterparty exposures.

The Bank faces the risk that counterparties will be unable to honor their contractual obligations to the Bank. These parties may default on their obligations to the Bank due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from entering into swaps or other derivative contracts under which counterparties have obligations to make payments to the Bank or in executing currency or other trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. Any realization of counterparty risk may adversely affect the business, operations and financial condition of the Bank.

The Bank's risk management policies and procedures may not be fully effective at all times.

In the course of the Bank's operations, it must manage a number of risks, such as credit risks, market risks and operational risks. Although the Bank devotes significant resources to developing and improving its risk management policies and procedures and expects to continue to do so in the future, its risk management practices may not be fully effective at all times in eliminating or mitigating risk exposures in all market environments or against all types of risk, including risks that are unidentified or unanticipated. For example, from time to time, a limited number of the Bank's personnel have engaged in embezzlement of substantial amounts for an extended period of time before such activities were detected by the Bank's risk management systems. In response to these incidents, the Bank has strengthened its internal control procedures by, among others, implementing a real-time monitoring system, but there is no assurance that such measures will be sufficient to prevent similar employee misconducts in the future. Management of credit, market and operational risk requires, among others, policies and procedures to record properly and verify a large number of transactions and events, and the Bank cannot assure you that these policies and procedures will prove to be fully effective at all times against all the risks that the Bank faces.

Legal claims and regulatory risks arise in the conduct of the Bank's business.

In the ordinary course of the Bank's business, it is subject to regulatory oversight and potential legal and administrative liability risk. The Bank is also subject to a variety of other claims, disputes, legal proceedings and government investigations in Korea and other jurisdictions where it is active. These types of proceedings expose the Bank to substantial monetary damages and legal defense costs, injunctive relief, criminal and civil penalties and the potential for regulatory restrictions on its businesses. The outcome of these matters cannot be predicted and they could adversely affect the Bank's future business.

The Bank, like many other commercial banks in Korea, is currently subject to litigation in relation to investment products known as "**KIKOs**". KIKOs, which stands for "knock-in knock-out," are foreign currency derivative products under the terms of which the seller is obligated to pay the buyer a certain amount if the Korean Won depreciates beyond a certain level and the buyer is obligated to pay the seller a certain amount if the Korean Won appreciates beyond a certain level. Intended as a hedging instrument, these products were sold to mostly small businesses primarily prior to the onset of the global financial crisis in 2008, but when the Korean Won significantly and suddenly depreciated during the global financial crisis, the investors became obligated to pay a substantial sum to the banks, including the Bank. Subsequently, the investors brought suit to nullify the contracts on grounds of imperfect sale alleging failure on the part of the selling banks to fully disclose the associated risk. As of December 31, 2014, the courts had conclusively found in the Bank's favor in 45 of 54 KIKO-related cases and at least partially against the Bank in the remaining nine cases. As of December 31, 2014, six KIKO-related cases were in proceeding for which the aggregate amount of claims in dispute was ₩43.4 billion and the Bank set aside ₩6.2 billion as allowance in respect of such claims. While it is difficult to predict the outcome of each lawsuit against the Bank, as it will ultimately depend on the specific facts and circumstances underlying such lawsuit, if the courts rule against the Bank, the lawsuits may have a material adverse effect on the Bank's business, financial condition and results of operations.

While the Bank plans to rigorously defend its positions in the foregoing lawsuits, it is difficult to predict the final outcome of litigation. The total amount in dispute may increase during the course of litigation and other lawsuits may be brought against the Bank based on similar allegations. Accordingly, these lawsuits, especially if the courts finally rule against the Bank, may have a material adverse effect on the Bank's business, financial condition and results of operations. In addition, while in response to the past or current claims or in order to prevent future legal claims the Bank has implemented extensive employee training and other operational procedures to provide adequate disclosure, prevent unfair inducement and otherwise comply with all relevant laws and regulations, the Bank cannot assure you that, despite due training and other preventive measures, all of the Bank's employees in charge of such sales have not breached disclosure requirements, engaged in unfair inducement or committed similar acts or will not do the same in the future and, as a result, the Bank may face additional claims or litigation in the future, which may have a material adverse effect on the Bank's business, reputation, financial condition and results of operations.

Labor unrest may adversely affect the Bank's operations.

As of December 31, 2014, 9,919 employees were members of a labor union, and to date, the Bank has not experienced any significant difficulties in its relationships with the integrated union in connection with the merger. However, any significant labor unrest in the Korean financial industry or other sectors of the Korean economy could adversely affect the Bank's operations, as well as the operations of many of the Bank's customers and their ability to repay their loans, and could affect the financial conditions of Korean companies in general, and depress the prices of securities on the Korea Exchange, the value of unlisted securities and the value of the Won relative to other currencies. Such developments would likely have an adverse effect on the Bank's business, financial condition, results of operations and capital adequacy.

The Bank may experience disruptions, delays and other difficulties relating to its information technology systems.

The Bank relies on its information technology systems to seamlessly provide its wide-ranging financial services as well as for its daily operations, including billing, online and offline financial transactions settlement and record keeping. The Bank continually upgrades, and makes substantial expenditures to upgrade, its group-wide information technology system, including in relation to customer data-sharing and other customer relations management systems, particularly in light of the heightened cyber security risks from advances in technology. Despite the Bank's best efforts, however, it may experience disruptions, delays, cyber or other security breaches or other difficulties relating to its information technology systems, and may not timely upgrade its systems as currently planned. Any of these developments may have an adverse effect on the Bank's business, particularly if its customers perceive it to not be providing the best-in-class cyber security systems and failing to timely and fully rectify any glitches in the Bank's information technology systems.

The Bank's activities are subject to cyber security risk.

The Bank's activities have been, and will continue to be, subject to an increasing risk of cyber-attacks, the nature of which is continually evolving. Cyber security risks include unauthorized access, through system-wide "hacking" or other means, to privileged and sensitive customer information, including passwords and account information and illegal use thereof. The cyber security risk is generally on the rise as a growing number of the Bank's customers increasingly rely on its Internet- and mobile phone-based banking services for various types of financial transactions, the public is developing heightened awareness about the importance of keeping their personal data private and the financial regulators are placing greater emphasis on personal data protection by financial service providers. While the Bank vigilantly protects customer data through encryption and other security programs, there is no assurance that such data will not be subject to future security breaches. The Bank has made substantial investments to build and upgrade its systems and defenses to address the growing threats from cyber-attacks which are increasingly becoming sophisticated based on evolving technology.

The Bank is fully committed to maintaining the highest standards of cyber security and consumer protection measures and upgrading them continually. The Bank believes that its ISO 27001-certified security management system is among the best-in-class in the industry. The Bank's security management system continuously monitors for signs of potential cyber-attacks, and is designed to provide early warning alerts to enable prompt action by the Bank. The Bank also provides intensive employee training to its information technology staff and other employees on cyber security and has adopted advanced security infrastructure (including through hiring a highly competent team of information security experts) for online financial services such as mandatory website certification and keyboard security functions. In addition, in compliance with applicable regulations the Bank has recently obtained insurance to cover cyber security breaches up to ₩2 billion. In addition, in light of the growing use of smart phones and other mobile devices to access financial services, the Bank has implemented security measures to provide a secure mobile banking service as well as to prevent illegal leakage or sharing of customer data and otherwise enhance customer privacy.

For example, in December 2013 it was reported that there was a leakage of personal information of approximately 130,000 customers of Standard Chartered Bank and Citibank in Korea, which leakage was attributed to a third party sub-contractor in the case of Standard Chartered Bank, and an employee in the case of Citibank. In addition, in January 2014, it was reported that there was a leakage of personal information of approximately 100 million customers of NH Card, Lotte Card and KB Card in Korea due to illegal access to such information by an employee of a third party credit information company in the course of developing information technology programs for these three credit card companies. In March 2013, the Bank experienced a temporary interruption in providing online financial services due to large-scale cyber-attacks on the security systems of major broadcasting networks and financial institutions in Korea by sources that have yet to be identified. The interruption of the Bank's online financial services lasted approximately 90 minutes, after which the Bank's online system resumed without further malfunction. The FSS conducted an investigation into the incident and found that the Bank's information technology administrator account and vaccine server had been improperly maintained. As a result, in December 2013, the FSS notified the Bank of an institutional caution (which does not give rise to significant sanctions unlike in the case of repeated institutional warnings), and imposed disciplinary actions against five of the Bank's employees. The Bank does not believe such incident resulted in any material loss or leakage of customer information or other sensitive data.

Other than the recent cyber security attack as discussed above, the Bank has not experienced any material security breaches in the past. Furthermore, the Bank is actively taking steps to implement preventive and other steps recommended or required by the regulatory authorities in relation to actual and potential financial scams. However, major financial institutions in Korea, including the Bank, have fallen victim to cyber security attacks in the past, and given the unpredictable and continually evolving nature of cyber security threats due to advances in technology or other reasons, there is no assurance that, notwithstanding the Bank's best efforts at maintaining the best-in-class cyber security systems, the Bank will not be vulnerable to major cyber security attacks in the future. In addition, there can be no assurance that the Bank will not experience a leakage of customer information or other security breaches in the future as a result of illegal activities by its internal employees, outside consultants or hackers, or otherwise.

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

Risks Relating to Law, Regulation and Government Policy

The Bank is a heavily regulated entity and operates in a legal and regulatory environment that is subject to change, and violations could result in penalties and other regulatory actions.

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

Upon implementation of the proposed Financial Consumer Protection Act (currently pending at the National Assembly for a vote), customers of financial services will be entitled to heightened investor protection measures, including additional remedies in the case of "imperfect sales" of financial products based on inadequate disclosure or unfair inducement, such as mandatory compensatory damages, right of rescission, class action eligibility and double damages in case of a statutory violation. The Bank may also become subject to other restrictions on its operations as a result of future changes in laws and regulations, including more stringent liquidity requirements under Basel III, which will be adopted in phases in Korea in consideration of, among other things, the pace and scope of international adoption of such requirements. Any of these regulatory developments may have a material adverse effect on the Bank's ability to expand operations or adequately manage its risks and liabilities.

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

The FSC conducted a comprehensive audit of the Bank from November to December 2012, and in July 2013 notified the Bank of an institutional caution (which does not give rise to significant sanctions unlike in the case of repeated institutional warnings), imposed disciplinary actions against 65 Bank employees and assessed a fine of ₩87.5 million after finding that the Bank had illegally monitored customer accounts, breached confidentiality with respect to certain financial transactions and violated its obligation to disclose and report to the FSC an investment in an affiliated company of the Bank. Furthermore, in March 2013 the FSC conducted a special audit of the Bank as to incidents of alleged malfunctioning of the Bank's financial computer network and in December 2013, notified the Bank of an institutional caution and imposed disciplinary actions against five Bank employees after finding that the Bank did not properly maintain its information technology administrator account and vaccine server. In October 2013, the FSC also conducted a special audit of the Bank as to incidents of alleged illegal monitoring of customer accounts, and in February 2014, the Prosecutor's Office in Korea also commenced an investigation of the Bank with respect to same. As of the date of this offering circular, neither the FSC nor the Prosecutor's Office has announced the results of its respective investigations.

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

The Government may encourage targeted lending to certain sectors in furtherance of policy objectives, and the Bank may take this factor into account.

The Government has encouraged and may in the future encourage targeted lending to certain types of enterprises and individuals in furtherance of government initiatives. The Government, through its regulatory bodies such as the FSC, from time to time announces lending policies to encourage Korean banks and financial institutions, including the Bank, to lend to particular industries, business groups or customer segments, and, in certain cases, has provided lower cost funding through loans made by the Bank of Korea for further lending to specific customer segments. For example, the Government has taken and is taking various initiatives to support small- and medium-sized enterprises and low-income individuals, who were disproportionately affected by the downturn in the Korean and global economy in the late 2000s and have yet to fully recover.

For example, the FSS has recently encouraged banks in Korea to increase lending to small- and medium-sized enterprises in order to ease the financial burden on such enterprises amid sluggish economic recovery, and partly as a result of government policy, in February 2015, banks in Korea announced their commitment to increase lending to small- and medium-sized enterprises by ₩38.4 trillion in the aggregate (comprised of a ₩19.9 trillion commitment by major commercial banks, ₩6.8 trillion commitment by regional banks and a ₩11.7 trillion commitment by government-controlled policy banks) by the end of 2015 from ₩522.4 trillion as of December 31, 2014 in anticipation of growing liquidity difficulties among such enterprises in light of the sustained sluggishness of the general economy. The financial regulators have also adopted several measures designed to improve certain lending practices of the commercial banks which practices were perceived as having an unduly prohibitive effect on extending loans to small- to medium-sized enterprises. In addition, as a way of supporting the Government's initiative to assist promising start-ups and venture companies, in February 2015 the financial regulators announced that they would encourage the banks in Korea to increase lending to technology companies in the small- to medium-sized enterprise segment by an annual target of ₩20 trillion and to enhance technology-related credit review capabilities. Furthermore, in February 2014, the FSC announced that it plans to increase fixed interest rate housing loans and installment principal repayment-based housing loans each as a proportion of the housing loans extended by commercial banks (which loans have historically been, for the most part, variable interest rate loans with the entire principal being repaid at maturity, which is usually rolled over on an annual basis). According to this plan, the target proportion for the fixed interest rate, installment principal repayment housing loans was 20% by the end of 2014, 25% by the end of 2015, 30% by the end of 2016 and 40% by the end of 2017. In addition, an expanded tax deduction limit for interest repayment will be granted for loans with maturity of 10 years or more (compared to 15 years or more prior to this plan). According to the assessment by the FSC in January 2015 of the restructured housing loans by banks in Korea as of December 31, 2014, fixed interest rate and installment principal repayment-based housing loans accounted for 23.6% and 26.5%, respectively, exceeding target proportions for 2014. The FSC announced that it would continue to examine whether banks meet their targets on an annual basis.

The Bank, on a voluntary basis, may factor the existence of such policies and encouragements into consideration in making loans although the ultimate decision whether to make loans remains with the Bank and is made based on its internal credit approval procedures and risk management systems independently of Government policies. In addition, in tandem with providing additional loans to small- and medium-sized enterprises and low-income individuals, the Bank takes active steps to mitigate the potential adverse impacts from making bad loans to enterprises or individuals with high risk profiles as a result of such arrangement, such as by strengthening its loan review and post-lending monitoring processes. However, the Bank cannot assure you that such arrangement did not or will not, or similar or other government-led initiatives in the future will not, result in a suboptimal allocation of the Bank's loan portfolio from a risk-reward perspective compared to what the Bank would have allocated based on purely commercial decisions in the absence of such initiatives. The Government may implement similar or other initiatives in the future to spur the overall economy or encourage the growth of targeted industries or relief to certain segments of the population. Specifically, the Government may introduce lending-related initiatives or enforce existing ones in a heightened fashion during times when small- and medium-sized enterprises or low-income households on average are facing an increased level of financial distress or vulnerability due to an economic downturn, which makes lending to them in the volume and the manner suggested by the government even riskier and less commercially desirable. Accordingly, such policy-driven lending may create enhanced difficulties for the Bank in terms of risk management, deterioration of its asset quality and reduced earnings, compared to what would have been in the absence of such initiatives, which may have an adverse effect on its business, financial condition and results of operations.

The Government may also encourage investments in certain institutions in furtherance of policy objectives, and the Bank may not recoup its investments therein in a timely or otherwise commercially reasonable manner.

In addition to targeted lending, the Government may from time to time encourage or request the financial institutions in Korea, including the Bank and its subsidiaries to make investments in or provide other forms of financial support to certain institutions in furtherance of the Government's policy objectives. In response thereto, the Bank has made and will continue to make the ultimate decision on whether, how and to what extent it will comply with such encouragements or requests based on its internal risk assessment and in accordance with its risk management systems and policies. At the same time, as a leading member of the financial service industry in Korea and as a responsible corporate citizen the Bank will also fully give due consideration to such encouragements or requests from the Government, especially in relation to the long-term benefit arising from furthering the policy objective of maintaining a sound financial system, even if complying with such requests may involve additional short-term costs and risks to a limited extent.

For example, in order to reduce non-performing assets from mostly real-estate project financings primarily affecting mostly lower-tier commercial banks and savings banks, in June 2011, the Government established the

United PF 1st Recovery Private Equity Fund (the "**Fund**"), a joint-stock private equity fund sponsored by United Asset Management Company Ltd. ("**UAMCO**"), a government-invested enterprise and the largest purchaser in Korea of non-performing financial assets generally, and eight major policy and commercial banks, namely Korea Development Bank, Industrial Bank of Korea, Woori Bank, Kookmin Bank, Nonghyup Bank, the Bank, Hana Bank, Korea Exchange Bank (now merged into Hana Bank). While the Bank holds a 10.65% equity interest in the Fund, the Bank, like the other six banks, is a limited partner and does not have any involvement in the management or day-to-day operations of the Fund. UAMCO is a limited liability company whose shareholders are the six banks that have made capital contributions to the Fund (namely, the Bank, Kookmin Bank, Hana Bank, Nonghyup Bank, Industrial Bank of Korea and Woori Bank) acts within the scope of delegated authorities as expressly set out in the Fund's articles of incorporation, namely in relation to asset and liabilities management, investment decisions and distributions of the Fund's assets, among others.

Under the Fund's articles of organization, the activities of the general partner are subject to supervision by an advisory committee consisting of representatives of each of the limited partners (which may not be a general partner), and the advisory committee may express a non-binding view on the activities of the managing partner. If the managing partner breaches law or material articles of the Fund's articles of incorporation, the advisory committee, with the consent from members representing two-thirds or more of the equity interests in the Fund, may suspend such managing partner's activities relating to the operation and management of the Fund.

The Fund is funded with capital contributions and loans from the aforesaid nine sponsors in the aggregate amount of ₩1,828 billion (consisting of ₩1,400 billion in capital contributions and ₩428 billion in loans) as of December 31, 2014, of which the Bank is obligated to make capital contributions up to ₩149 billion (representing a 10.65% equity interest in the Fund in the form of common shares) and loans of ₩19.4 billion (representing 4.5% of the total loans made by the sponsors) as of December 31, 2014. While the Bank, together with other sponsors, may be requested to make, on a prorated basis based on their relative shareholdings, additional capital contributions and loans upon further purchase by the Fund of non-performing assets from project financings, the Bank had made capital contributions in the aggregate amount of ₩118.7 billion and fulfilled its capital contribution obligations as of December 31, 2014. The capital contributions made by the Bank to-date have not been subject to impairment since the underlying assets of the Fund, which primarily consist of impaired loans, are purchased at fair value, and profits have subsequently been realized thereon either in the form of recovery from enhanced collection measures or capital gains upon resale thereof. The Bank currently does not plan to make additional capital contributions. The terms of the loans, including the interest rate and redemption provisions, are subject to further negotiation among the sponsors.

The objective of the Fund is to purchase non-performing assets from project financing companies, professionally manage such assets and later sell them at a profit once these assets have normalized. By doing so, the Fund is expected to enhance the asset quality of financial institutions with significant exposure to unsound project financings by transferring a part of such exposure from such institutions to the Fund, as well as help to normalize the project financing industry. The Fund is not backed by any government guarantee, and the Fund operates based on mutual agreement of the sponsors. The term of the Fund is five years, which may be extended at a general meeting of the sponsors. Upon liquidation of the Fund, each sponsor will be entitled to a share in the net assets of the Fund at the time of liquidation in proportion to their respective contributions to the Fund.

Since the establishment of the Fund in June 2011 up to December 31, 2014, the Bank had sold non-performing project financing assets in the aggregate amount of ₩179.1 billion to the Fund and recognized from such sales an aggregate loss of ₩56.2 billion before applying allowance for loan losses allocated to such assets and an aggregate profit of ₩7.7 billion after applying allowance for loan losses allocated to such assets. Subject to market conditions, the Bank may sell additional non-performing project financing assets to the Fund and use all or part of the proceeds for its future capital contribution or loan requirements. However, given the generally poor asset quality of its non-performing project financing assets, there is no assurance that the Bank will be able to sell such assets held by it on commercially reasonable terms or that the Fund will be able to attain its objective of selling the purchased project financing assets at a profit, in which case the Bank may not be able to recoup its investment in, or be repaid the loans to, the Fund fully or at all. There is no assurance that in furtherance of similar or other policy objectives, the Government may not request or otherwise encourage financial institutions in Korea, including the Bank, to provide similar or other investments or provide other financial support for which it is not duly compensated or otherwise take up additional risk that it would not normally have undertaken, which may have an adverse effect on its business, financial condition and results of operations.

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

Real estate comprises the most significant asset for a substantial number of households in Korea, and the movements of the housing price have generally had a significant impact on the direction of domestic economy. Accordingly, regulating housing prices, either in terms of attempting to stem actual or anticipated excessive speculation during times of a suspected housing price bubble and spur the pricing and/or volume of real estate transactions during times of a depressed real estate market by way of tax subsidy, guidelines to lending institutions or otherwise, has been a key policy initiative for the Government.

For example, during the early to mid-2000s, the Government adopted several regulatory measures, including in relation to retail banking, to stem a rise in speculation in real estate investments generally and in select areas. Some of the measures undertaken in the past include requiring financial institutions to impose stricter debt-to-income ratio and loan-to-value ratio requirements for mortgage loans for real property located in areas deemed to have engaged in a high level of speculation, raising property tax on real estate transactions for owners of multiple residential units, adopting a ceiling on the sale price of newly constructed housing units and recommending that commercial banks restrain from making further mortgage and home equity lending, among others. In addition, amid a prolonged slump in the housing market in Korea, in April 2013, the Government announced the Real Estate Comprehensive Countermeasure, which provides, among other things, for (i) reduced capital gains tax and (ii) exemption of acquisition tax for first-time homebuyers. Furthermore, in February 2014, the FSC announced that it plans to increase fixed interest rate, installment principal repayment-based housing loans as a proportion of the housing loans extended by commercial banks (which loans have historically been, for the most part, variable interest rate loans with the entire principal being repaid at maturity, which is usually rolled over on an annual basis). According to this plan, the target proportion for the fixed interest rate, installment principal repayment housing loans was 20% by the end of 2014 and will be 25% by the end of 2015, 30% by the end of 2016 and 40% by the end of 2017. In addition, under this plan, the income tax exemption for such loans increased from ₩15 million to ₩18 million. In addition, in July 2014 the Government imposed a maximum loan-to-value ratio of 70% in the case of housing loans for all financial institutions (compared to different loan-to-value ratios applied previously, depending on the location of the property and the type of the lender) and a maximum debt-to-income ratio of 60% for all financial institutions in respect of residential properties in the greater Seoul metropolitan area. Furthermore, in December 2014 the National Assembly also passed several bills that are designed to stimulate the real estate market.

While any Government measure that is designed to stimulate growth in the real estate sector may result in growth of, and improved profitability for, the Bank's retail lending business (particularly with respect to mortgage and home equity loans) at least for the short term, such measure could also result in unintended consequences, including potentially excessive speculation resulting in a "bubble" for the Korean real estate market and a subsequent market crash. In contrast, if the Government were to change the direction of its stimulative measures (for example, in order to preemptively curtail an actual or anticipated bubble in the real estate market), such change in policy may result in a contraction of the real estate market, a decline in real estate prices and consequently, a reduction in the growth of, and profitability for, the Bank's retail and/or other lending businesses, as well as otherwise have an adverse effect on the business, financial condition and results of operations or profitability of the Bank. See "*— Risks Relating to the Bank's Business — A decline in the value of the collateral securing the Bank's loans or the Bank's inability to fully realize the collateral value may adversely affect the Bank's credit portfolio.*"

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

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

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

The Bank is a corporation with limited liability organized under the laws of Korea. Substantially all of the Bank's directors and officers and other persons named in this offering circular reside in Korea, and all or a significant portion of the assets of the Bank's directors and officers and other persons named in this offering circular and substantially all of its assets are located in Korea. As a result, it may not be possible for investors to affect service of process within the United States, or to enforce against them or the Bank in the United States judgments obtained in United States courts based on the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.

Risks Relating to Korea

Unfavorable financial and economic conditions in Korea and globally may have a material adverse impact on the Bank's asset quality, liquidity and financial performance.

The Bank is incorporated in Korea, where most of its assets are located and most of its income is generated. As a result, the Bank is subject to political, economic, legal and regulatory risks specific to Korea, and its business, results of operations and financial condition are substantially dependent on developments relating to the Korean economy. As Korea's economy is highly dependent on the health and direction of the global economy, and investors' reactions to developments in one country can have adverse effects on the securities price of companies in other countries, the Bank is also subject to the fluctuations of the global economy and financial markets. Factors that determine economic and business cycles in the Korean or global economy are for the most part beyond the Bank's control and inherently uncertain. In addition to discussions of recent developments regarding the global economic and market uncertainties and the risks relating to the Bank as provided elsewhere in this section, factors that could hurt Korea's economy in the future include, among others:

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

- adverse change or increased volatility in macroeconomic indicators, including interest rates, inflation level, foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of U.S. Dollar, Euro or Japanese Yen or revaluation of the Renminbi), stock market indices and inflows and outflows of foreign capital;

- adverse developments in the economies of countries and regions that are Korea's important export markets (such as the United States, China and Japan) and deterioration in economic or diplomatic relations between Korea and its major trading partners or allies, including as a result of trading or territorial disputes or disagreements in foreign policy;

- continued sluggishness in the Korean real estate market;

- a continuing rise in the level of household debt and an increase in delinquency and credit default by retail or small- and medium-sized enterprise borrowers;

- a rise in unemployment or stagnation of real wages;

- an increase in social expenditures to support an aging population or decreases in productivity due to shifting demographics;

- social and labor unrest;

- a decline in consumer confidence and a slowdown in consumer spending and corporate investments;

- a widening fiscal deficit from a decrease in tax revenues and a substantial increase in the Government's expenditures for fiscal stimulus, unemployment compensation and other economic and social programs;

- political gridlock within the government or in the legislature, which prevents or disrupts timely and effective policy making;

- laws, regulations or other government actions (financial, economic or otherwise) that fail to achieve desired policy objectives, produce adverse unintended consequences or otherwise constrain or distort sound economic activities;

- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues, including in respect of certain chaebols; and

- any other developments that has a material adverse effect on the global or Korean economy, such geopolitical tensions (such as in the Crimea peninsula, certain former republics of the Soviet Union, the Middle East and the Korean peninsula), an act of war, a terrorist act, a breakout of an epidemic or natural or man-made disasters (such as the sinking of the Sewol ferry in April 2014, which significantly dampened consumer sentiment in Korea for months).

Any future deterioration of the Korean economy could have an adverse effect on the Bank's business, financial condition and results of operations.

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

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

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

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

- In April 2013, North Korea blocked access to the inter-Korean industrial complex in its border city of Gaesong and expelled Korean workers from the complex. In September 2013, however, Korea and North Korea reached an agreement and resumed operation of the Kaesong Industrial Complex, and have since made efforts to improve the business environment of the complex, including by building radio frequency identification data transfer systems and launching internet service, among others. In February 2014, the U.S. Congressional Research Service reported that Korea's approach toward the expansion and internationalization of the Kaesong Industrial Complex could conflict with U.S. legislative efforts to expand its sanctions on North Korea, and there is no assurance that the Korean government will not reverse or reduce such efforts at detente.

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

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

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

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

Risks Relating to the Notes

The Notes issued under the Program may have limited liquidity.

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

- prevailing interest rates;

- the Bank's results of operations, financial condition and prospects;

- the rate of exchange between Won and the currency of the Notes;

- political and economic developments in and affecting Korea and other regions;

- the financial condition and stability of the Korean financial and other sectors; and

- the market conditions for similar securities.

The Notes are not protected by various restrictive covenants.

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

The Notes are subject to transfer restrictions.

The Notes will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States, except to QIBs in reliance on the exemption provided by Rule 144A, to certain persons in offshore transactions in reliance on Regulation S, or, if available, pursuant to another exemption from, or in another transaction not subject to, the registration requirements of the Securities Act and, in each case, in accordance with applicable state securities laws. In addition, subject to the conditions set forth in the Notes and the Agency Agreement or otherwise specified in the applicable Pricing Supplement, a Note may be transferred only if the principal amount of Notes transferred is at least US$200,000. For a further discussion of the transfer restrictions applicable to the Notes, see "*Subscription and Sale and Transfer and Selling Restrictions*".

The implementation of Basel III guidelines may have an adverse effect on the position of the Noteholders.

In 2011, the Basel Committee on Banking Supervision, an international body comprised of senior representatives of bank supervisory authorities and central banks from 27 countries, finalized a comprehensive set of capital and liquidity standards, commonly referred to as "Basel III", for internationally active banking organizations. These new standards, currently scheduled to be implemented in phases for full adoption by 2019, will require banks to hold more capital, predominantly in the form of common equity. These standards also require Tier I and Tier II capital instruments to be loss-absorbing. The UK Prudential Regulation Authority has implemented the first phase of Basel III beginning January 2014, and U.S. regulators have implemented Basel III beginning in January 2014, with a delayed start for certain banking organizations in January 2015. The FSC implemented the capital requirements and liquidity coverage ratio requirements under Basel III beginning December 2013 and January 2015, respectively.

According to the Basel Committee, the terms and conditions of all non-common Tier I and Tier II instruments issued by an internationally active bank must have a provision that requires such instruments, at the option of the relevant banking authority, to either be written off or converted into common equity upon the occurrence of a trigger event unless:

(a) the governing jurisdiction of the bank has in place laws that (i) require such Tier I and Tier II instruments to be written off upon such event, or (ii) otherwise require such instruments to fully absorb losses before tax payers are exposed to loss;

(b) a peer group review confirms that the jurisdiction conforms with clause (a); and

(c) it is disclosed by the relevant banking authority and by the issuing bank, in issuance documents going forward, that such instruments are subject to loss under clause (a) of this paragraph.

A trigger event would be the earlier occurrence of: (1) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant banking authority.

In this regard, the Detailed Regulations on the Supervision of the Banking Business of Korea, which were amended on November 22, 2013 and implemented from December 1, 2013, require the terms and conditions of all non-common Tier I and Tier II instruments to have a provision that requires such instruments to be either permanently written off or converted into common shares upon the occurrence of the events where the FSC makes a decision that a write-off or conversion into common shares of such instruments or a public sector injection of capital or equivalent support, without which the bank would have become non-viable, is necessary or (i) the bank is designated as a "failing financial institution" under the Act on Structural Improvement of the Financial Industry of Korea or (ii) in case when the Act on Structural Improvement of the Financial Industry of Korea does not apply to such bank, the bank is designated as a "falling financial institution" under the Depositor Protection Act. However, the terms of any Subordinated Notes that may be issued under the Program do not contain such provision, and therefore the Subordinated Notes to be issued under the Program would not be recognized as Tier II instruments under the above regulations.

Risk Factors Relating to the Renminbi Notes

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

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

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

In respect of Renminbi foreign direct investments (**"FDI"**), the People's Bank of China (**"PBoC"**) promulgated the *Administrative Measures on Renminbi Settlement of Foreign Direct Investment* (the "**PBoC FDI Measures**") on October 13, 2011 as part of PBoC's detailed Renminbi FDI accounts administration system. The system covers almost all aspects in relation to FDI, including capital injections, payments for the acquisition of PRC domestic enterprises, repatriation of dividends and other distributions, as well as Renminbi denominated cross-border loans. On June 14, 2012, PBoC issued a circular setting out the operational guidelines for FDI. Under the PBoC FDI Measures, special approval for FDI and shareholder loans from PBoC, which was previously required, is no longer necessary. In some cases however, post-event filing with PBoC is still necessary.

On December 3, 2013, MOFCOM promulgated the *Circular on Issues in relation to Crossborder Renminbi Foreign Direct Investment* (the "**MOFCOM Circular**"), which became effective on January 1, 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM Circular, the appropriate office of MOFCOM and/or its local counterparts will grant written approval for each FDI and specify "Renminbi Foreign Direct Investment" and the amount of capital contribution in the approval. Unlike previous MOFCOM regulations on FDI, the MOFCOM Circular removes the approval requirement for foreign investors who intend to change the currency of its existing capital contribution from a foreign currency to Renminbi, or in relation to certain industries such as financial guarantee, financial leasing, micro-credit, auction, foreign invested investment companies, venture capital and equity investment vehicles, cement, iron and steel, electrolyze aluminum, shipbuilding and other industries regulated by the state. In addition, the MOFCOM Circular also clearly prohibits the FDI funds from being used for any investment in securities and financial derivatives (except for investment in the PRC listed companies as strategic investors) or for entrustment loans in the PRC.

The PBoC FDI Measures and the MOFCOM Circular, which are new regulations, are subject to interpretation and application by the relevant PRC authorities. There is no assurance that the PRC government will continue to gradually liberalize its control over cross-border Renminbi remittances in the future or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC.

Investors may be required to provide certifications and other information (including Renminbi account information) in order to be allowed to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Hong Kong, Singapore and Taiwan.

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

As a result of the restrictions by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside of the PRC is limited. Since February 2004, in accordance with arrangements between the PRC central government and the Hong Kong government, licensed banks in Hong Kong may offer limited Renminbi-denominated banking services to Hong Kong residents and designated business customers. Hong Kong residents are permitted to convert limited amounts of foreign currencies, including Hong Kong dollars, into Renminbi at such banks on a per-day basis. The PBoC has also established a Renminbi clearing and settlement mechanism for participating banks in Hong Kong. On July 19, 2010, further amendments were made to the Settlement Agreement on the Clearing of RMB Business between the PBoC and Bank of China (Hong Kong) Limited (the "**Renminbi Clearing Bank**") to further expand the scope of Renminbi business for participating banks in Hong Kong. Pursuant to the revised arrangements, all corporations are allowed to open Renminbi accounts in Hong Kong; there is no longer any limit on the ability of corporations to convert Renminbi; and there will no longer be any restriction on the transfer of Renminbi funds between different accounts in Hong Kong.

Currently, licensed banks in Singapore, Hong Kong and Taiwan may offer limited Renminbi-denominated banking services to Singapore residents, Hong Kong residents, Taiwan residents and specified business customers. The PBoC has now established a Renminbi clearing and settlement system for participating banks in Singapore, Hong Kong, Taiwan, London, Frankfurt, Seoul, Paris and Luxembourg through settlement agreements on the clearing of Renminbi business. Each of Industrial and Commercial Bank of China, Singapore Branch, Bank of China (Hong Kong) Limited and Bank of China, Taipei Branch, China Construction Bank (London) Limited, Bank of China, Frankfurt Branch, Bank of Communications, Seoul Branch, Bank of China, Paris Branch and Industrial and Commercial Bank of China Limited, Luxembourg Branch (each an "**Renminbi Clearing Bank**") has entered into settlement agreements with the PBOC to act as the Renminbi clearing bank in Singapore, Hong Kong, Taiwan, London, Frankfurt, Seoul, Paris and Luxembourg respectively.

However, the current size of Renminbi-denominated financial assets outside the PRC is limited. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBoC. The Renminbi Clearing Banks are only allowed to square their open positions with the Renminbi Clearing Bank after consolidating the Renminbi trade position of banks outside Singapore, Hong Kong, Taiwan, Frankfurt, London and Seoul that are in the same bank group of the participating banks concerned with their own trade position and the relevant Renminbi Clearing Bank only has access to onshore liquidity support from the PBoC to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement and Hong Kong residents of up to CNY20,000 per person per day and for the designated business customers relating to the Renminbi received in providing their services. The Renminbi Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services, and in such cases the participating banks will need to source Renminbi from the offshore market to square such open positions.

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

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

The value of Renminbi against the U.S. dollar and other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors.

The Bank will make all payments of interest and principal with respect to the Renminbi Notes in Renminbi unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the U.S. dollar or other foreign currencies, the value of the investment made by a holder of the Renminbi Notes in U.S. dollars or any other foreign currency terms will decline.

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

Except in the limited circumstances where the Renminbi is not available for delivery outside the PRC, all payments to investors in respect of the Renminbi Notes will be made solely (i) for so long as the Renminbi Notes are represented by global certificates held with the common depositary or common safekeeper, as the case may be, for Clearstream, Euroclear or the CMU Service, as the case may be, by transfer to a Renminbi bank account maintained in Hong Kong, or (ii) for so long as the Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations of Clearstream, Euroclear or the CMU Service, as the case may be. The Bank cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

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

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

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

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

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

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

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

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

CAPITALIZATION AND INDEBTEDNESS

The following table shows the Bank's consolidated indebtedness and capitalization as of December 31, 2014. Except for the U.S. dollar amounts, this information has been derived from the Bank's audited consolidated financial statements as of and for year ended December 31, 2014 included in this offering circular.

	As of December 31, 2014	
	(in billions of Won)	*(in millions of U.S. dollars)*(1)
Liabilities:		
Financial liabilities designated at fair value through profit or loss	₩ 6	US$ 6
Deposits	189,640	172,525
Trading liabilities	429	390
Derivative liabilities	1,256	1,143
Borrowings	12,803	11,647
Debentures	16,581	15,085
Liability for defined benefit obligations	246	224
Provisions	299	272
Current tax liabilities	171	155
Deferred tax liabilities	9	8
Other liabilities	13,729	12,491
Total liabilities	₩235,169	US$213,946
Stockholder's equity:		
Capital stock, par value ₩5,000		
Authorized: 2,000,000,000 shares issued and outstanding: 1,585,615,506 fully paid common shares	₩ 7,928	US$ 7,213
Hybrid bond	1,100	1,001
Capital Surplus	403	366
Retained earnings	10,806	9,830
Accumulated other comprehensive income	237	216
Non-controlling interests	3	3
Total stockholder's equity	₩ 20,477	US$ 18,629
Total capitalization(2)	₩255,646	US$232,575

Notes:

(1) The U.S. dollar amounts have been translated into Won at ₩1,099.2 to US$1.00, the Market Exchange Rate as announced by Seoul Money Brokerage Services, Ltd. on December 31, 2014.

(2) Represents the sum of total liabilities and stockholder's equity.

SELECTED FINANCIAL INFORMATION

The following tables set forth the Bank's selected financial data. The selected financial data set forth below as of and for the years ended December 31, 2012, 2013 and 2014 (excluding U.S. dollar amounts) have been derived from the Bank's audited consolidated financial statements and related notes prepared in accordance with Korean IFRS included elsewhere in this offering circular. The selected financial data set forth below should be read in conjunction with the consolidated financial statements and related notes, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and other historical financial information included elsewhere in this offering circular.

The consolidated financial statements exclude the trust account management business except money trusts for which the Bank provides guarantees as to principal or as to both principal and interest.

Consolidated Financial Information

	For the Year Ended December 31,			
	2012	2013	2014	
	(in billions of Won)			*(in millions of U.S. dollars)*[(1)]
Statements of Comprehensive Income Information				
Interest income	₩10,456	₩ 9,087	₩ 8,513	US$ 7,745
Interest expense	(5,687)	(4,737)	(4,146)	(3,772)
Net interest income	4,769	4,350	4,367	3,973
Fees and commission income	1,016	945	971	884
Fees and commission expense	(200)	(196)	(168)	(154)
Net fees and commission income	816	749	803	730
Dividend income	81	66	93	85
Net trading income	117	(43)	(40)	(36)
Net foreign currency transaction gain (loss)	109	255	253	230
Net gain on sale of available-for-sale financial assets	314	486	428	389
Net impairment loss on financial assets	(894)	(877)	(684)	(622)
General and administrative expenses	(2,701)	(2,693)	(2,918)	(2,655)
Other operating expenses, net	(532)	(573)	(505)	(459)
Operation income	2,079	1,720	1,797	1,635
Net non-operating expenses	(19)	(14)	27	24
Equity in income of investments in associate	22	22	12	11
Income before income taxes	2,082	1,728	1,836	1,670
Income tax expense	426	355	380	346
Income from continuing operations	1,656	1,373	1,456	1,324
Income from discontinued operations	7	—	—	—
Net income for the period	1,663	1,373	1,456	1,324
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency transaction differences for foreign operations	(91)	(62)	5	4
Net change in fair value of available-for-sale financial assets	(47)	(305)	64	58
Equity in other comprehensive income of associates	7	(4)	4	4
Items that will be not reclassified subsequently to profit or loss:				
Remeasurement gain (loss) related to defined benefit plan	(5)	13	(132)	(119)
Other comprehensive loss for the period, net of income tax	(136)	(358)	(59)	(53)
Total comprehensive income for the period	₩ 1,527	₩ 1,015	₩ 1,397	US$ 1,271

Note:

(1) The U.S. dollar amounts have been translated into Won at ₩1,099.2 to US$1.00, the Market Exchange Rate as announced by Seoul Money Brokerage Services, Ltd. on December 31, 2014.

	As of December 31,			
	2012	2013	2014	
	(in billions of Won)			(in millions of U.S. dollars)(1)
Statements of Financial Position Information				
Assets				
Cash and due from banks	₩ 9,347	₩ 12,430	₩ 15,860	US$ 14,429
Trading assets	7,995	7,520	8,316	7,566
Derivative assets	1,844	1,458	1,309	1,191
Loans	169,699	174,689	188,325	171,330
Available-for-sale financial assets	28,317	24,093	22,364	20,345
Held-to-maturity financial assets	9,224	7,434	8,012	7,289
Property and equipment	2,215	2,201	2,036	1,852
Intangible assets	181	226	180	164
Investments in associates	197	222	211	192
Investment property	545	597	739	672
Current tax assets	14	5	7	6
Deferred tax assets	17	49	91	82
Other assets	7,791	7,108	8,191	7,452
Assets held for sale	10	14	5	5
Total assets	₩237,396	₩238,046	₩255,646	US$232,575
Liabilities				
Financial liabilities designated at fair value through profit or loss	₩ —	₩ —	₩ 6	US$ 6
Deposits	₩170,009	₩175,021	189,640	172,525
Trading liabilities	484	399	429	390
Derivative liabilities	1,538	1,478	1,256	1,143
Borrowings	10,847	10,069	12,803	11,647
Debt securities issued	18,501	17,740	16,581	15,085
Liability for defined benefit obligations	165	67	246	224
Provisions	332	364	299	272
Current tax liabilities	151	148	171	155
Deferred tax liabilities	97	10	9	8
Other liabilities	14,935	12,214	13,729	12,491
Total liabilities	₩217,059	₩217,510	₩235,169	US$213,946
Total equity	₩ 20,337	₩ 20,536	₩ 20,477	US$ 18,629
Total liabilities and equity	₩237,396	₩238,046	₩255,646	US$232,575

Note:

(1) The U.S. dollar amounts have been translated into Won at ₩1,099.2 to US$1.00, the Market Exchange Rate as announced by Seoul Money Brokerage Services, Ltd. on December 31, 2014.

Selected Ratios

Except as otherwise indicated, the following ratios are calculated using the consolidated financial statements of the Bank for the years ended December 31, 2012, 2013 and 2014.

Profitability Ratios

	For the Year Ended December 31,		
	2012	2013	2014
	(in percentages)		
Net income as a percentage of:			
Average total assets[1]	0.70	0.57	0.59
Average stockholders' equity[1]	8.24	6.77	7.04
Net interest spread[2]	2.03	1.84	1.81
Net interest margin[3]	2.23	2.00	1.95
Cost-to-income ratio[4]	56.48	60.90	61.38
Efficiency ratio[5]	84.21	84.00	81.52
Cost-to-average-assets ratio[6]	4.65	3.79	3.30
Equity-to-average-asset ratio[7]	8.45	8.47	8.42

Notes:

(1) Based on the daily average balance of total assets or stockholders' equity. Total assets refer to total assets in the bank accounts.

(2) Net interest spread represents the difference between the yield on average interest-earning assets and cost of average interest-bearing liabilities.

(3) Net interest margin represents the ratio of net interest income to average interest-earning assets.

(4) Calculated as the ratio of general and administrative expenses to the sum of net interest income and net non-interest income (excluding general and administrative expenses).

(5) Efficiency ratio represents the ratio of non-interest expense to the sum of net interest income and non-interest income, a measure of efficiency for banks.

(6) Cost-to-average-assets ratio, a measure of cost of funding used by banks, represents the ratio of non-interest expense to average total assets.

(7) Equity-to-average-asset ratio represents the ratio of average stockholders' equity to average total assets.

Capital Ratios

	As of December 31,		
	2012[2]	2013[2]	2014[2]
	(in percentages)		
Total capital adequacy (BIS) ratio[1]	16.28	16.29	15.43
Tier I capital adequacy ratio[1]	13.82	13.94	13.34
Tier II capital adequacy ratio[1]	2.46	2.35	2.10

Notes:

(1) Computed on a consolidated basis pursuant to the guidelines of the FSC. See "*Supervision and Regulation — Principal Regulations Applicable to Banks — Capital Adequacy*".

(2) Computed pursuant to the guidelines set forth in the amended Regulation on the Supervision of the Banking Business implementing capital requirements of Basel III in Korea.

Asset Quality Ratios

The following asset quality ratios are presented on a separate basis.

	As of December 31,		
	2012	2013	2014
	(in billions of Won, except percentages)		
Substandard and below loans[1]	₩ 1,771	₩ 1,830	₩ 1,795
Substandard and below loans as a percentage of total loans	1.12%	1.15%	1.03%
Substandard and below loans as a percentage of total assets	0.78%	0.81%	0.74%
Precautionary loans as a percentage of total loans[2]	1.21%	0.84%	0.65%
Precautionary and below loans as a percentage of total loans[2]	2.33%	1.98%	1.67%
Precautionary and below loans as a percentage of total assets[2]	1.62%	1.40%	1.21%
Allowance for loan losses as a percentage of substandard and below loans	169.96%	156.31%	159.05%
Allowance for loan losses as a percentage of precautionary and below loans[2]	81.82%	90.37%	97.47%
Allowance for loan losses as a percentage of total loans	1.91%	1.79%	1.64%
Substandard and below credits as a percentage of total credits[3]	1.08%	1.16%	1.03%
Loans in Won as a percentage of deposits in Won[4]	97.43%	97.27%	97.58%

Notes:

(1) Substandard and below loans (other than loans provided from the Bank's trust accounts and confirmed guarantees and acceptances) are defined in accordance with the regulatory guidance in Korea. See "*Supervision and Regulation — Principal Regulations Applicable to Banks*".

(2) As defined by the FSC.

(3) Credits include loans provided from the Bank's trust accounts and confirmed guarantees and acceptances, as well as the total loan portfolio of the Bank's bank accounts.

(4) Loans in Won do not include bills bought in Won, advances for customers, bonds purchased under resale agreements, call loans, private placement corporate bonds and loans in restructurings that have been swapped for equity in the restructured borrower.

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

The following discussion and analysis should be read in conjunction with, and is qualified in its entirety by reference to, the Bank's consolidated financial statements and the notes thereto included elsewhere in this offering circular. Unless specified otherwise, all financial information set forth below is presented on a consolidated basis. The discussion contains forward-looking statements and reflects the Bank's current view with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth under "Risk Factors" and elsewhere in this offering circular.

Overview

The Bank is one of the leading commercial banks in Korea in terms of total assets, revenues, profitability and capital adequacy, among others. A flagship member of Shinhan Financial Group, one of the leading financial holding companies in Korea in terms of total assets, revenues, profitability and capital adequacy, among others, the Bank provides a wide range of commercial and other banking services to retail and corporate customers primarily in Korea and, to a lesser extent, in select overseas markets. The Bank is one of the largest lenders in Korea to small- and medium-sized enterprises. As of December 31, 2014, the Bank had 900 domestic branches and eight overseas branches as well as nine subsidiaries located in Japan, the People's Republic of China, Hong Kong, Vietnam, the United States, Canada, Germany, Cambodia and Kazakhstan.

Most of the Bank's assets are located in, and the Bank generates most of its income from, Korea. Accordingly, the Bank's business and profitability are largely dependent on the general economic and social conditions in Korea, including interest rates, inflation, exports, personal expenditures and consumption, unemployment, demand for business products and services, debt service burden of households and businesses, the general availability of credit, the asset value of real estate and securities and other factors affecting the financial well-being of the Bank's corporate and retail customers. The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy and financial markets. In recent years, the global economy and financial markets experienced hardship, which also had an adverse impact on the Korean economy and in turn on the Bank's business and profitability. See "*Risk Factors — Risks Relating to the Bank's Business — Difficult conditions and turbulence in the Korean and global economy and financial markets may adversely affect the Bank's business, asset quality, capital adequacy and earnings*".

In particular, difficulties in financial and economic conditions could result in significant deterioration in the quality of the Bank's assets and accumulation of higher provisioning, allowances for loan losses and charge-offs as an increasing number of the Bank's corporate and retail customers declare bankruptcy or insolvency or otherwise face increasing difficulties in meeting their debt obligations. In addition, the continuing slump in the real estate market and the shipbuilding and shipping industries have led to increased delinquency among the Bank's corporate borrowers in the construction, real estate leasing, shipbuilding and shipping industries (and in certain cases, even insolvency, corporate restructurings and/or voluntary arrangements with creditors, as was the case for the current and former member companies of the STX Group and Keangnam Enterprises Co., Ltd., to which the Bank has limited exposure). While the Bank has sought to actively reduce the Bank's exposure to such troubled industries through preemptive risk management policies, there is no assurance that the Bank will not experience further loan losses from borrowers in these industries since the quality of their assets may further deteriorate due to the continued slump in these industries or for other reasons. The Bank's delinquency ratio (based on one or more month of delinquency) increased from 0.48% in 2010 to 0.60% in 2011 and 0.61% in 2012, before decreasing to 0.39% in 2013 and decreasing further to 0.31% in 2014 primarily due to the Bank's active efforts to reduce its exposure to such troubled industries and other at-risk borrowers through preemptive risk management policies and increased lending to borrowers with high-quality credit profiles as part of the Bank's strategic initiative to improve its asset quality. Compared to the Bank's corporate banking business, the economic sluggishness had a less severe impact on the Bank's retail banking business. This was largely because the Bank's retail loans are mostly mortgage and home equity loans collateralized by residential properties and individuals and households traditionally are less prone to default on mortgage and home equity loans. The Bank's delinquency ratio for the retail sector decreased from 0.53% as of December 31, 2012 to 0.24% as of December 31, 2013 primarily due to the incremental recovery of the global and Korean economies and the Bank's active efforts to increase lending to borrowers with high-quality credit profiles as part of the Bank's strategic initiative to improve its asset quality. The Bank's delinquency ratio for the retail sector remained stable at 0.23% as of December 31, 2014.

The Bank derives most of its income from interest earned on its corporate and retail loans, net of funding costs (which primarily consist of interest payable on customer deposits). Net interest income is largely a function of the average volume of loans and the net interest spread thereon.

In 2013, the average volume of retail loans increased by 5.8% from 2012 largely due to an increase in long-term housing rental deposit loans in tandem with a rise in long-term housing rental prices and an increase in retail loans to high quality customers such as police officers and government employees, which more than offset a decrease in new home purchase mortgage loans due to a continued slump in the new housing market. In 2013, the average volume of corporate loans increased by 1.7%, largely because corporate borrowers increasingly resorted to debenture issuances through capital markets rather than bank borrowings as their primary funding source due to the ample liquidity in the Korean financial sector and low interest rates available for such debentures. In 2014, the average volume of retail loans grew by 5.7% from 2013, principally as a result of a continued increase in lending to borrowers with high credit profiles and government employees with relatively strong job security (such as police officers and firefighters) as part of the Bank's strategic initiative to increase the volume of lending while maintaining or improving the profit margin and asset quality for such lending, an increase in the volume of long-term housing rental deposit loans in tandem with a growing preference for long-term housing rental in lieu of home ownership due in part to the continued slump in the Korean real property market, and a substantial increase in the volume of secured housing loans in the second half of 2014 following the series of Government plans to stimulate the general economy and the real estate market through various monetary, fiscal and deregulatory measures as announced in the second half of 2014. In 2014, the average volume of corporate loans increased by 4.6% from 2013, largely due to relatively stable growth in loans to small- to medium-sized enterprises (which mainly resulted from heightened marketing focus on the good-quality smaller-sized enterprises that are not required to be audited by outside directors) and loans to large corporations (which mainly resulted from an increase in demand for facility loans and acquisition financing).

From 2012 to 2013, both the average yield on interest-earning assets and the average rate on interest-bearing liabilities decreased (with the former decreasing more than the latter due to the difference in relative maturity profiles) while the average balance increased for both interest-earning assets and interest-bearing liabilities. Largely due to the greater decrease in the average yield on interest-earning assets compared to that for the average rate on interest-bearing liabilities, the Bank's net interest income decreased by 8.7% from ₩4,768 billion in 2012 to ₩4,351 billion in 2013. Net interest income after provision for loan losses amounted to ₩3,950 billion and ₩3,677 billion in 2012 and 2013, respectively. The Bank's operating income also decreased by 17.2% from ₩2,078 billion in 2012 to ₩1,720 billion in 2013.

From 2013 to 2014, both the average yield on interest-earning assets and the average rate on interest-bearing liabilities decreased (with the former decreasing more than the latter due to the difference in relative maturity profiles), including as a result of the decreases in the base interest rate set by the Bank of Korea in August and October 2014, while the average balance increased for both interest-earning assets and interest-bearing liabilities. While the base rate decreases in 2014 had the impact of substantially narrowing the interest rate spread, such impact was largely offset by the increase in the average balance of loans as discussed above. As a result, the Bank's net interest income remained relatively stable from ₩4,351 billion in 2013 to ₩4,367 billion in 2014.

Net interest income after provision for loan losses increased by 6.1% from ₩3,677 billion in 2013 to ₩3,903 billion in 2014 due to a decrease in provisioning in reflection of the improvement of the Bank's overall asset quality. The Bank's operating income increased by 4.5% from ₩1,720 billion in 2013 to ₩1,797 billion in 2014.

Recent Developments and Outlook for the Korean Economy

During 2014, the global economy underwent divergent paths of growth, with the U.S. economy showing signs of stable and robust growth starting in the second half, while the rest of the world, such as China, Japan and Europe, experienced anemic growth or slowdown. Partly as a result of such developments, the U.S. government ended the quantitative easing program while China, Japan and Europe are likely to continue, if not strengthen, expansionary monetary policies. The Bank expects such divergence to continue in 2015. As for the Korean economy in 2014, it suffered a temporary slowdown in the first half due to the Sewol ferry incident which chilled consumer spending, but rebounded to a limited extent on the back of the government's stimulus policies in the second half.

In 2015, the Bank expects that the Korean economy will post limited growth assuming continuation of expansionary monetary policies by the Korean government and growth in exports, particularly into the United States. However, significant uncertainties remain, including in the form of the magnitude and speed of the tightening of the money supply by the U.S. government, potential deflation in the Euro zone, slowdown in Chinese and other emerging market economies and the escalation of geopolitical concerns surrounding the Middle East and Russia, and the ensuing risks for the international financial markets and the global economy, any of which may have a material adverse effect on the Korean economy.

As for interest rate movements, since the onset of the global financial crisis in the second half of 2008, Korea, like many other countries, has experienced a low interest rate environment despite some marginal fluctuations, in part due to the Government's policy to stimulate the economy through active rate-lowering measures. Since January 1, 2011, the base interest rate set by the Bank of Korea has remained within the band between 1.75% and 3.25%. In March 2015, the base interest rate was set at the historic low of 1.75%. In the remainder of 2015, given the existing low levels of interest rates, the Bank expects that the market interest rates in Korea will rise to a limited extent, assuming stable recovery of the Korean economy and the meaningful onset of monetary tightening by the U.S. government.

In 2014, major commercial banks in Korea generally experienced modest growth in terms of assets and revenues, principally due to a rebound in demand for loans from retail and corporate customers. The asset quality also improved to a limited extent in terms of both delinquency and non-performing loan ratio. However, net interest margin generally tightened for the commercial banks largely due to a decrease in the base rates set by the Korean government as well as intensifying competition among Korean banks, particularly in relation to certain qualified fixed rate and installment payment loans.

In 2015, the Bank expects Korean commercial banks to post modest loan growth in tandem with the expected growth in the overall Korean economy. The Bank also expects the asset quality for Korean commercial banks to remain largely stable in 2015 in light of preemptive debt restructuring and conservative provisioning over the recent years. However, in the case of a sharp or sustained rise in interest rates including as a result of a monetary tightening by the U.S. government as currently expected, credit risk may significantly increase in light of the high level of household debt in Korea.

The Bank is currently not aware of any major regulatory developments that may adversely affect the commercial banking industry in Korea. However, the prolonged low-interest rate environment has limited opportunities for commercial banks to generate profit by taking advantage of the differences between deposits and loans, and has fueled intense competition among major commercial banks for quality customers. Furthermore, as online service providers with large-scale user networks, such as Daum Kakao, make significant inroads in providing virtual payment services through a system based on a growing convergence of financial services and technology commonly referred to as "fintech", competition for online customers is growing not just among commercial banks, but also from online service providers. Accordingly, the commercial banks are facing increasing pressure to upgrade their service platforms to attract and maintain online users, which represents a growing customer base compared to traditional customers who have primarily conducted banking in-person at physical banking branches.

Interest Rates

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

The interest rate charged to customers by the Bank is based, in part, on the "cost of funding index", or COFIX, which is published by the Korean Federation of Banks. COFIX is computed based on the weighted average interest of select funding products (including time deposits, housing and other installment savings deposits, repos, discounted bills and senior non-convertible financial debentures) of nine major Korean banks (comprised of the Bank, Kookmin Bank, Woori Bank, Hana Bank, Korea Exchange Bank, Nonghyup Bank, Industrial Bank of Korea, Citibank Korea and Standard Chartered Bank Korea). Each bank then independently determines the interest rate applicable to its respective customers by adding a spread to the COFIX based on the difference between the COFIX and such bank's general funding costs, administration fees, the customer's credit score, the maturity of the loan and other customer-specific premiums and discounts based on the customer relationship with such bank. These interest rates are typically adjusted on a monthly basis.

The following table shows certain benchmark Won-denominated borrowing interest rates as of the dates indicated.

	Corporate Bond Rates(1)	Treasury Bond Rates(2)	Certificate of Deposit Rates(3)	COFIX Balance-Based(4)	COFIX New Borrowing-Based(5)
June 30, 2010	4.77	3.86	2.46	3.95	2.89
December 31, 2010	4.27	3.38	2.80	3.72	3.10
June 30, 2011	4.49	3.76	3.57	3.88	3.66
December 31, 2011	4.21	3.34	3.55	3.95	3.69
June 30, 2012	3.87	3.30	3.54	3.91	3.63
December 31, 2012	3.29	2.82	2.89	3.57	3.01
June 30, 2013	3.31	2.88	2.69	3.17	2.66
December 31, 2013	3.29	2.86	2.66	2.91	2.60
June 30, 2014	3.10	2.68	2.65	2.79	2.59
December 31, 2014	2.43	2.10	2.13	2.58	2.10

Source: Korea Financial Investments Association

Notes:

(1) Measured by the yield on three-year AA- rated corporate bonds.

(2) Measured by the yield on three-year treasury bonds.

(3) Measured by the yield on certificates of deposit (with maturity of 91 days).

(4) Measured based on the weighted average of the borrowing rates for the monthly ending balances of the funding made by the commercial banks that are subject of the COFIX reporting.

(5) Measured based on the weighted average of the borrowing rates for new funding for each month made by the commercial banks that are subject of the COFIX reporting.

Critical Accounting Policies

The preparation of the Bank's financial statements requires management to make judgments, involving significant estimates and assumptions, in the application of certain accounting policies about the effects of matters that are inherently uncertain. These estimates and assumptions, which may materially affect the reported amounts of certain assets, liabilities, revenues and expenses, are based on information available to the Bank as of the date of the financial statements, and changes in this information over time could materially impact amounts reported in the financial statements as a result of the use of different estimates and assumptions. Certain accounting policies, by their nature, have a greater reliance on the use of estimates and assumptions, and could produce results materially different from those originally reported.

Based on the sensitivity of financial statement amounts to the methods, estimates and assumptions underlying reported amounts, the Bank has identified the following significant accounting policies that involve critical accounting estimates. These policies require subjective or complex judgments, and as such could be subject to revision as new information becomes available. The Bank's significant accounting policies are described in more detail in Note 3 to its consolidated financial statements included in this offering circular.

Basis of Consolidation

Subsidiaries. Subsidiaries are investees controlled by the Bank. The Bank controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. If a member of the Bank uses accounting policies other than those adopted in the consolidated financial statements for the same transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Intra-group transactions eliminated on consolidation. Intra-group balances, transactions and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated against the investment to the extent of the Bank's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests. Non-controlling interests in a subsidiary are accounted for separately from the parent's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interest holders, even when the allocation reduces the non-controlling interests balance below zero.

Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statements of financial position:

- derivative financial instruments that are measured at fair value;

- financial instruments at fair value through profit or loss that are measured at fair value;

- available-for-sale financial assets that are measured at fair value;

- share-based payment arrangements that are measured at fair value;

- recognized financial liabilities designated as hedged items in qualifying fair value hedge relationships and adjusted for changes in fair value attributable to the risk being hedged; and

- liabilities for defined benefit plans that are recognized as net of the total present value of defined benefit obligations less the fair value of plan assets.

Impairment of Financial Assets

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets 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 and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that financial assets are impaired includes significant financial difficulty of the borrower or issuer, default or delinquency in interest or principal payments, restructuring of a loan or a concession granted by the Bank, which the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy or other financial reorganization, or observable data such as an increased number of delayed payments 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.

Loans and receivables. The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss on loans and receivables 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 (i.e., the effective interest rate computed at initial recognition). If interest rate of loans and receivables is floating rate, a discount rate used to evaluate impairment loss is current effective interest rate defined in an agreement. The present value of estimated future cash flows of secured financial assets is calculated by including cash flows from collateral after deducting costs to acquire and sell the collateral, regardless of probability of realization of such collateral. In assessing collective impairment, the Bank rates and classifies financial assets, based on credit risk assessment or credit rating assessment process that takes into account asset type, industry, regional location, collateral type, delinquency and other relative factors. Future cash flow of financial assets applicable to collective impairment assessment is estimated by using statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the impairment losses are likely to be greater or less than suggested by historical modeling. In adjusting the future cash flow by historical modeling, the result has to be in line with changes and trends of observable data (e.g. impairment loss of collective assets and unemployment rate, asset price, commodity price, payment status and other variables representing the size of implement loss). Methodologies and assumptions used to estimate future cash flow are reviewed on a regular basis in order to narrow down discrepancy between impairment loss estimation and actual loss. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss of the period.

Available-for-sale financial assets. Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Held-to-maturity financial assets. An impairment loss in respect of held-to-maturity financial assets measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate and is recognized in profit or loss. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Financial Guarantee Contract

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method. The discount rate is the yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Bank's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Bank recognizes service cost and net interest on the net defined benefit liability (asset) in profit or loss and remeasurements of the net defined benefit liability (asset) in other comprehensive income.

Average Balance and Volume and Rate Analysis

Average Balance Sheet and Related Interest

The following tables show the Bank's average balances and interest rates, as well as the net interest spread, net interest margin and asset liability ratio, for the years ended December 31, 2012, 2013 and 2014.

	For the Year Ended December 31,								
	2012			2013			2014		
	Average Balance[1]	Interest Income/ Expense	Yield/ Rate	Average Balance[1]	Interest Income/ Expense	Yield/ Rate	Average Balance[1]	Interest Income/ Expense	Yield/ Rate
	(in billions of Won, except percentages)								
Interest-earning assets:									
Due from banks	₩ 3,461	₩ 101	2.92%	₩ 4,973	₩ 92	1.86%	₩ 6,858	₩ 125	1.82%
Trading assets[2]	8,455	256	3.03	7,004	214	3.06	8,310	206	2.48
Loans[3]:									
Retail loans	67,369	3,584	5.32	71,261	3,236	4.54	75,308	3,074	4.08
Corporate loans	93,625	4,635	4.95	95,253	4,045	4.25	99,671	3,882	3.89
Public and other loans	3,539	192	5.43	2,771	129	4.65	2,299	98	4.26
Loans to banks	5,135	151	2.94	4,771	121	2.54	4,244	104	2.45
Total loans	169,668	8,562	5.05%	174,056	7,531	4.33%	181,522	7,158	3.94%
Securities[2]:									
Available-for-sale financial assets	24,113	926	3.84%	23,173	757	3.27%	19,892	597	3.00%
Held-to-maturity financial assets	9,603	472	4.92	8,250	380	4.61	7,854	333	4.24
Total securities	33,716	1,398	4.15%	31,423	1,137	3.62%	27,746	930	3.35%
Other interest-earning assets	—	139	—	—	113	—	—	94	—
Total interest-earning assets	₩215,300	₩10,456	4.86%	₩217,456	₩9,087	4.18%	₩224,436	₩8,513	3.79%

	For the Year Ended December 31,								
	2012			2013			2014		
	Average Balance(1)	Interest Income/ Expense	Yield/ Rate	Average Balance(1)	Interest Income/ Expense	Yield/ Rate	Average Balance(1)	Interest Income/ Expense	Yield/ Rate
	(in billions of Won, except percentages)								
Non-interest-earning assets:									
Cash and due from banks	₩ 6,923			₩ 7,189			₩ 7,324		
Derivative assets	1,885			1,497			1,383		
Available-for-sale financial assets	3,349			2,938			2,217		
Property and equipment and intangible assets	2,496			2,471			2,361		
Other non-interest-earning assets	8,857			7,901			7,960		
Total non-interest-earning assets	₩ 23,510			₩ 21,996			₩ 21,245		
Total assets	₩238,810	₩10,456		₩239,452	₩9,087		₩245,681	₩8,513	
Interest-bearing liabilities:									
Deposits:									
Demand deposits	₩ 16,173	₩ 108	0.67%	₩ 18,434	₩ 115	0.62%	₩ 20,744	₩ 113	0.54%
Time and savings deposits	146,696	4,378	2.98	149,591	3,670	2.45	155,302	3,229	2.08
Other deposits	1,831	59	3.22	1,637	32	1.95	2,113	27	1.28
Total interest-bearing deposits	164,700	4,545	2.76%	169,662	3,817	2.25%	178,159	3,369	1.89%
Borrowings	13,891	280	2.02%	12,493	206	1.66%	12,074	192	1.59%
Debt securities issued	19,701	797	4.05	18,272	658	3.60	16,644	524	3.15
Other interest-bearing liabilities	1,526	66	4.33	2,106	55	2.61	1,992	61	3.06
Total interest-bearing liabilities	₩199,818	₩ 5,688	2.85%	₩202,533	₩4,736	2.34%	₩208,869	₩4,146	1.98%
Non-interest-bearing liabilities:									
Non-interest-bearing deposits	₩ 2,447			₩ 2,654			₩ 2,868		
Derivatives liabilities	1,504			1,283			1,308		
Other non-interest-bearing liabilities	14,854			12,710			11,934		
Total non-interest-bearing liabilities	₩ 18,805			₩ 16,647			₩ 16,110		
Total liabilities	₩218,623	₩ 5,688		₩219,180	₩4,736		₩224,979	₩4,146	
Stockholder's equity	20,188	—		20,272	—		20,691	—	
Total liabilities and equity	₩238,811	₩ 5,688		₩239,452	₩4,736		₩245,670	₩4,146	
Net interest spread(4)			2.03%			1.84%			1.81%
Net interest margin(5)			2.23%			2.00%			1.95%
Average asset liability ratio(6)			107.50%			107.37%			107.45%

Notes:

(1) Based on average daily balances.

(2) Information is presented on an annualized basis.

(3) Impaired loans are included in the respective average loan balances. Interest income on such impaired loans is recognized by using the original effective interest rate, which also is used in measuring loan losses.

(4) The difference between the average rate of interest earned on interest-earning assets and the average rate of interest paid on interest-bearing liabilities.

(5) The ratio of net interest income to the average balance of interest-earning assets.

(6) The ratio of the average balance of interest-earning assets to the average balance of average interest-bearing liabilities.

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

The following tables provide an analysis of changes in interest income, interest expense and net interest income between changes in volume and changes in rates for (i) 2014 compared to 2013 and (ii) 2013 compared to 2012.

Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest-earning assets and average interest-bearing liabilities in proportion to absolute volume and rate change. The variance caused by the change in both volume and rate has been allocated in proportion to the absolute volume and rate change.

	From 2013 to 2014 Interest Increase (Decrease) Due to Change in		
	Volume	Rate	Change
	(in billions of Won)		
Increase (decrease) in interest income			
Due from banks	₩ 34	₩ (1)	₩ 33
Trading assets	32	(40)	(8)
Loans:			
Retail loans	165	(327)	(162)
Corporate loans	172	(335)	(163)
Public and other loans	(20)	(11)	(31)
Loans to banks	(13)	(4)	(17)
Total loans	₩ 304	₩(677)	₩(373)
Securities:			
Available-for-sale financial assets	(98)	(62)	(160)
Held-to-maturity financial assets	(17)	(30)	(47)
Total securities	₩(115)	₩ (92)	₩(207)

	From 2013 to 2014		
	Interest Increase (Decrease) Due to Change in		
	Volume	Rate	Change
	(in billions of Won)		
Other interest-earning assets			(19)
Total interest income	₩ 255	₩(810)	₩(574)
Increase (decrease) in interest expense			
Deposits:			
Demand deposits	₩ 13	₩ (15)	₩ (2)
Time and savings deposits	119	(560)	(441)
Other deposits	6	(11)	(5)
Total interest-bearing deposits	₩ 138	₩(586)	₩(448)
Borrowings	(7)	(7)	(14)
Debt securities issued.	(51)	(83)	(134)
Other interest-bearing liabilities	(3)	9	6
Total interest expense	₩ 77	₩(667)	₩(590)
Net increase (decrease) in net interest income	₩ 178	₩(143)	₩ 16

	From 2012 to 2013		
	Interest Increase (Decrease) Due to Change in		
	Volume	Rate	Change
	(in billions of Won)		
Increase (decrease) in interest income			
Due from banks	₩ 28	₩ (37)	₩ (9)
Trading assets	(44)	2	(42)
Loans:			
Retail loans	177	(525)	(348)
Corporate loans	69	(659)	(590)
Public and other loans	(36)	(27)	(63)
Loans to banks	(10)	(12)	(22)
Total loans	₩200	₩(1,223)	₩(1,023)
Securities:			
Available-for-sale financial assets	(31)	(138)	(169)
Held-to-maturity financial assets	(62)	(30)	(92)
Total securities	₩ (93)	₩ (168)	₩ (261)

	From 2012 to 2013 Interest Increase (Decrease) Due to Change in		
	Volume	Rate	Change
	(in billions of Won)		
Other interest-earning assets			(34)
Total interest income	₩ 91	₩(1,426)	₩(1,369)
Increase (decrease) in interest expense			
Deposits:			
Demand deposits	₩ 14	₩ (7)	₩ 7
Time and savings deposits	71	(779)	(708)
Other deposits	(4)	(23)	(27)
Total interest-bearing deposits	₩ 81	₩ (809)	₩ (728)
Borrowings	(23)	(50)	(73)
Debt securities issued.	(51)	(88)	(139)
Other interest-bearing liabilities	15	(25)	(10)
Total interest expense	₩ 22	₩ (972)	₩ (950)
Net increase (decrease) in net interest income	₩ 69	₩ (454)	₩ (419)

Operating Results

2014 Compared to 2013

Net Interest Income

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

	Year Ended December 31,		
	2013	2014	% Change
	(in billions of Won, except percentages)		
Interest income:			
Cash and due from banks	₩ 92	₩ 125	35.87%
Trading assets	214	206	(3.74)
Loans	7,531	7,158	(4.95)
Available-for-sale financial assets	757	597	(21.14)
Held-to-maturity financial assets	380	333	(12.37)
Other interest income	113	94	(15.93)
Total interest income	₩ 9,087	₩ 8,513	(6.31)%
Interest expense:			
Deposits	₩ 3,817	₩ 3,369	(11.74)%
Borrowings	207	192	(7.25)
Debt securities issued	658	524	(20.36)
Other interest expense	55	61	10.91
Total interest expense	₩ 4,737	₩ 4,146	(12.48)%
Net interest income	₩ 4,350	₩ 4,367	0.41%
Net interest margin(1)	2.00%	1.95%	

Note:

(1) The ratio of net interest income to average interest-earning assets. See "— *Average Balance and Volume and Rate Analysis — Average Balance Sheet and Related Interest*".

Interest income. Interest income decreased by 6.31% to ₩8,513 billion in 2014 from ₩9,087 billion in 2013 due primarily to a 4.95% decrease in interest on loans to ₩7,158 billion in 2014 from ₩7,531 billion in 2013 largely as a result of a tighter net interest margin following a decrease in the market interest rate in tandem with the decrease in the base interest rate set by the Bank of Korea, which was partially offset by an increase in the average balance of loans. The average lending rate on the Bank's loans decreased to 3.94% in 2014 from 4.33% in 2013, principally due to a decrease in the average lending rates for corporate loans and retail loans. The average balance of the Bank's loans increased by 4.29% to ₩181,522 billion in 2014 from ₩174,056 billion in 2013, principally due to increases in the average balances of retail loans and corporate loans as further described below.

More specifically, the decrease in interest income was due to the following:

- a 5.01% decrease in interest on retail loans to ₩3,074 billion in 2014 from ₩3,236 billion in 2013, primarily due to a decrease in the average lending rate for retail loans to 4.08% in 2014 from 4.54% in 2013, which was partially offset by an increase in the average balance of retail loans to ₩75,308 billion in 2014 from ₩71,261 billion in 2013. The average lending rate for retail loans decreased as a result of the general decrease in market interest rates largely driven by the decrease in the base interest rate set by the Bank of Korea to 2.0% in 2014 from 2.50% in 2013, increased rate competition among commercial banks for high-quality retail loans and an increase in the proportion of retail loans with higher asset quality for which the Bank offers lower lending rates. The base rate set by the Bank of Korea largely determines the market rates for certificates of deposit, which in turn largely determines the Bank's lending rates for a substantial majority of the Bank's retail loans. The average balance of retail loans increased primarily as a result of an increase in the volume of home rental long-term deposit loans in tandem with a growing preference for long-term home rental in lieu of home ownership due in part to the continued slump in the Korean real property market and an increase in mortgage loans for new home purchases following the series of government policies designed to stimulate the real estate market in the second half of 2014, as well as increased lending to borrowers with high credit profiles and government employees with relatively strong job security, such as police officers and firefighters, as part of the Bank's strategic initiative to increase the volume of lending while maintaining or improving the profit margin and asset quality for such lending.

- a 4.03% decrease in interest on corporate loans to ₩3,882 billion in 2014 from ₩4,045 billion in 2013, primarily due to a decrease in the average lending rate for corporate loans to 3.89% in 2014 from 4.25% in 2013, which was partially offset by a 4.64% increase in the average balance of corporate loans to ₩99,671 billion in 2014 from ₩95,253 billion in 2013. The average lending rate for corporate loans decreased largely as a result of increasing competition among commercial banks for high-quality corporate loans in the midst of an increase in general market liquidity for corporate borrowers. The average balance of corporate loans increased principally as a result of a steady increase in loans to high quality SOHO and small- and medium-sized enterprise borrowers as well as the launch of new loan products for SOHO and small- and medium-sized enterprises in general at relatively affordable rates in line with the Government's policy initiative to assist and support such enterprises as well as an increase in working capital loans to large corporations to meet their short-term financing needs.

Interest expense. Interest expense decreased by 12.48% to ₩4,146 billion in 2014 from ₩4,736 billion in 2013 primarily due to a 11.74% decrease in interest expense on deposits to ₩3,369 billion in 2014 from ₩3,817 billion in 2013 and, to a lesser extent, a 7.25% decrease in interest expense on borrowings to ₩192 billion in 2014 from ₩206 billion in 2013 and a 20.36% decrease in interest expense on debt securities issued to ₩524 billion in 2014 from ₩658 billion in 2013.

Interest expense on deposits decreased primarily due to a decrease in the average interest rate payable on deposits by 36 basis points to 1.89% in 2014 from 2.25% in 2013, which was partially offset by a 5.01% increase in the average balance of deposits to ₩178,159 billion in 2014 from ₩169,662 billion in 2013. The decrease in the average interest rate payable on deposits resulted mainly from a decrease in the average interest rate payable on time and savings deposits to 2.08% in 2014 from 2.45% in 2013, and a decrease in the average interest rate payable on other deposits to 1.28% in 2014 from 1.95% in 2013. The average interest rate payable on time and savings deposits decreased largely as a result of a general decrease in market interest rates attributable to the decrease in the base interest rate set by the Bank of Korea as well as ample liquidity in the Korean financial sector. The average interest rate payable on other deposits also decreased largely as a result of the general decrease in market interest rates in 2014. The increase in the average balance of deposits was primarily due a 3.82% increase in the average balance of time and savings deposits to ₩155,302 billion in 2014 from

₩149,591 billion in 2013. The increase in the average balance of time and savings deposits largely as a result of the Bank's efforts to expand its customer base in light of the relatively low market interest rate environment in Korea during 2014.

Interest expense on borrowings decreased by 7.25% to ₩192 billion in 2014 from ₩206 billion in 2013, primarily as a result of a decrease on the average interest rate payable on borrowings to 1.59% in 2014 from 1.66% in 2013 and a 3.35% decrease in the average balance of borrowings to ₩12,074 billion in 2014 from ₩12,493 billion in 2013. The average interest rate payable on borrowings decreased largely due to the general decrease in market interest rates in 2014 and the Bank's active efforts to reduce borrowings with relatively high interest rates through repayment. The average balance of borrowings decreased largely as a result of ample market liquidity which reduced the Bank's need to source funding through borrowings.

Interest expense on debt securities issued decreased by 20.36% to ₩524 billion in 2014 from ₩658 billion in 2013, primarily as a result of a decrease in the average interest rate payable on debt securities issued to 3.15% in 2014 from 3.60% in 2013, and a 8.91% decrease in the average balance of debt securities issued to ₩16,644 billion in 2014 from ₩18,272 billion in 2013. The average interest rate payable on debt securities issued decreased largely due to a decrease in market interest rates resulting from the decrease in the base interest rate set by the Bank of Korea in 2014. The average balance of debt securities issued decreased largely as a result of the Bank's repayment of a portion of its maturing debt securities due to the availability of less costly financing attendant to abundant market liquidity as well as refinancing a greater portion of its debt securities through bank loans rather than through the issuance of new debt securities in light of the lower funding costs for the former compared to the latter.

Net interest margin. Net interest margin represents the ratio of net interest income to the average balance of interest-earning assets. The Bank's overall net interest margin decreased by 5 basis points to 1.95% in 2014 from 2.00% in 2013 due to a decrease by 3 basis points in net interest spread to 1.81% in 2014 from 1.84% in 2013, which more than offset a 3.21% increase in the average volume of interest-earning assets to ₩224,436 billion in 2014 from ₩217,456 billion in 2013. Net interest spread, which represents the difference between the average rate of interest earned on interest-earning assets and the average rate of interest paid on interest-bearing liabilities, decreased in 2014 from 2013, largely due to a 39 basis points decrease in the average rate of interest receivable on interest-earning assets, which primarily consist of Won-denominated loans and securities held by the Bank, to 3.79% in 2014 from 4.18% in 2013, largely as a result of the decrease in the average base interest rates set by the Bank of Korea to 2.00% in 2014 from 2.50% in 2013, which more than offset a 36 basis points decrease in the average interest rate payable on interest-bearing liabilities to 1.98% in 2014 from 2.34% in 2013, which was largely attributable to lower funding costs associated with Won-denominated debt securities issued and other Won-denominated funding sources due to the decrease in base interest rates in 2014 as explained above. The average volume of interest-earning assets increased largely as a result of an increase in the volume of retail loans, and in particular, home rental deposit loans, mortgage loans for new home purchases and loans to borrowers with high credit profiles, as part of the Bank's strategic initiative to increase the volume of lending while maintaining or improving the profit margin and asset quality for such lending.

Fees and Commission Income (Expense), Net

The following table shows, for the periods indicated, the principal components of the Bank's net fees and commission income.

	Year Ended December 31,		
	2013	2014	% Change
	(in billions of Won, except percentages)		
Fees and commission income:			
Credit placement fees	₩ 57	₩ 57	0.00%
Commission received as electronic charge receipt	131	134	2.29
Brokerage fees	118	106	(10.17)
Commission received as agency	318	328	3.14
Investment banking fees	38	46	21.05
Commission received in foreign exchange activities	132	138	4.55
Asset management fees	42	50	19.05
Guarantee fees	56	55	(1.79)
Others	53	57	7.55
Total fees and commission income	₩945	₩971	2.75%
Fees and commission expense:			
Credit-related fees	₩ 30	₩ 29	(3.33)%
Brand-related fees	84	51	(39.29)
Service-related fees	15	14	(6.67)
Trading and brokerages fees	5	4	(20.00)
Commission paid in foreign exchange activities	20	21	5.00
Others	42	49	16.67
Total fees and commission expense	196	168	(14.29)
Net fees and commission income	₩749	₩803	7.21%

Net fees and commission income increased by 7.21% to ₩803 billion in 2014 from to ₩749 billion in 2013, primarily as a result of a 3.14% increase in commission received as agency, which consists primarily of fees received for sale of bancassurance products, to ₩328 billion in 2014 from ₩318 billion in 2013. Commission received as agency increased primarily due to a continued increase in the volume of bancassurance products sold in response to a change in tax regulations relating to tax exemptions and deductions for bancassurance products.

Non-interest Income (Expense), Net

The following table sets forth for the periods indicated the components of the Bank's net non-interest income (expense).

	Year Ended December 31,		
	2013	2014	% Change
	(in billions of Won, except percentages)		
Dividend income	₩ 66	₩ 93	40.91%
Net trading income (loss)	(43)	(40)	(6.98)
Net foreign currency transaction gain	255	253	(0.78)
Net gain on sale of available-for-sale financial assets	486	428	(11.93)
Net impairment loss on financial assets	(877)	(684)	(22.01)
General and administrative expenses	(2,693)	(2,918)	8.35
Other operating expenses, net	(573)	(505)	(11.87)
Net non-operating expenses	(14)	27	N/M
Equity in income of investment in associate	22	12	(45.45)
Total net non-interest income (expense)	₩(3,371)	₩(3,334)	(1.10)%

N/M = not meaningful

Net non-interest expense decreased by 1.10% to ₩3,334 billion in 2014 from ₩3,371 billion in 2013, primarily as a result of a 22.01% decrease in net impairment loss on financial assets to ₩684 billion in 2014 from ₩877 billion in 2013, which was substantially offset by a 8.35% increase in general and administrative expenses to ₩2,918 billion in 2014 from ₩2,693 billion in 2013. Net impairment loss on financial assets decreased largely as a result of an overall improvement in the asset quality of retail and corporate loans as further described below. General and administrative expenses increased largely due to an increase in severance payments arising from voluntary retirement programs related to the rationalization of the Bank's branch network as well as an increase in performance pay.

Impairment Loss on Financial Assets

The following table sets forth for the periods indicated the impairment loss by type of financial asset.

	Year Ended December 31,		
	2013	2014	% Change
	(in billions of Won, except percentages)		
Loans:			
Retail	₩ 137	₩147	7.30%
Corporate	536	298	(44.40)
Others	(10)	(3)	(70.00)
Subtotal	663	442	(33.33)
Securities[1]	204	220	7.84
Others	10	22	120.00
Total impairment loss on financial assets	₩ 877	₩684	(22.01)%

Note:

(1) Consist of available-for-sale financial assets and held-to-maturity financial assets.

Impairment loss on financial assets decreased by 22.01% to ₩684 billion in 2014 from ₩877 billion in 2013 principally due to a 33.33% decrease in impairment on loans to ₩442 billion in 2014 from ₩663 billion in 2013, which mainly resulted from:

- a decrease in impairment loss on corporate loans by 44.40% to ₩298 billion in 2014 from ₩536 billion in 2013 principally due to a decrease in delinquency among corporate borrowers resulting from the Bank's enhanced risk management policy and ongoing efforts to increase the overall asset quality of its corporate loans; which was partially offset by:

- an increase in impairment loss on retail loans by 7.30% to ₩147 billion in 2014 from ₩137 billion in 2013 principally due to preemptive sale of loans that show signs of asset quality deterioration as part of the Bank's risk management policy to improve its overall asset quality.

The decrease in impairment loss on loans was partially offset by a 7.84% increase in impairment loss on securities to ₩220 billion in 2014 from ₩204 billion in 2013, principally due to a decrease in the market price of shares held by the Bank, including the Bank's shares in Taihan Electric Wire Co., Ltd.

Income Tax Expense

Income tax expense increased by 7.04% to ₩380 billion in 2014 from ₩355 billion in 2013 as a result of the increase in the Bank's taxable income. The Bank's effective rate of income tax remained relatively stable at 20.71% in 2014 and 20.53% in 2013.

Net Income for the Period

As a result of the foregoing, the Bank's net income for the period increased by 6.01% to ₩1,456 billion in 2014 from ₩1,373 billion in 2013.

Other Comprehensive Income for the Period

	Year Ended December 31,		
	2013	**2014**	**% Change**
	(in billions of Won, except percentages)		
Foreign currency translation differences for foreign operations	₩ (62)	₩ 5	N/M
Net change in fair value of available-for-sale financial assets	(305)	64	N/M
Equity in other comprehensive income of associates	(4)	4	N/M
Remeasurement gain (loss) related to defined benefit plan	13	(132)	N/M
Total other comprehensive loss, net of income tax	₩(358)	₩ (59)	(83.52)%

N/M = not meaningful

Other comprehensive loss decreased by 83.52% to ₩59 billion in 2014 from ₩358 billion in 2013, principally due to a positive net change in fair value of available-for-sale financial assets to a gain of ₩64 billion in 2014 from a loss of ₩305 billion in 2013, which was partially offset by recording remeasurement loss related to defined benefit plan of ₩132 billion in 2014 from a gain of ₩13 billion in 2013. The positive net change in fair value of available-for-sale financial assets was largely due to an increase in the fair market value of debt securities resulting from a decline in the average yield of debt securities in reflection of the decrease in the base and general market interest rates. The change from remeasurement loss related to defined benefit plan from a gain was largely due to changes in financial assumptions, including discount rates, mainly as a result of the decrease in the base and general market interest rates.

2013 Compared to 2012

Net Interest Income

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

	Year Ended December 31,		
	2012	**2013**	**% Change**
	(in billions of Won, except percentages)		
Interest income:			
Cash and due from banks	₩ 101	₩ 92	(8.91)%
Trading assets	256	214	(16.41)
Loans	8,562	7,531	(12.04)
Available-for-sale financial assets	926	757	(18.25)
Held-to-maturity financial assets	472	380	(19.49)
Other interest income	139	113	(18.71)
Total interest income	₩10,456	₩ 9,087	(13.09)%
Interest expense:			
Deposits	₩ 4,545	₩ 3,817	(16.02)%
Borrowings	280	207	(26.07)
Debt securities issued	797	658	(17.44)
Other interest expense	65	55	(15.38)
Total interest expense	₩ 5,687	₩ 4,737	(16.70)%
Net interest income	₩ 4,769	₩ 4,350	(8.79)%
Net interest margin(1)	2.23%	2.00%	

Note:

(1) The ratio of net interest income to average interest-earning assets. See "*— Average Balance and Volume and Rate Analysis — Average Balance Sheet and Related Interest*".

Interest income. Interest income decreased by 13.09% to ₩9,087 billion in 2013 from ₩10,456 billion in 2012 due primarily to a 12.04% decrease in interest on loans to ₩7,531 billion in 2013 from ₩8,562 billion in 2012 largely as a result of a tighter net interest margin following a decrease in the market interest rate in tandem with the decrease in the base interest rate set by the Bank of Korea. Interest on loans decreased largely as a result of a decrease in the average lending rate on the Bank's loans, which was partially offset by an increase in the volume of loans made. The average lending rate on the Bank's loans decreased to 4.33% in 2013 from 5.05% in 2012, principally due to a decrease in the average lending rates for corporate loans and, to a lesser extent, retail loans. The average balance of the Bank's loans increased by 2.59% to ₩174,056 billion in 2013 from ₩169,668 billion in 2012, principally due to increases in the average balances of retail loans and, to a lesser extent, corporate loans.

More specifically, the decrease in interest income was due to the following:

- a 9.71% decrease in interest on retail loans to ₩3,236 billion in 2013 from ₩3,584 billion in 2012, primarily due to a decrease in the average lending rate for retail loans to 4.54% in 2013 from 5.32% in 2012, which was partially offset by an increase in the average balance of retail loans to ₩71,261 billion in 2013 from ₩67,369 billion in 2012. The average lending rate for retail loans decreased as a result of the general decrease in market interest rates largely driven by the decrease in the base interest rate set by the Bank of Korea to 2.50% in 2013 from 2.75% in 2012, increased rate competition among commercial banks for high-quality retail loans and an increase in the proportion of retail loans with higher asset quality for which the Bank offers lower lending rates. The base rate set by the Bank of Korea largely determines the market rates for certificates of deposit, which in turn largely determines the Bank's lending rates for a substantial majority of the Bank's retail loans. The average balance of retail loans increased primarily as a result of an increase in the volume of home rental long-term deposit loans in tandem with a growing preference for long-term home rental in lieu of home ownership due in part to the continued slump in the Korean real property market, as well as increased lending to borrowers with high credit profiles and government employees with relatively strong job security, such as police officers and firefighters, as part of the Bank's strategic initiative to increase the volume of lending while maintaining or improving the profit margin and asset quality for such lending.

- a 12.73% decrease in interest on corporate loans to ₩4,045 billion in 2013 from ₩4,635 billion in 2012, primarily due to a decrease in the average lending rate for corporate loans to 4.25% in 2013 from 4.95% in 2012, which was partially offset by an 1.74% increase in the average balance of corporate loans to ₩95,253 billion in 2013 from ₩93,625 billion in 2012. The average lending rate for corporate loans decreased largely as a result of increasing competition among commercial banks for high-quality corporate loans in the midst of an increase in general market liquidity for corporate borrowers. The average balance of corporate loans increased principally as a result of a steady increase in loans to high quality SOHO and small- and medium-sized enterprise borrowers as well as the launch of new loan products for SOHO and small- and medium-sized enterprises in general at relatively affordable rates in line with the Government's policy initiative to assist and support such enterprises.

Interest expense. Interest expense decreased by 16.74% to ₩4,736 billion in 2013 from ₩5,688 billion in 2012 primarily due to a 16.02% decrease in interest expense on deposits to ₩3,817 billion in 2013 from ₩4,545 billion in 2012 and, to a lesser extent, a 26.43% decrease in interest expense on borrowings to ₩206 billion in 2013 from ₩280 billion in 2012 and a 17.44% decrease in interest expense on debt securities issued to ₩658 billion in 2013 from ₩797 billion in 2012.

Interest expense on deposits decreased primarily due to a decrease in the average interest rate payable on deposits to 2.25% in 2013 from 2.76% in 2012, which was partially offset by a 3.01% increase in the average balance of deposits to ₩169,662 billion in 2013 from ₩164,700 billion in 2012. The decrease in the average interest rate payable on deposits resulted mainly from a decrease in the average interest rate payable on time and savings deposits to 2.45% in 2013 from 2.98% in 2012, and a decrease in the average interest rate payable on other deposits to 1.95% in 2013 from 3.22% in 2012. The average interest rate payable on time and savings deposits decreased largely as a result of a general decrease in market interest rates attributable to the decrease in the base interest rate set by the Bank of Korea as well as ample liquidity in the Korean financial sector. The average interest rate payable on other deposits also decreased largely as a result of the general decrease in market interest rates in 2013, as well as the Bank's efforts to decrease the volume of its certificates of deposit by offering lower rates thereon. The increase in the average balance of deposits was primarily due to a 1.97% increase in the average balance of time and savings deposits to ₩149,591 billion in 2013 from ₩146,696 billion in 2012, which was partially offset by a 10.60% decrease in the average balance of other deposits to ₩1,637 billion in 2013 from ₩1,831 billion in 2012. The increase in the average balance of time and savings deposits largely as a result of the Bank's efforts to expand its customer base in light of the relatively low market interest rate environment in Korea during 2013. The average balance of other deposits, which principally consist of certificates of deposits, decreased primarily as a result of the Bank's efforts to replace a portion of certificates of deposit with regular customer deposits in order to improve the Bank's loan-to-deposit ratio since certificates of deposit are not classified as deposits for purposes of computing such ratio.

Interest expense on borrowings decreased by 26.43% to ₩206 billion in 2013 from ₩280 billion in 2012, primarily as a result of a decrease on the average interest rate payable on borrowings to 1.66% in 2013 from 2.02% in 2012 and a 10.06% decrease in the average balance of borrowings to ₩12,493 billion in 2013 from ₩13,891 billion in 2012. The average interest rate payable on borrowings decreased largely due to the general decrease in market interest rates in 2013 and the Bank's active efforts to reduce borrowings with relatively high interest rates through repayment. The average balance of borrowings decreased largely as a result of ample market liquidity which reduced the Bank's need to source funding through borrowings.

Interest expense on debt securities issued decreased by 17.44% to ₩658 billion in 2013 from ₩797 billion in 2012, primarily as a result of a decrease in the average interest rate payable on debt securities issued to 3.60% in 2013 from 4.05% in 2012, and a 7.25% decrease in the average balance of debt securities issued to ₩18,272 billion in 2013 from ₩19,701 billion in 2012. The average interest rate payable on debt securities issued decreased largely due to a decrease in market interest rates resulting from the decrease in the base interest rate set by the Bank of Korea in 2013. The average balance of debt securities issued decreased largely as a result of the Bank's repayment of a portion of its maturing debt securities due to the availability of less costly financing attendant to abundant market liquidity as well as refinancing a greater portion of its debt securities through bank loans rather than through the issuance of new debt securities in light of the lower funding costs for the former compared to the latter.

Net interest margin. Net interest margin represents the ratio of net interest income to the average balance of interest-earning assets. The Bank's overall net interest margin decreased by 23 basis points to 2.00% in 2013 from 2.23% in 2012 due to a decrease by 19 basis points in net interest spread to 1.84% in 2013 from 2.03% in 2012, which more than offset a 1.00% increase in the average volume of interest-earning assets to ₩217,456 billion in 2013 from ₩215,300 billion in 2012. Net interest spread, which represents the difference between the average rate of interest earned on interest-earning assets and the average rate of interest paid on interest-bearing liabilities, decreased in 2013 from 2012, largely due to a 68 basis points decrease in the average rate of interest receivable on interest-earning assets, which primarily consist of loans and Won-denominated securities held by the Bank, to 4.18% in 2013 from 4.86% in 2012, largely as a result of the decrease in base interest rates set by the Bank of Korea to 2.50% in 2013 from 2.75% in 2012, which more than offset a 51 basis points decrease in the average interest rate payable on interest-bearing liabilities to 2.34% in 2013 from 2.85% in 2012, which was largely attributable to lower funding costs associated with Won-denominated debt securities issued and other Won-denominated funding sources due to the decrease in base interest rates in 2013 as explained above. The average volume of interest-earning assets increased largely as a result of an increase in the volume of retail loans, and in particular, home rental deposit loans and loans to borrowers with high credit profiles, as part of the Bank's strategic initiative to increase the volume of lending while maintaining or improving the profit margin and asset quality for such lending.

Fees and Commission Income (Expense), Net

The following table shows, for the periods indicated, the principal components of the Bank's net fees and commission income.

	Year Ended December 31,		
	2012	2013	% Change
	(in billions of Won, except percentages)		
Fees and commission income:			
Credit placement fees	₩ 52	₩ 57	9.62%
Commission received as electronic charge receipt	133	131	(1.50)
Brokerage fees	123	118	(4.07)
Commission received as agency	368	318	(13.59)
Investment banking fees	55	38	(30.91)
Commission received in foreign exchange activities	143	132	(7.69)
Asset management fees	41	42	2.44
Guarantee fees	53	56	5.66
Others	48	53	10.42
Total fees and commission income	₩1,016	₩945	(6.99)%
Fees and commission expense:			
Credit-related fees	₩ 26	₩ 30	15.38%
Brand-related fees	84	84	N/M
Service-related fees	14	15	7.14
Trading and brokerages fees	6	5	(16.67)
Commission paid in foreign exchange activities	20	20	N/M
Others	50	42	(16.00)
Total fees and commission expense	200	196	(2.00)
Net fees and commission income	₩ 816	₩749	(8.21)%

N/M = not meaningful

Net fees and commission income decreased by 8.21% to ₩749 billion in 2013 from ₩816 billion in 2012, primarily as a result of a 13.59% decrease in commission received as agency, which consists primarily of fees received for sale of bancassurance products, to ₩318 billion in 2013 from ₩368 billion in 2012. Commission received as agency decreased primarily due to a decrease in the volume of bancassurance products sold in response to a change in tax regulations relating to tax exemptions and deductions for bancassurance products.

Non-interest Income (Expense), Net

The following table sets forth for the periods indicated the components of the Bank's net non-interest income (expense).

	Year Ended December 31,		
	2012	**2013**	**% Change**
	(in billions of Won, except percentages)		
Dividend income	₩ 81	₩ 66	(18.52)%
Net trading income (loss)	117	(43)	N/M
Net foreign currency transaction gain	109	255	133.94
Net gain on sale of available-for-sale financial assets	314	486	54.78
Net impairment loss on financial assets	(893)	(877)	(1.9)
General and administrative expenses	(2,701)	(2,693)	(0.30)
Other operating expenses, net	(532)	(573)	7.71
Net non-operating expenses	(19)	(14)	(26.32)
Equity in income of investment in associate	22	22	0.00%
Total net non-interest income (expense)	₩(3,502)	₩(3,371)	(3.74)%

N/M = not meaningful

Net non-interest expense decreased by 3.74% to ₩3,371 billion in 2013 from ₩3,502 billion in 2012, primarily as a result of a 54.78% increase in net gain on sale of available-for-sale financial assets to ₩486 billion in 2013 from ₩314 billion in 2012. Net gain on sale of available-for-sale financial assets increased principally due to gain realized from the sale of shares in Hynix Semiconductors and an increase in the sale of equity securities by the Bank's funds department as part of the Bank's efforts to reduce its exposure to the volatility in the stock markets in 2013.

The Bank manages its trading activities (which primarily relate to derivatives transactions) and foreign currency transactions together on a net position basis. Accordingly, while the Bank recorded net trading loss of ₩43 billion in 2013 compared to net trading gain of ₩117 billion in 2012, net foreign currency transaction gain increased significantly to ₩255 billion in 2013 from ₩109 billion in 2012; therefore, the Bank's net position on its net trading gain (loss) and foreign currency transactions in 2013 did not significantly change from its net position in 2012.

General and administrative expenses slightly decreased by 0.30% to ₩2,693 billion in 2013 from ₩2,701 billion in 2012 principally due to the Bank's cost reduction efforts, including reduced advertising and a smaller payout of performance-related bonuses.

Impairment Loss on Financial Assets

The following table sets forth for the periods indicated the impairment loss by type of financial asset.

	Year Ended December 31,		
	2012	2013	% Change
	(in billions of Won, except percentages)		
Loans:			
Retail	₩158	₩137	(13.29)%
Corporate	698	536	(23.21)
Others	(7)	(10)	42.86
Subtotal	849	663	(21.91)
Securities[1]	76	204	168.42
Others	(31)	10	N/M
Total impairment loss on financial assets	₩894	₩877	(1.90)%

N/M = not meaningful

Note:

(1) Consist of available-for-sale financial assets and held-to-maturity financial assets

Impairment loss on financial assets decreased by 1.90% to ₩877 billion in 2013 from ₩894 billion in 2012 principally due to a 21.91% decrease in impairment on loans to ₩663 billion in 2013 from ₩849 billion in 2012, which mainly resulted from:

- a decrease in impairment loss on retail loans by 13.29% to ₩137 billion in 2013 from ₩158 billion in 2012 principally due to a decrease in impairment of the Bank's collective retail loans, which are loans made to a group of borrowers for the purchase of real property, such as in connection to a subscription for apartment pre-sales, under which each borrower in the group is subject to identical terms. Impairment of the Bank's collective retail loans decreased largely as a result of a decrease in the Bank's balance of collective retail loans due to the sustained downturn in the real estate market in Korea and the Bank's sale of a portion of its impaired collective retail loans in 2013.

- a decrease in impairment loss on corporate loans by 23.21% to ₩536 billion in 2013 from ₩698 billion in 2012 principally due to a decrease in delinquency among corporate borrowers resulting from the Bank's enhanced risk management policy and ongoing efforts to increase the overall asset quality of its corporate loans.

The decrease in impairment loss on loans was partially offset by a 168.42% increase in impairment loss on securities to ₩204 billion in 2013 from ₩76 billion in 2012, principally due to a decrease in the market price of shares held by the Bank, including the Bank's shares in POSCO.

Income Tax Expense

Income tax expense decreased by 16.67% to ₩355 billion in 2013 from ₩426 billion in 2012 as a result of the decrease in the Bank's taxable income. The Bank's effective rate of income tax remained relatively stable at 20.53% in 2013 and 20.46% in 2012.

Net Income for the Period

As a result of the foregoing, the Bank's net income for the period decreased by 17.44% to ₩1,373 billion in 2013 from ₩1,663 billion in 2012.

Other Comprehensive Income for the Period

	Year Ended December 31,		
	2012	**2013**	**% Change**
	(in billions of Won, except percentages)		
Foreign currency translation differences for foreign operations	₩ (91)	₩ (62)	(31.87)%
Net change in fair value of available-for-sale financial assets	(47)	(305)	548.94
Equity in other comprehensive income of associates	7	(4)	N/M
Remeasurement gain (loss) related to defined benefit plan	(5)	13	N/M
Total other comprehensive loss, net of income tax	₩(136)	₩(358)	163.24%

N/M = not meaningful

Other comprehensive loss increased by 163.24% to ₩358 billion in 2013 from ₩136 billion in 2012, principally due to a 548.94% increase in net change in fair value of available-for-sale financial assets to a loss of ₩305 billion in 2013 from a loss of ₩47 billion in 2012 resulting from the Bank's disposal of a portion of its available-for-sale equity securities as part of its efforts to reduce its exposure to the volatility in the stock markets in 2013.

Business Segment

The principal business segments of the Bank are currently as follows:

- retail banking, which primarily focuses on making loans to or receiving deposits from individual customers and wealth management customers and, to a lesser extent, institutions such as hospitals, airports and schools;

- corporate and investment banking, which primarily focuses on making loans to or receiving deposits from corporations, including small- and medium-sized enterprises, as well as internal asset and liability management, trading of securities and derivatives, investment portfolio management and other related businesses;

- international banking, which primarily focuses on management of overseas subsidiaries and branch operations and other international business; and

- other banking, which primarily focuses on administration of bank operations.

The following tables set forth the operating income by segment for the years ended December 31, 2012, 2013 and 2014.

	Year Ended December 31,			% Change	
	2012	2013	2014	2012/2013	2013/2014
	(in billions of Won, except percentages)				
Retail banking	₩ 668	₩ 435	₩ 550	(34.88)%	26.44%
Corporate and investment banking	889	988	1,411	11.14	42.81
International banking	211	123	132	(41.71)	7.32
Other banking services	400	229	(274)	(42.75)	N/M
Consolidation adjustment[(1)]	(89)	(55)	(22)	(38.20)	(61.82)
Total operating income	₩2,079	₩1,720	₩1,797	(17.27)%	4.53%

N/M = not meaningful

Note:

(1) Consolidation adjustment consists of adjustments for inter-segment transactions.

Retail Banking

The retail banking segment primarily consists of banking and other services provided by the Bank's retail banking branches to the branch customers, which principally consist of individuals and households. The retail banking products principally consist of mortgage and home equity loans and other retail loans, deposits and other savings products and fees earned from the sale of investment and bancassurance products.

The tables below provide the income statement data for the retail banking segment for the periods indicated.

	Year Ended December 31,			% Change	
	2012	2013	2014	2012/2013	2013/2014
	(in billions of Won, except percentages)				
Net interest income (expense)	₩ 2,428	₩ 2,263	₩ 2,322	(6.80)%	2.61%
Net fees and commission income (expense)	589	548	560	(6.96)	2.19
Net other income (expense)	(2,349)	(2,376)	(2,332)	1.15	(1.85)
Operating income (expense)	₩ 668	₩ 435	₩ 550	(34.88)%	26.44%

Comparison of 2014 to 2013

Operating income for retail banking increased by 26.44% to ₩550 billion in 2014 from ₩435 billion in 2013.

Net interest income for retail banking increased by 2.61% to ₩2,322 billion in 2014 from ₩2,263 billion in 2013 due to an increase in the average volume of retail loans, which was partially offset by a narrowing of the Bank's net interest spread. The average volume of retail loans increased largely due to an increase in home rental long-term deposit loans and mortgage loans for new home purchases, as well as increased lending to quality retail customers with stable employment and sound credit profile as discussed above. The narrowing of the Bank's net interest spread was largely due to the decrease in the market interest rates in tandem with a decrease in the base interest rates set by the Bank of Korea in 2014, as described above.

Net fees and commission income increased by 2.19% to ₩560 billion in 2014 from ₩548 billion in 2013 primarily due to an increase in agency fees and commissions related to the increased volume of bancassurance products sold.

Net other expense decreased by 1.85% to ₩2,332 billion in 2014 from ₩2,376 billion in 2013 primarily due to a decrease in rental expenses due to consolidation of our retail banking branch network in tandem with our rationalization efforts for the Bank's distribution network.

Comparison of 2013 to 2012

Operating income for retail banking decreased by 34.88% to ₩435 billion in 2013 from ₩668 billion in 2012.

Net interest income for retail banking decreased by 6.80% to ₩2,263 billion in 2013 from ₩2,428 billion in 2012 due to a gradual deterioration of the Bank's net interest margin resulting from declining market interest rates spurred by policy rate cuts of the base interest rate by the Bank of Korea to 2.50% in 2013 from 2.75% in 2012, which had a greater impact on the average interest rate on the Bank's loans relative to the average interest rate on the Bank's deposits due to the shorter repricing periods for the former, continuous rate competition among peer commercial banks for high quality retail loans and customer deposits and an increase in the proportion of retail loans with higher asset quality for which the Bank offers lower lending rates. Such deterioration in the Bank's net interest margin more than offset the increase in the volume of retail loans, which was primarily attributable to an increase in the volume of specialized loan products for government employees and borrowers with high credit profiles and home rental deposit loans.

Net fees and commission income decreased by 6.96% to ₩548 billion in 2013 from ₩589 billion in 2012 primarily due to reduced demand for indirect investment products offered by the Bank's retail banking branches resulting from the continued stagnation in domestic stock markets, as well as a decrease in fees received for bancassurance products due to a decrease in the volume of bancassurance products sold in response to a change in applicable tax regulations relating to tax exemptions and deductions for bancassurance products.

Net other expense increased by 1.15% to ₩2,376 billion in 2013 from ₩2,349 billion in 2012 primarily due to an increase in general and administrative expense resulting from an increase in severance benefits and other welfare benefits related to the Bank's early retirement programs.

Corporate and Investment Banking

The corporate and investment banking segment primarily consists of banking and other services provided by the Bank's corporate banking branches to their corporate customers, most of which are small- and medium-sized enterprises and large corporations, including members of the *chaebol* groups, such as general lending and providing overdrafts and other credit facilities.

The tables below provide the income statement data for the corporate and investment banking segment for the periods indicated.

	Year Ended December 31,			% Change	
	2012	2013	2014	2012/2013	2013/2014
	(in billions of Won, except percentages)				
Net interest income (expense)	₩1,049	₩ 937	₩ 891	(10.68)%	(4.86)%
Net fees and commission income (expense)	275	233	259	(15.27)	11.04
Net other income (expense)	(435)	(182)	(261)	(58.16)	43.41
Operating income (expense)	₩ 889	₩ 988	₩1,411	11.14%	42.86%

Comparison of 2014 to 2013

Operating income for corporate and investment banking increased by 42.86% to ₩1,411 billion in 2014 from ₩988 billion in 2013.

Net interest income decreased by 4.86% to ₩891 billion in 2014 from ₩937 billion in 2013 primarily due to the narrowing of the net interest spread, which was partially offset by an increase in the average balance of corporate loans. The narrowing of the Bank's net interest spread was largely due to the decrease in the market interest rates in tandem with a decrease in the base interest rates set by the Bank of Korea in 2014 as well as increasing competition among commercial banks for high-quality corporate loans in the midst of an increase in general market liquidity for corporate borrowers, as described above. The increase in the average balance of corporate loans was largely due to a steady increase in loans to high quality SOHO and small- and medium-sized enterprise borrowers as well as the launch of new loan products for SOHO and small- and medium-sized enterprises in general at relatively affordable rates in line with the Government's policy initiative to assist and support such enterprises, as described above.

Net fees and commission income increased by 11.04% to ₩259 billion in 2014 from ₩233 billion in 2013 primarily due to an increase in investment banking fees and commissions largely resulting from an increase in mergers and acquisitions in Korea as well as fees and commissions related to disposition of real estate mortgage backed securities.

Net other expense increased by 43.41% to ₩261 billion in 2014 from ₩182 billion in 2013 primarily due to foreign currency valuation losses largely due to depreciation of Won against the U.S. dollar.

Comparison of 2013 to 2012

Operating income for corporate and investment banking increased by 11.14% to ₩988 billion in 2013 from ₩889 billion in 2012.

Net interest income decreased by 10.68% to ₩937 billion in 2013 from ₩1,049 billion in 2012 primarily due to a decrease in the volume of loans to large corporate borrowers, which resulted primarily from an increased use of capital markets, instead of bank loans, by large corporations to take advantage of ample liquidity in the Korean financial sector, as well as intensified pricing competition among commercial banks to make high quality corporate loans, which adversely affected the Bank's average lending rate.

Net fees and commission income decreased by 15.27% to ₩233 billion in 2013 from ₩275 billion in 2012 primarily due to a decrease in investment advisory fees resulting from decreased investment banking activities in light of the continued weakness in the Korean and global economies.

Net other expense decreased by 58.16% to ₩182 billion in 2013 from ₩435 billion in 2012 primarily due to a decrease in provision of loan losses resulting from an absence of major restructuring activities of corporate borrowers as well as an increase in net gain on the sale of available-for sale financial assets that were timely sold to take advantage of favorable market conditions in 2013.

International Banking

The international banking segment primarily consists of the results of operations of the Bank's overseas subsidiaries and branches, as well as the Bank's non-deposit funding activities, including trading of, and investment in, debt securities and, to a lesser extent, equity securities for its own accounts, handling its treasury activities, such as inter-segment lending and borrowing, entering into derivatives transactions and investment banking.

The tables below provide the income statement data for the international banking segment for the periods indicated.

	Year Ended December 31,			% Change	
	2012	2013	2014	2012/2013	2013/2014
	(in billions of Won, except percentages)				
Net interest income (expense)	₩ 289	₩ 273	₩ 304	(5.54)%	11.36%
Net fees and commission income (expense)	48	50	55	4.17	10.00
Net other income (expense)	(126)	(200)	(227)	58.73	13.50
Operating income (expense)	₩ 211	₩ 123	₩ 132	(41.71)%	7.32%

Comparison of 2014 to 2013

Operating income for international banking increased by 7.32% to ₩132 billion in 2014 from ₩123 billion in 2013.

Net interest income increased by 11.36% to ₩304 billion in 2014 from ₩273 billion in 2013 primarily due to an increase in the average balance of loans extended by the Bank's overseas subsidiaries, especially its subsidiary in China.

Net fees and commission income increased by 10.00% to ₩55 billion in 2014 from ₩50 billion in 2013 primarily due to an increase in fees and commissions charged by Shinhan Bank Japan for loans made by it.

Net other expense increased by 13.50% to ₩227 billion in 2014 from ₩200 billion in 2013 primarily due an increase in appraisal loss resulting from an increase in credit cost associated with investment bank loans made in China prior to the recent global financial crisis that underwent workouts during 2013 and an increase in general and administrative expense relating to an increase in the Bank's international branch offices.

Comparison of 2013 to 2012

Operating income for international banking decreased by 41.71% to ₩123 billion in 2013 from ₩211 billion in 2012.

Net interest income decreased by 5.54% to ₩273 billion in 2013 from ₩289 billion in 2012 primarily due to decreases in the net interest margins for the Bank's business operations in both its core and emerging overseas markets due to a general decrease in market interest rates.

Net fees and commission income increased by 4.17% to ₩50 billion in 2013 from ₩48 billion in 2012 primarily due to an increase in fees and commissions charged by Shinhan Bank Japan for loans made by it.

Net other expense increased by 58.73% to ₩200 billion in 2013 from ₩126 billion in 2012 primarily due an increase in appraisal loss resulting from an increase in credit cost associated with investment bank loans made in China prior to the recent global financial crisis that underwent workouts during 2013 and an increase in general and administrative expense relating to an increase in the Bank's international branch offices.

Other Banking Services

This segment primarily consists of the Bank's back-office functions, including management of non-performing loans, restructured loans and consolidation adjustments.

The tables below provide the components of operating expense for the other banking services segment for the periods indicated.

	Year Ended December 31,			% Change	
	2012	2013	2014	2012/2013	2013/2014
	(in billions of Won, except percentages)				
Net interest income (expense)	₩1,002	₩ 878	₩ 849	(12.38)%	(3.30)%
Net fees and commission income (expense)	(96)	(82)	(70)	(14.58)	(14.63)
Net other income (expense)	(595)	(622)	(1,075)	4.54	72.83
Operating income (expense)	₩ 311	₩ 175	₩ (296)	(44.05)%	N/M

N/M = not meaningful

Comparison of 2014 to 2013

For the other banking segment, the Bank recorded operating expense of ₩296 billion in 2014 compared to operating income of ₩175 billion in 2013.

Net interest income decreased by 3.30% to ₩849 billion in 2014 from ₩878 billion in 2013 primarily due to a decrease in the average balance of loans made by the Bank's other banking segment resulting from substantial repayment of such loans in 2014.

Net fees and commission expense decreased by 14.63% to ₩70 billion in 2014 from ₩82 billion in 2013 primarily due to an increase in consolidation adjustments relating to commission expenses for Won-denominated guarantees among affiliates.

Net other expense increased by 72.83% to ₩1,075 billion in 2014 from ₩622 billion in 2013 primarily due to an increase in provision for credit losses attributable to an increase in provision for loan losses of a consolidated special purpose company.

Comparison of 2013 to 2012

Operating income for the other banking segment decreased by 44.05% to ₩175 billion in 2013 from ₩311 billion in 2012.

Net interest income decreased by 12.38% to ₩878 billion in 2013 from ₩1,002 billion in 2012 primarily due to a decrease in the average balance of loans made by the Bank's other banking segment resulting from substantial repayment of such loans in 2013.

Net fees and commission expense decreased by 14.58% to ₩82 billion in 2013 from ₩96 billion in 2012 primarily due to an increase in consolidation adjustments relating to commission expenses for Won-denominated guarantees among affiliates.

Net other expense increased by 4.54% to ₩622 billion in 2013 from ₩595 billion in 2012 primarily due to an increase in provision for credit losses attributable to an increase in provision for loan losses of a consolidated special purpose company.

Financial Condition

Assets

The following tables set forth, as of the dates indicated, the principal components of the Bank's assets.

	As of December 31,			% Change	
	2012	2013	2014	December 31, 2012/ December 31, 2013	December 31, 2013/ December 31, 2014
	(in billions of Won, except percentages)				
Cash and due from banks	₩ 9,347	₩ 12,430	₩ 15,860	32.98%	27.59%
Trading assets	7,995	7,520	8,316	(5.94)	10.59
Derivative assets	1,844	1,458	1,309	(20.93)	(10.22)
Loans	169,699	174,689	188,325	2.94	7.81
Available-for-sale financial assets	28,317	24,093	22,364	(14.92)	(7.18)
Held-to-maturity financial assets	9,224	7,434	8,012	(19.41)	7.78
Property and equipment	2,215	2,201	2,036	(0.63)	(7.50)
Intangible assets	181	226	180	24.86	(20.35)
Investment in associates	197	222	211	12.69	(4.95)
Investment property	545	597	739	9.54	23.79
Current tax assets	14	5	7	(64.29)	40.00
Deferred tax assets	17	49	91	188.24	85.71
Other assets	7,791	7,108	8,191	(8.77)	15.24
Assets held for sale	10	14	5	40.00	(64.29)
Total assets	₩237,396	₩238,046	₩255,646	0.27%	7.39%

Comparison of December 31, 2014 to December 31, 2013

The Bank's assets increased by 7.39% to ₩255,646 billion as of December 31, 2014 from ₩238,046 billion as of December 31, 2013, principally due to an increase in loans and, to a lesser extent, increases in cash and due from banks, which was partially offset by a decrease in available-for-sale financial assets.

The Bank's loans increased by 7.81% to ₩188,325 billion as of December 31, 2014 from ₩174,689 billion as of December 31, 2013, due primarily to an increase in home mortgage loans and long-term housing rental deposit loans following the series of government plans announced in the second half of 2014 to stimulate the real estate market, an increase in high-quality retail loans to police officers and other government employees and an increase in corporate loans to quality SOHO and small- to medium-sized enterprise customers as discussed above.

The Bank's cash and due from banks increased by 27.59% to ₩15,860 billion as of December 31, 2014 from ₩12,430 billion as of December 31, 2013, due primarily to an increase of due from The Bank of Korea, which fluctuates on a daily basis.

The Bank's available-for-sale financial assets decreased by 7.18% to ₩22,364 billion as of December 31, 2014 from ₩24,093 billion as of December 31, 2013, largely due to the Bank's disposal of government bonds in order to realize profits from an increase in the market value of such government bonds in 2013 in anticipation of a rise in market interest rates in 2014.

Comparison of December 31, 2013 to December 31, 2012

The Bank's assets increased by 0.27% to ₩238,046 billion as of December 31, 2013 from ₩237,396 billion as of December 31, 2012, principally due to increases in loans and cash and due from banks, which was partially offset by decreases in available-for-sale financial assets and held-to-maturity financial assets.

The Bank's loans increased by 2.94% to ₩174,689 billion as of December 31, 2013 from ₩169,699 billion as of December 31, 2012, due primarily to an increase in retail and corporate loans as part of the Bank's concerted efforts to increase high-quality assets as discussed above.

The Bank's cash and due from banks increased by 32.98% to ₩12,430 billion as of December 31, 2013 from ₩9,347 billion as of December 31, 2012, due primarily to an increase in foreign currency deposits in anticipation of a depreciation of the Won in 2014.

The Bank's available-for-sale financial assets decreased by 14.92% to ₩24,093 billion as of December 31, 2013 from ₩28,317 billion as of December 31, 2012, largely due to the Bank's disposal of government bonds in order to realize profits from an increase in the market value of such government bonds in 2012 in anticipation of a rise in market interest rates in 2014.

The Bank's held-to-maturity financial assets decreased by 19.41% to ₩7,434 billion as of December 31, 2013 from ₩9,224 billion as of December 31, 2012, principally due to the Bank's disposal of its government bonds in 2012 in anticipation of a rise in market interest rates in 2014.

For further information on the Bank's assets, see "*Description of Assets and Liabilities*".

Liabilities and Equity

The following tables set forth, as of the dates indicated, the principal components of the Bank's total liabilities.

	As of December 31,			% Change	
	2012	2013	2014	December 31, 2012/ December 31, 2013	December 31, 2013/ December 31, 2014
	(in billions of Won, except percentages)				
Financial liabilities designated at fair value through profit or loss	₩ —	₩ —	₩ 6	—%	—%
Deposits	170,009	175,021	189,640	2.95	8.35
Trading liabilities	484	399	429	(17.56)	7.52
Derivative liabilities	1,538	1,478	1,256	(3.90)	(15.02)
Borrowings	10,847	10,069	12,803	(7.17)	27.15
Debt securities issued	18,501	17,740	16,581	(4.11)	(6.53)
Liability for defined benefit obligations	165	67	246	(59.39)	267.16
Provisions	332	364	299	9.64	(17.86)
Current tax liabilities	151	148	171	(1.99)	15.54
Deferred tax liabilities	97	10	9	(89.69)	(10.00)
Other liabilities	14,935	12,214	13,729	(18.22)	12.40
Total liabilities	₩217,059	₩217,510	₩235,169	0.21%	8.21%
Total equity	₩ 20,337	₩ 20,536	₩ 20,477	0.98%	(0.29)%
Total assets	₩237,396	₩238,046	₩255,646	0.27%	7.39%

Comparison of December 31, 2014 to December 31, 2013

The Bank's total liabilities increased by 8.21% to ₩235,169 billion as of December 31, 2014 from ₩217,510 billion as of December 31, 2013, primarily due to an increase in deposits (which principally consist of customer deposits) and, to a lesser extent, an increase in borrowings.

The Bank's deposits increased by 8.35% to ₩189,640 billion as of December 31, 2014 from ₩175,021 billion as of December 31, 2013, primarily due to an increase in cross-selling deposit products (including automatic salary deposit products, automatic credit card payment deposit products, check card deposit products and other deposit products offered to high-quality retail customers such as police officers and government employees) and an increase in deposits by government agencies and their affiliates.

The Bank's borrowings increased by 27.15% to ₩12,803 billion as of December 31, 2014 from ₩10,069 billion as of December 31, 2013, primarily due to an increase in call money, which are short-term debt instruments whose balance fluctuates on a daily basis.

Total equity decreased by 0.29% to ₩20,477 billion as of December 31, 2014 from ₩20,536 billion as of December 31, 2013, primarily due to a redemption of hybrid bonds, which was partially offset by an increase in retained earnings from net income for the period.

Comparison of December 31, 2013 to December 31, 2012

The Bank's total liabilities increased by 0.21% to ₩217,510 billion as of December 31, 2013 from ₩217,059 billion as of December 31, 2012, primarily due to an increase in deposits (which principally consist of customer deposits), which was partially offset by a decrease in other liabilities.

The Bank's deposits increased by 2.95% to ₩175,021 billion as of December 31, 2013 from ₩170,009 billion as of December 31, 2012, primarily due to the continuing preference among customers for bank deposits as safe investment products in light of the continued volatility of the domestic stock market.

The Bank's other liabilities, which primarily consist of other accounts payable and accrued expenses, decreased by 18.22% to ₩12,214 billion as of December 31, 2013 from ₩14,935 billion as of December 31, 2012, primarily due to a significant decrease in other accounts payable, and in particular, swap exchange payables, as a result of a decrease in derivative transactions for hedging foreign currency-denominated loans following a decrease in such loans in 2013.

Total equity increased by 0.98% to ₩20,536 billion as of December 31, 2013 from ₩20,337 billion as of December 31, 2012, primarily due to an increase in retained earnings from profit for the period.

Liquidity and Capital Resources

The Bank is exposed to liquidity risk arising from the funding of its lending, trading and investment activities and in the management of trading positions. The goal of liquidity management is for the Bank 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 Bank manages its liquidity risk, see "*Risk Management — Market Risk Management — Market Risk Management for Non-trading Activities — Liquidity Risk Management*". In the Bank's opinion, the working capital is sufficient for its present requirements.

The following table sets forth the Bank's capital resources as of the dates indicated.

	As of December 31,			
	2012	2013	2014	
	(in billions of Won)			(in millions of U.S. dollars)
Deposits	₩170,009	₩175,021	₩189,640	US$ 172,525
Long-term debt	22,479	21,487	20,986	19,092
Call money	274	318	1,783	1,622
Borrowings from the Bank of Korea	1,478	1,364	1,443	1,313
Other short-term borrowings	5,117	4,640	5,172	4,705
Stockholders' equity[(1)]	10,656	10,426	9,426	8,575
Total	₩210,013	₩213,256	₩228,450	US$ 207,833

Note:

(1) Includes only the shareholder's paid-in capital.

Due to the Bank's history as a traditional commercial bank, its primary source of funding has historically been and continues to be customer deposits. Deposits amounted to ₩170,009 billion, ₩175,021 billion and ₩189,640 billion as of December 31, 2012, 2013 and 2014, respectively, which represented 80.9%, 82.1% and 83.0%, respectively, of the Bank's total funding as of such dates. As of December 31, 2012, 2013 and 2014, 92.3%, 93.4% and 93.4% of the Bank's total deposits, respectively, had current maturities of one year or less. Historically, except in limited circumstances, largely due to the lack of alternative investment opportunities for individuals and households in Korea, especially in light of a low interest rate environment and volatile stock market conditions, a substantial portion of such customer deposits were rolled over upon maturity, and accordingly provided a stable source of funding for the Bank. However, in the face of attractive alternative investment opportunities such as during a bullish run of the stock market, customers may transfer a significant amount of bank deposits to alternative investment products in search of higher returns, which may result in temporary difficulties in finding sufficient funding on commercial terms favorable to the Bank.

While the Bank generally has not faced and currently is not facing, liquidity difficulties in any material respect, if the Bank is unable to obtain the funding it needs on terms commercially acceptable to it for an extended period of time for reasons of Won devaluation or otherwise, the Bank may not be able to ensure its financial viability, meet regulatory requirements, implement its strategies or compete effectively.

As of December 31, 2012, 2013 and 2014, ₩6,150 billion, ₩6,680 billion and ₩6,443 billion, or 3.6%, 3.8% and 3.4%, respectively, of the Bank's total deposits in Won were deposits made by litigants in connection with legal proceedings in Korean courts. Court deposits carry interest rates, which are generally lower than market rates.

In addition, the Bank obtains funding through borrowings and the issuances of debt and equity securities. The Bank's borrowings consist mainly of borrowings from financial institutions, the Korean government and Korean government-affiliated funds. Call money, which is available in both Won and foreign currencies, is obtained from the domestic call loan market, a short-term loan market for loans with maturities of less than one month. The Bank also receives from time to time capital contributions from Shinhan Financial Group. For example, in December 2008, the Bank received a capital contribution of ₩800 billion from Shinhan Financial Group to improve the Bank's capital adequacy amid concerns regarding the then-growing global credit crisis. The Bank has not received any additional capital contribution from Shinhan Financial Group since December 2008.

The Bank depends on long-term debt as a significant source of funding, principally in the form of corporate debt securities. Since 1999, the Bank has actively issued and continues to issue long-term debt securities with maturities of over one year in the Korean fixed-income market. The Bank has maintained the rating of AAA, the highest rating available, in the domestic fixed-income market since 1999. The Bank's interest rates on long-term debt securities are in general 20 to 30 basis points higher than the interest rates offered on their deposits. However, since long-term debt is not subject to premiums paid for deposit insurance and the Bank of Korea reserves, the funding costs on long-term debt securities are generally on par with the Bank's funding costs on deposits. In addition, the Bank may also issue long-term debt securities denominated in foreign currency in the overseas market. As of December 31, 2012, 2013 and 2014, the Bank's long-term debt (net of current portion) amounted to ₩22,479 billion, ₩21,847 billion and ₩20,986 billion, respectively, of which ₩6,054 billion, ₩6,081 billion and ₩6,562 billion, respectively, were denominated in foreign currencies, principally U.S. dollars.

Credit ratings affect the cost and other terms upon which the Bank is able to obtain funding. Domestic and international rating agencies regularly evaluate the Bank and their ratings of the Bank's long-term debt are based on a number of factors, including the Bank's financial strength as well as conditions affecting the financial services industry generally.

Given the Bank's relatively high debt rating in the fixed-income market in Korea, the Bank believes that it will be able to obtain replacement funding through the issuance of long-term debt securities. However, there can be no assurance that the Bank will maintain its current credit ratings if, among other reasons, the global or Korean economy were to face another downturn, there are any changes in the Bank's corporate governance or the business of the Bank significantly deteriorates. The Bank's failure to maintain current credit ratings and outlooks could increase the cost of its funding, limit its access to capital markets and other borrowings, and require the Bank to post additional collateral in financial transactions, any of which could adversely affect its liquidity, net interest margins and profitability.

Secondary funding sources also include call money, borrowings from the Bank of Korea and other short- term borrowings, which amounted to ₩6,869 billion, ₩6,322 billion and ₩8,398 billion, as of December 31, 2012, 2013 and 2014, respectively, each representing 3.3%, 3.0% and 3.7%, respectively, of the Bank's total funding as of such dates.

In addition, pursuant to the Bank's liquidity risk management policies designed to ensure compliance with required capital adequacy and liquidity ratios, Shinhan Financial Group has set limits to the amount of liquidity support by it to its subsidiaries to 70% of its total stockholders' equity and the amount of liquidity support to a single subsidiary to 35% of its total stockholders' equity.

Contractual Obligations, Commitments and Guarantees

In its ordinary course business, the Bank makes certain contractual cash obligations and commitments which extend for several years. As the Bank is able to obtain liquidity and funding through various sources as described in "— *Liquidity and Capital Resources*" above, the Bank does not believe that these contractual cash obligations and commitments will have a material effect on its liquidity or capital resources.

Contractual Cash Obligations

The following table sets forth the Bank's contractual cash obligations as of December 31, 2014.

	As of December 31, 2014 Payments Due by Period(1)						
	Less than 1 Month	1-3 Months	3-6 Months	6-12 Months	1-5 Years	More than 5 Years	Total
	(in billions of Won)						
Deposits	₩88,942	₩21,508	₩26,262	₩40,402	₩10,024	₩2,502	₩189,640
Borrowings	4,317	1,833	1,708	1,482	2,934	529	12,803
Debt securities issued	261	1,191	2,121	3,549	7,558	1,941	16,621
Total	₩93,520	₩24,532	₩30,091	₩45,433	₩20,516	₩4,972	₩219,064

Note:

(1) Reflects all estimated contractual interest payments due on the Bank's interest-bearing deposits, borrowings and debt securities issued, and the estimated contractual interest payments on borrowings and debt securities that are on a floating rate basis as of December 31, 2014 were computed as if the interest rate used on the last applicable date (for example, the interest payment date for such floating rate loans immediately preceding the determination date) were the interest rate applicable throughout the remainder of the term.

Commitments and Guarantees

In the normal course of the Bank's banking activities, it makes various commitments and guarantees to meet the financing needs of its customers. Commitments and guarantees are usually in the form of, among others, commitments to extend credit, commercial letters of credit, standby letter of credit and performance guarantees. The contractual amount of these financial instruments represents the maximum possible loss amount if the counter party draws down the commitment or the Bank should fulfill its obligation under the guarantee and the counter party fails to perform under the contract. See "*Description of Assets and Liabilities — Credit-Related Commitments and Guarantees*".

The following table sets forth, on a consolidated basis, the Bank's commitments and guarantees as of December 31, 2014.

	As of December 31, 2014 Commitment Expiration by Period			
	Less than 1 Year	1-5 Years	More than 5 Years	Total
	(in billions of Won)			
Commitments to extend credit[1]:				
Corporate	₩59,432	₩1,095	₩322	₩60,849
Retail	11,069	460	13	11,542
Liquidity facilities to SPEs[2]	784	1,108	94	1,986
Commercial letters of credit[3]	3,567	31	1	3,599
Financial standby letters of credit[4]	833	105	7	945
Other financial guarantees[5]	331	8	16	355
Performance letters of credit and guarantees[6]	7,538	2,616	37	10,191
Acceptances[7]	20	—	—	20
Total	₩83,574	₩5,423	₩490	₩89,487

Notes:

(1) Commitments to extend credit represent unfunded portions of authorizations to extend credit in the form of loans. The commitments expire on fixed dates and a customer is required to comply with predetermined conditions to draw funds under the commitments.

(2) Liquidity facilities to SPEs represent irrevocable commitments to provide contingent credit lines including commercial paper purchase agreements to special purpose entities for which the Bank serves as the administrator.

(3) Commercial letters of credit are undertakings on behalf of customers authorizing third parties to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. These are generally short-term and collateralized by the underlying shipments of goods to which they relate. Commitments to extend credit, including credit lines, are in general subject to provisions that allow the Bank to withdraw such commitments in the event there are material adverse changes affecting an obligor.

(4) Financial standby letters of credit are irrevocable obligations to pay third-party beneficiaries when the Bank's customers fail to repay loans or debt instruments, which are generally in foreign currencies. A substantial portion of these standby letters of credit is secured by underlying assets, including trade-related documents.

(5) Other financial guarantees are used in various transactions to enhance the credit standing of the Bank's customers. They provide irrevocable assurance, subject to satisfaction of certain conditions, that the Bank will make payment in the event that its customers fail to fulfill their obligations to third parties. These financial obligations include a return of security deposits and the payment of service fees.

(6) Performance letters of credit and guarantees are issued to guarantee customers' tender bids on construction or similar projects or to guarantee completion of such projects in accordance with contractual terms. They are also issued to support a customer's obligation to supply products, commodities, maintenance or other services to third parties.

(7) Acceptances represent guarantees by the Bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented, but reimbursement by the customer is normally immediate.

Off-Balance Sheet Arrangements

The Bank has several types of off-balance sheet arrangements, including guarantees for loans, debentures, trade financing arrangements, guarantees for other financings, credit lines, letters of credit and credit commitments. The Bank makes various commitments and guarantees in the normal course of business to meet the financing needs of its customers. Commitments and guarantees are usually in the form of, among others, commitments to extend credit, commercial letters of credit, standby letters of credit and performance guarantees. The contractual amount of these financial instruments represents the maximum possible loss amount if the account draws down the commitment or the Bank should fulfill its obligation under the guarantee and the account party fails to perform under the contract. Details of the Bank's off-balance sheet arrangements are provided in Note 39 in the notes to the Bank's consolidated financial statements included in this offering circular.

THE KOREAN BANKING INDUSTRY

Unless otherwise expressly stated, the information and statistics set out in this section are derived from publicly available information, including materials published by the FSC. No further verification has been made by the Bank or any of its affiliates or advisers.

The banking sector in Korea is composed of four specialized banks, seven nationwide commercial banks, six regional commercial banks and 40 branches of foreign banks as of September 30, 2014.

The specialized banks are organized under, or chartered by, special laws and are designed to meet the needs of specific sectors of the Korean economy in accordance with Government policy, that cannot be met by commercial banks due to limited resources or lack of profitability. The Korea Development Bank, for example, offers long-term facility investment funds to major industries in Korea, while The Export-Import Bank of Korea offers export loans and trade finance. Industrial Bank of Korea focuses on the small- and medium-sized enterprises sector while Nonghyup Bank and National Federation of Fisheries Cooperatives support their respective industries. All of these specialized banks also provide traditional deposit products, except for The Export-Import Bank of Korea.

The commercial banks are designed to serve the general public and corporate sectors. The seven nationwide banks consist of the Bank, Kookmin Bank, Woori Bank, Hana Bank, Korea Exchange Bank, Citibank Korea Inc. and Standard Chartered Bank Korea Limited. Amongst these, the Bank, Kookmin Bank and Hana Bank are major banking flagships of their respective financial holding companies, established based on the Commercial Act of Korea and the Financial Holding Company Act to facilitate cross-selling opportunities between traditional banking and nonbanking operations and promoting improved resources allocation and capital efficiency.

Except for the customers of their branches in Seoul, the regional banks' main business clients are small and medium-sized companies in their regions. The regional banks are Pusan Bank, Daegu Bank, Kwangju Bank, Jeonbuk Bank, Kyongnam Bank and Jeju Bank. Jeju Bank is a subsidiary of Shinhan Financial Group.

As in most countries, commercial banks in Korea may engage in a wide range of business. Their core activities include the taking of deposits, the extension of loans and discounts, remittances and collections, and foreign exchange. They also handle such business as guarantees and acceptances and own-account securities investment. Specific authorization is required for each area of nonbank business in which they engage such as the trust and credit card businesses. In addition, they are also expanding their businesses into noninterest but fee-based businesses such as bancassurance and fund sales.

BUSINESS

Introduction

The Bank is one of the leading commercial banks in Korea in terms of total assets, revenues, profitability and capital adequacy, among others. A flagship member of Shinhan Financial Group, one of the leading financial holding companies in Korea in terms of same metrics, the Bank provides a wide range of commercial and other banking services to retail and corporate customers primarily in Korea and, to a lesser extent, in select overseas markets. The Bank is one of the largest lenders in Korea to small- and medium-sized enterprises. As of December 31, 2014, the Bank had 900 domestic branches and eight overseas branches as well as nine subsidiaries located in Japan, the People's Republic of China, Hong Kong, Vietnam, the United States, Canada, Germany, Cambodia and Kazakhstan.

Former Shinhan Bank was established in 1982 as the first privately funded commercial bank in Korea. Chohung Bank was established in 1897 and was the oldest financial institution in Korea. Former Shinhan Bank and Chohung Bank were merged in 2006 and the new bank was named "Shinhan Bank".

As of December 31, 2014, the total assets, net loans (after deducting allowance for loan losses) and deposits of the bank accounts of the Bank were ₩255,646 billion, ₩188,325 billion and ₩189,640 billion, respectively. As of December 31, 2013, the total assets, net loans (after deducting allowance for loan losses) and deposits of the bank accounts of the Bank were ₩238,046 billion, ₩174,689 billion and ₩175,021 billion, respectively. As of December 31, 2012, the total assets, net loans (after deducting allowance for loan losses) and deposits of the bank accounts of the Bank were ₩237,396 billion, ₩169,699 billion and ₩170,009 billion, respectively. For 2012, 2013 and 2014, the Bank's net income was ₩1,663 billion, ₩1,373 billion and ₩1,456 billion, respectively.

The Bank's registration number with the Companies Registry in Korea is 110111-0012809. The Bank has its headquarters at 20, Sejong-Daero 9-Gil, Jung-Gu, Seoul 100-724, Korea.

Financial Holding Company Structure

In September 2001, former Shinhan Bank formed a financial holding company, Shinhan Financial Group pursuant to the Financial Holding Company Act of Korea. Former Shinhan Bank's shares were exchanged for those of Shinhan Financial Group. As part of this share exchange, former Shinhan Bank also transferred its holding in Shinhan Capital Co., Ltd. to Shinhan Financial Group. Under the new structure, as of July 1, 2002, former Shinhan Bank was the wholly owned subsidiary of Shinhan Financial Group. For more information on the financial holding company structure, see "*Shinhan Financial Group*".

Strategy

At the outset of the recent global financial crisis, the Bank strengthened its business fundamentals and focused on competitive sustainability, primarily through enhanced risk management and programs designed to heighten customer retention. The Bank believes that these proactive steps have been instrumental to its ability to successfully withstand the short-term challenges created by the crisis. However, the Bank believes that a unique mix of challenges and opportunities has arisen in the aftermath of the crisis.

While the immediate ripple effects from the recent global financial crisis have somewhat subsided, the global economy, and in turn the Korean economy, continues to face an environment of uncertainty marked by generally low growth among businesses and continuing volatility in global financial markets. The Bank believes that this environment has engendered negative popular sentiment against major financial service providers in general, as evidenced by "Occupy Wall Street" and similar movements in major urban centers around the world and greater calls for regulatory scrutiny and restrictions in relation to financial activities. In addition, advances in mobile and other technologies are renewing challenges for financial service providers to continually re-examine their existing business models. Combined, these developments require that the Bank continues to seek opportunities to foster customer trust, enhance the Bank's social capital and quickly adapt to the constant changes in the Bank's business environment. Accordingly, as a general strategic objective, the Bank is striving to re-create itself to meet these challenges and capitalize on opportunities presented by the new business environment through selectively identifying new growth opportunities, strengthening risk management, efficient use of resources and encouraging more personalized interaction with its customers.

More specifically, the Bank believes that the recent global financial crisis has engendered a new business environment with the following defining features: (i) stricter financial regulations, (ii) less tolerance for risk in financial products, (iii) demand for reduced debt levels, (iv) greater market acceptability of a business model based on stable growth even if this would result in relatively low levels of return, (v) political demand for greater social responsibility and accountability of financial institutions, and (vi) widespread recognition of the growing importance of emerging markets, particularly in Asia, in the world economy.

In order to best position itself amid the uncertainties that have arisen in the aftermath of the recent global financial crisis and capture future opportunities, the Bank plans to continue to increase its valued growth through innovation, diversify its revenue streams, improve its asset quality and strengthen risk management measures, maximize synergy among the subsidiaries of the Shinhan Financial Group, lock in and enlarge its customer base and strengthen its foundation to compete globally.

More specifically, the Bank's strategic priorities will include the following:

Increase valued growth through innovation. The Bank is continually focused on enhancing its valued growth, which is imbedded in the Bank's culture, which places top priority on fostering innovation and creativity in its products and services. The Bank believes that innovative products and services create value for its customers and enhances its brand value. The Bank believes that such values contribute to sustaining its long-term growth and securing a stable revenue base. One of the most innovative products introduced by the Bank included the "Gold Riche gold installment", which was the first product in Korea to allow customers to invest in gold at a lower transaction cost without physical transfer of gold. In addition, the Bank has been widely recognized for its innovative services. As recent examples, in 2011 the Bank was awarded the grand prize in the "smart banking" category at the 2011 Asia Today Financial Awards and the Bank's product, "Shinhan Interest Safety Mortgage Loan", was awarded the grand prize at the 2011 Excellence New Financial Products Awards by the FSS. In addition, in 2012 the Bank was awarded the grand prize in the "smart banking" category at the 2012 Consumers Choice Awards sponsored by Joong Ang Daily and the Presidential Council on Nation Branding, and in 2013 the Bank was awarded the grand prize in the financial services category at Chosun Ilbo's 2013 App World Korea Awards and became the first bank in the Korean financial services sector to be certified by the Human Rights Forum of Persons with Disabilities in Korea for the accessibility of the Bank's mobile applications.

Diversify revenue streams through select new business opportunities. The Bank plans to selectively take advantage of new business opportunities created by regulatory changes and new industry trends. In particular, the Bank plans to (i) actively increase its market share in the retirement pension market in light of the mandatory adoption of retirement pensions for Korean companies beginning in 2011, (ii) strategically provide integrated global wealth management services to its existing and potential client base; (iii) leverage opportunities in investment banking by further integrating commercial banking and investment banking activities and (iv) bolster new business development capabilities in the "green" and other growth industries.

Further improve asset quality and strengthen risk management measures. The Bank 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 its key focus areas. One of the Bank's highest priorities is to improve asset quality and more effectively price its lending products to take into account inherent credit risk in its loan portfolio. To this end, the Bank plans to take maximum advantage of Shinhan Financial Group's further upgraded overall group-wide risk management system, including improvement in detection and preemption of potential problem loans and assessing and developing innovative contingency plans for global risk management. In addition, the Bank has upgraded its credit risk assessment model and data platform for its foreign branches to promote optimum growth and support the foreign branches' efforts to improve certain areas of their risk management capabilities.

Maximize synergy among subsidiaries of Shinhan Financial Group. The Bank intends to use the financial holding structure of Shinhan Financial Group to enhance its competitiveness by:

- becoming a one-stop financial services destination by offering a comprehensive range of products and services of the subsidiaries of Shinhan Financial Group to the Bank's customers;

- enabling the Bank to share customer information with other subsidiaries of Shinhan Financial Group, including Shinhan Card, the largest credit card provider in Korea, which is not otherwise permitted outside a financial holding company structure, thereby enhancing the Bank's cross-selling and risk management capabilities; and

- enhancing its ability to reduce costs in areas such as back-office processing and procurement.

In order to support this strategy, the Bank is implementing specific initiatives including the enhancement of its group-wide integrated customer relationship management system to facilitate the sharing of customer information and the integration of various customer loyalty programs among the group of companies under Shinhan Financial Group.

Lock in and enlarge customer base. In anticipation of the likely increase in competition for customers in the Korean financial sector as a result of further economic recovery and potential further consolidation among major commercial banks in Korea, the Bank plans to take proactive measures to enhance loyalty among existing customers as well as to enlarge its high-quality, credit worthy customer base. In particular, the Bank plans to (i) instill a customer-oriented culture and standardize and improve customer management processes in all key areas of its operations, (ii) identify and target active retail customers through marketing and business strategies tailored to each customer segment, (iii) strengthen and diversify direct and indirect marketing channels to increase further interaction with customers, (iv) focus on high net worth customers by offering enhanced wealth management services, (v) offer a more diversified range of fund investment products and (vi) integrate and reinforce marketing efforts to bring in additional public and government entities as new customers.

Strengthen foundation to compete globally. To further strengthen its foundation to position itself as a leading global bank, the Bank plans to (i) build on its existing global networking relationships to establish profit centers overseas by designing ways to improve profitability and productivity, making further capital investments in overseas subsidiaries and actively seeking revenue generation, (ii) improve competitive positioning in the core overseas target markets of Japan and Vietnam, and further differentiate itself in other markets, such as the People's Republic of China, the United States, India, Kazakhstan and Cambodia in which the Bank currently has a presence, and (iii) enhance support structure for global business capabilities through organizational restructuring, process improvements and recruitment of core talent.

Business Overview

The Bank's Principal Activities

The Bank's principal activities consist of deposit-taking activities from its retail and corporate customers, which provide the Bank with funding necessary to offer a variety of banking services. The Bank provides comprehensive banking services, principally consisting of the following:

- retail banking, which primarily focuses on making loans to or receiving deposits from individual customers (including high net-worth individuals and families) and, to a lesser extent, not-for-profit institutions such as hospitals, airports and schools;

- corporate and investment banking, which primarily focuses on making loans to or receiving deposits from for-profit corporations, including small- and medium-sized enterprises;

- international banking, which primarily focuses on management of overseas subsidiaries and branch operations and other international businesses, as well as internal asset and liability management, trading of securities and derivatives, investment portfolio management and other related activities; and

- other banking, which primarily focuses on administration of banking operations.

The Bank's principal activities are not subject to any material seasonal trends. While the Bank has a number of overseas branches and subsidiaries, substantially all of its assets are located, and substantially all of its revenues are generated, in Korea.

Deposit-Taking Activities

The Bank offers many deposit products that target different customer segments with features tailored to each segment's financial and other profiles. The deposit products offered by the Bank consist principally of the following:

- *Demand deposits*. Demand deposits do not accrue interest or accrue interest at a lower rate than time or savings deposits and allow the customer to deposit and withdraw funds at any time. If interest-bearing, demand deposits have interest accruing at a fixed or variable rate depending on the period and the amount of deposit. Demand deposits constituted 30.4%, 33.4% and 36.0% of the Bank's total deposits as of December 31, 2012, 2013 and 2014, respectively. Demand deposits paid average interest of 0.67%, 0.62% and 0.54% in 2012, 2013 and 2014, respectively.

- *Time and savings deposit*s. Time deposits 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 certain financial indexes, including the Cost of Funds Index ("**COFIX**"). If the deposit is withdrawn prior to the end of the fixed term, the customer is paid a lower interest rate than that originally offered. The term typically ranges from one month to five years. Savings deposits allow the customer to deposit and withdraw funds at any time and accrue interest at an adjustable interest rate, which is typically lower than the rate applicable to time or installment deposits. Time and savings deposits constituted 66.1%, 63.0% and 60.2% of the Bank's total deposits as of December 31, 2012, 2013 and 2014, respectively, and paid average interest of 2.98%, 2.45% and 2.08% in 2012, 2013 and 2014, respectively.

- *Other deposits*. Other deposits consist mainly of certificates of deposit. Certificates of deposit typically have maturities from 30 days to two years. Interest rates on certificates of deposit are determined based on the length of the deposit and prevailing market interest rates. Certificates of deposit are sold at a discount to their face value, reflecting the interest payable on the certificates of deposit. Certificates of deposit constituted 3.5%, 3.6% and 3.7% of the Bank's total deposits as of December 31, 2012, 2013 and 2014, respectively, and paid average interest of 3.2%, 2.0% and 1.28% in 2012, 2013 and 2014, respectively.

The Bank also offers deposits which provide the customer with preferential rights to housing subscriptions under the Housing Law, and eligibility for mortgage and home equity loans. These products include:

Housing subscription time deposits. These deposit products are special purpose time deposits providing the customer with a preferential right to subscribe for new private housing units under the Housing Law and Rules on Housing Supply (the "**Housing Law**"). This law provides various measures supporting the purchase of housing units and the supply of such housing units by construction companies. If a potential home-buyer subscribes for these deposit products and holds them for a certain period of time set forth in the Housing Law, such deposit customer obtains the right to subscribe for new private housing units on a priority basis. Such preferential rights are neither transferable nor marketable in the open market. These products accrue interest at a fixed rate for one year and at an adjustable rate after one year, which are consistent with other time deposits. Required deposit amounts per account range from ₩2 million to ₩15 million depending on the size and location of the housing unit. These deposit products target high- and middle-income households as customers.

Housing subscription installment savings deposits. These deposit products are monthly installment savings products providing the customer with a preferential right to subscribe for new private housing units under the Housing Law. Such preferential rights are neither transferable nor marketable in the open market. These deposits require monthly installments of ₩50,000 to ₩500,000, have maturities between three and five years and accrue interest at fixed rates depending on the term, which rates are consistent with other installment savings deposits. These deposit products target low- and middle-income households as customers. For information on the Bank's deposits in Won based on the principal types of deposit products the Bank offers, see "*Description of Assets and Liabilities — Funding — Deposits*".

The rate of interest payable on the Bank's deposit products may vary significantly, depending on average funding costs, the rate of return on its interest-earning assets, prevailing market interest rates among financial institutions and other major financial indicators.

The Bank also offers court deposit services for litigants in Korean courts, which involve providing effectively an escrow service for litigants involved in certain types of legal or other proceedings. Chohung Bank historically was a dominant provider of such services since 1958, and following the Bank's acquisition of Chohung Bank, the Bank continues to hold a dominant market share in these services. Such deposits typically carry interest rates lower than the market rates (by approximately 0.5% per annum) and amounted to ₩6,150 billion, ₩6,680 billion and ₩6,443 billion as of December 31, 2012, 2013 and 2014, respectively.

The Monetary Policy Committee of the Bank of Korea imposes a reserve requirement on Won currency deposits at commercial banks at rates ranging from 0% to 7%, based generally on maturity and the type of deposit instrument. See "*Supervision and Regulation — Principal Regulations Applicable to Banks — Liquidity*".

The Depositor Protection Act provides for a deposit insurance system under which the Korea Deposit Insurance Corporation guarantees repayment of eligible bank deposits to depositors up to a ₩50 million per depositor and ₩50 million per insured under the defined contribution retirement pension per bank. See "*Supervision and Regulation — Principal Regulations Applicable to Banks — Deposit Insurance System*".

Retail Banking Services

Overview

Retail banking services include mortgage and home equity lending and retail lending as well as demand, savings and fixed deposit-taking, checking account services, electronic banking and ATM services, bill paying services, payroll and check-cashing services, currency exchange and wire fund transfer. The Bank believes that providing modern and efficient retail banking services is important to maintaining its public profile and as a source of fee-based income. Accordingly, the Bank believes that its retail banking services and products will become increasingly important in the coming years as the domestic banking sector further develops and becomes more complex.

Retail banking has been and will continue to remain one of the Bank's core businesses. The Bank's strategy in retail banking is to provide prompt and comprehensive services to retail customers through increased automation and improved customer service, as well as a streamlined branch network focused on sales. The retail segment places an emphasis on targeting high net worth individuals. The retail loans of the Bank amounted to ₩80,222 billion as of December 31, 2014.

Retail Lending Activities

The Bank offers various retail loan products, consisting principally of loans to individuals and households. The Bank's retail loans products target different segments of the population with features tailored to each segment's financial profile and other characteristics, including customer's occupation, age, loan purpose, collateral requirements and the duration of the customer's relationship with the Bank. Retail loans consist principally of the following:

- *Mortgage and home equity loans*, which are mostly comprised of mortgage loans that are used to finance home purchases and are generally secured by the housing unit being purchased; and

- *Other retail loans*, which are loans made to customers for any purpose other than mortgage and home equity loans and the terms of which vary based primarily upon the characteristics of the borrower and which are either unsecured or secured or guaranteed by deposits or by a third party.

As of December 31, 2014, the Bank's mortgage and home-equity loans and other retail loans accounted for 63.1% and 36.9% of the Bank's total Won-denominated retail loans, respectively.

For secured loans, including mortgage and home equity loans, the Bank's policy is to lend up to 70% of the appraisal value of the collateral, after taking into account the value of any lien or other security interest that has priority over its security interest (other than petty claims). The loan-to-value ratio of secured loans is updated on a monthly basis using the most recent appraisal value of the collateral. As of December 31, 2014, the loan-to-value ratio of mortgage and home equity loans of the Bank was approximately 51.8%. As of December 31, 2014, substantially all of its mortgage and home equity loans were secured by residential property.

Under the Regulation on the Supervision of the Banking Business as amended effective August 1, 2014, the Bank's banking subsidiaries (i) are subject to a limit on loan-to-value ratio of 70% when extending home mortgage loans; (ii) are required to comply with a limit on debt-to-income ratio of 60% in extending home mortgage loans (amounting to ₩100 million or more) for the purchase of new apartments that are secured by such apartments appraised at a market value of more than ₩600 million if they are located in areas designated as "speculative" or (if in the greater Seoul metropolitan area) "excessively speculative"; (iii) are required to apply greater flexibility in determining the debt-to-income ratio by considering the expected earnings potential; (iv) are prohibited from accepting apartments located in areas of intense speculation as collateral from borrowers who have already obtained home mortgage loans; (v) in the case of borrowers with two or more loans secured by apartments in areas of intense speculation, are required to limit the extension of the maturity of such loans so that the number of loans secured by apartments in areas of intense speculation held by such borrowers is reduced to one such loan; (v) are prohibited from extending home equity loans to minors; and (vi) are prohibited from accepting apartments located in areas of intense speculation as collateral for company loans with the purpose of acquiring such apartments, except for unavoidable cases. In addition, the supervising authorities in Korea from time to time issue administrative instructions to Korean banks, which have the effect of regulating the access of borrowers to housing loans and, as such, demand for real estate properties. For example, the FSS issued administrative instructions to financial institutions to (except in limited circumstances) verify the borrower's ability to repay based on proof of income prior to making a mortgage and home equity loan regardless of the type or value of the collateral or the location of the property, which has had the effect of practically barring the grant of any new mortgage and home equity loans to borrowers without verifiable income.

The Bank extends mortgage and home equity loans in compliance with the applicable regulations and administrative instructions by the relevant supervising authorities.

The following tables set forth a breakdown of the Bank's retail loans.

	As of December 31,		
	2012	2013	2014
	(in billions of Won, except percentages)		
Retail loans[(1)]			
Mortgage and home-equity loans	₩41,663	₩41,008	₩43,427
Other retail loans[(2)]	29,270	32,023	36,795
Percentage of retail loans to total gross loans	41.4%	41.5%	42.3%

Notes:

(1) Before allowance for loan losses and excludes credit card receivables.

(2) In Korea, construction companies typically require buyers of new homes (including apartment units) to make installment payments of the purchase price significantly in advance of the title transfer. Commercial banks, including the Bank, provide advance loans, on an unsecured basis to retail borrowers the use of proceeds for which is restricted to financing of home purchases. A significant portion of these loans are guaranteed by third parties, which may include the construction company receiving the installment payments, until construction of the home is completed. Once construction is completed and the titles to the homes are transferred to the borrowers, which may take several years, these loans become secured by the new homes purchased by these borrowers. In recognition of the unsecured nature of such loans, the Bank classifies such loans as other retail loans.

The Bank's total mortgage and home equity loans amounted to ₩49,857 billion outstanding as of December 31, 2014, and as of such date, consisted of amortizing loans (whose principal is repaid by part of the installment payments) in the amount of ₩35,132 billion and non-amortizing loans in the amount of ₩14,725 billion. In addition, as of December 31, 2014, the Bank also provided lines of credit in the aggregate outstanding amount of ₩515 billion for non-amortizing loans.

Pricing

The interest rates payable on the Bank's retail loans are either periodically adjusted floating rates (based on a base rate determined for three-month, six-month or twelve-month periods derived using an internal transfer price system, which reflects the market cost of funding, as adjusted to account for expenses related to lending and the profit margin of the relevant loan products) or fixed rates that reflect the market cost of funding, as adjusted to account for expenses related to lending and the profit margin. Fixed rate loans have maturities of 15 years and are offered only on a limited basis and at a premium to floating rate loans. For unsecured loans, which the Bank provides on a floating or fixed rate basis, interest rates thereon reflect a margin based on, among other things, the borrower's credit score as determined during its loan approval process. For secured loans, the credit limit is based on the type of collateral, priority with respect to the collateral and the loan-to-value ratio. The Bank may adjust the pricing of these loans to reflect the borrower's current and/or expected future contribution to the Bank's profitability. The interest rate on the Bank's loan products may become adjusted at the time the loan is extended. If a loan is terminated within three years following the date of the loan, the borrower is required to pay an early termination fee, which is calculated generally as 1.5% of the outstanding principal amount of and accrued and unpaid interest on the loan, multiplied by a fraction the numerator of which is the number of the remaining days on the loan until maturity and the denominator of which is the number of days comprising the term of the loan or three years, whichever is greater.

As of December 31, 2014, the Bank's three-month, six-month and twelve-month base rates were approximately 2.13%, 2.17% and 2.18%, respectively. As of December 31, 2014, the Bank's fixed rates for mortgage and home equity loans with a maturity of three years, five years and seven years were approximately 3.80%, 3.85% and 4.50%, respectively, and the Bank's fixed rates for other retail loans with a maturity of one year ranged from 4.74% to 14.00%, depending on the credit scores of its customers.

As of December 31, 2014, 73.14% of the Bank's total retail loans were floating rate loans and 26.86% were fixed rate loans. As of the same date, 65.43%, of the Bank's retail loans with maturity of more than one year were floating rate loans and 34.57% were fixed rate loans.

The interest rate charged to customers by the Bank is based, in part, on the "cost of funding index", or COFIX, which is published by the Korean Federation of Banks. COFIX is computed based on the weighted average interest of select funding products (including time deposits, housing and other installment savings deposits, repos, discounted bills and senior non-convertible financial debentures) of nine major Korean banks (comprised of the Bank, Kookmin Bank, Woori Bank, Hana Bank, Korea Exchange Bank, Nonghyup Bank, Industrial Bank of Korea, Citibank Korea Inc. and Standard Chartered Bank Korea Limited). Each bank then independently determines the interest rate applicable to its respective customers by adding a spread to the COFIX based on the difference between the COFIX and such bank's general funding costs, administration fees, the customer's credit score, the maturity of the loan and other customer-specific premiums and discounts based on the customer relationship with such bank. These interest rates are typically adjusted on a monthly basis.

Private Banking

Historically, the Bank has focused on customers with high net worth. The Bank's retail banking services include providing private banking services to high net worth customers who seek personal advice in complex financial matters. The Bank's aim in private banking is to help enhance wealth accumulation by, and increase the financial sophistication of its high net-worth clients by offering them portfolio and fund management, tax consulting and real estate management services, among others. Since the end of 2011, in order to preemptively respond to evolving customer needs and promote asset growth by inducing greater synergy between commercial banking and investment advisory services offered by Shinhan Investment, the Bank launched the private wealth management centers which combine certain branches of the Bank with those of Shinhan Investment in same locations.

As of December 31, 2014, the Bank operated 25 private banking centers nationwide, including 18 in Seoul, three in the suburbs of Seoul and four in cities located in other regions in Korea. As of December 31, 2014, the Bank had approximately 6,055 private banking customers, who typically are required to have ₩500 million in deposits with the Bank to qualify for its private banking services.

Corporate and Investment Banking Services

Overview

The Bank provides corporate banking services to small- and medium-sized enterprises, including enterprises known as SOHO (standing for "small office, home office"), which are small enterprises operated by individuals or households, and, to a lesser extent, to large corporations, including corporations that are affiliated with *chaebol*s. The Bank also lends to government-controlled enterprises.

The following table set forth the balances and percentage of the Bank's total lending attributable to each category of its corporate lending business as of the dates indicated.

	As of December 31,					
	2012		2013		2014	
	(In billions of Won, except percentages)					
Small- and medium-sized enterprises loans[1]	₩ 56,816	56.7%	₩ 60,596	58.8%	₩ 66,258	60.6%
Large corporate loans	43,476	43.3%	42,416	41.2%	43,157	39.4%
Total corporate loans	₩100,292	100.0%	₩103,012	100.0%	₩109,415	100.0%

Note:

(1) Represents the principal amount of loans extended to corporations meeting the definition of small- and medium-sized enterprises under the Basic Act on Small- and Medium-sized Enterprises and its Presidential Decree.

The Bank also engages in treasury and securities investment business, which involves, among other things, treasury activities (consisting primarily of internal asset and liability management), securities investment trading and derivatives trading.

Small- and Medium-sized Enterprises Banking

Under the Basic Act on Small- and Medium-sized Enterprises (the "**SME Basic Act**") and the related Presidential Decree, as amended effective from February 3, 2015, in order to qualify as a small- and medium-sized enterprise, (i) the enterprise's total assets at the end of the immediately preceding fiscal year must be less than ₩500 billion, (ii) the enterprise must meet the standards prescribed by the Presidential Decree in relation to the average and total annual sales revenues applicable to the type of its main business, and (iii) the enterprise must meet the standards of management independence from ownership as prescribed by the Presidential Decree, including non-membership in a conglomerate as defined in the Monopoly Regulations and Fair Trade Act. However, if any entity which was a small- and medium-sized enterprise as defined in the SME Basic Act prior to the latest amendment no longer meets such definition following such amendment, such entity will be deemed a small- and medium-sized enterprise for purposes of the SME Basic Act until March 31, 2018. Non-profit enterprises with a number of regular employees not exceeding 300 or revenue of less than ₩30 billion that satisfy certain requirements prescribed in the Basic Act on Small- and Medium-sized Enterprises and its Presidential Decree may qualify as a small- and medium-sized enterprise. Furthermore, cooperatives and federations of cooperatives as prescribed by the Presidential Decree are deemed as small- and medium-sized enterprises, effective from April 15. 2014. As of December 31, 2014, the Bank made loans to 276,062 small- and medium-sized enterprises for an aggregate amount of ₩66,258 billion.

The Bank, whose traditional focus has been on small- and medium-sized enterprises lending, believes that it is well-positioned to succeed in the small- and medium-sized enterprises market in light of its marketing capabilities (which the Bank believes have provided the Bank with significant customer loyalty) and its prudent risk management practices, including conservative credit rating system for credit approval. To maintain or increase its market share of small- and medium-sized enterprises lending, the Bank:

- *has accumulated a market-leading expertise and familiarity as to customers and products*. The Bank believes that it has an in-depth understanding of the credit risks embedded in this market segment and to develop loan and other products specifically tailored to the needs of this market segment;

- *operates a relationship management system to provide customer services that are tailored to small-and medium-sized enterprises*. The Bank currently has relationship management teams in 185 banking branches, of which two are corporate banking branches and 183 are hybrid banking branches designed to serve both retail customers and, to a limited extent, corporate customers. These relationship management teams market products, and review and approve smaller loans with less credit risks; and

- *continues to focus on cross-selling loan products with other products*. For example, when the Bank lends to small- and medium-sized enterprises, it also explores opportunities to cross-sell retail loans or deposit products to the employees of these enterprises or to provide financial advisory services.

Large Corporate and Investment Banking

Large corporate customers consist primarily of member companies of *chaebol*s and financial institutions. Large corporate loans of the Bank amounted to ₩43,157 billion as of December 31, 2014. Large corporate customers tend to have better credit profiles than small- and medium-sized enterprises, and accordingly, the Bank has expanded its focus on these customers as part of its risk management policy.

The Bank aims to be a one-stop financial solution provider that also partners with its corporate clients in their corporate expansion and growth endeavors. To that end and, the Bank provides a wide range of corporate banking services, including investment banking, real estate financing, overseas real estate project financing, large development project financing, infrastructure financing, structured financing, equity investments/venture investments, mergers and acquisitions consulting, securitization and derivatives services, including securities and derivative products and foreign exchange trading. The Bank, through Shinhan Asia Limited, a subsidiary in Hong Kong, also arranges financing for, and offers consulting services to, Korean companies expanding their business overseas, particularly in Asia.

Electronic Corporate Banking

The Bank offers to corporate customers a web-based total cash management service known as "Shinhan Bizbank". Shinhan Bizbank supports substantially all types of banking transactions ranging from basic transaction history inquiries and fund transfers to opening letters of credit, trade finance, payment management, collection management, sales settlement service, acquisition settlement service, business-to-business settlement service, sweeping and pooling. In addition, the Bank provides customers with integrated and advanced access to its financial services through its "Inside Bank" program, which combines internet banking, capital management services and enterprise resource planning to better serve corporate customers. The Inside Bank program also seeks to provide customized financial services to meet the comprehensive needs of target corporate customers ranging from conglomerates to small enterprises in various industries, with the goal of enhancing convenience to the Bank's corporate customers in accessing its financial services as well as assisting them to strategically manage their funds.

Corporate Lending Activities

The Bank's principal loan products for corporate customers are working capital loans and facilities loans. Working capital loans, which include discounted notes and trade financing, are generally loans used for general working capital purposes. Facilities loans are provided to finance the purchase of equipment and construction of manufacturing plants. As of December 31, 2014, working capital loans and facilities loans amounted to ₩49,570 billion and ₩31,797 billion, respectively, representing 60.92% and 39.08% of the Bank's total Won-denominated corporate loans. Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of three years in the case of unsecured loans and five years in the case of secured loans. Facilities loans have a maximum maturity of ten years, are typically repaid in semiannual installments per annum and may be entitled to a grace period not exceeding one-third of the loan term with respect to the first repayment; facilities loans with a term of three years or less may be paid in full at maturity.

Loans to corporations may be unsecured or secured by real estate, deposits or guaranty certificates. As of December 31, 2014, secured loans and guaranteed loans (including loans secured by guaranty certificates issued by credit guarantee insurance funds) accounted for 54.31% and 10.98%, respectively, of the Bank's Won-denominated loans to small- and medium-sized enterprises. As of December 31, 2014, 36.11% of the corporate loans were secured by real estate.

When evaluating whether to extend loans to corporate customers, the Bank reviews their creditworthiness, credit score, value of any collateral and/or third party guarantee. The value of collateral is computed using a formula that takes into account the appraised value of the collateral, any prior liens or other claims against the collateral and an adjustment factor based on a number of considerations including, with respect to property, the average value of any nearby property sold in a court-supervised auction during the previous year. The Bank revalues collateral when a secured loan is renewed or if a trigger event occurs with respect to the loan in question.

Pricing

The Bank determines the price for its corporate loan products based principally on their respective cost of funding and the expected loss rate based on the borrower's credit risk. As of December 31, 2014, 63.94% of the Bank's corporate loans with outstanding maturities of one year or more had variable interest rates as determined by the applicable market rates.

More specifically, interest rates on the Bank's corporate loans are generally determined as follows:

Interest rate = (The Bank's periodic market floating rate or reference rate) *plus* transaction cost *plus* credit spread *plus* risk premium *plus or minus* discretionary adjustment.

Depending on the market condition and the agreement with the borrower, the Bank may use either its periodic market floating rate or the reference rate as the base rate in determining the interest rate for the borrower. As of December 31, 2014, the Bank's periodic market floating rates (which are based on a base rate determined for a three-month, six-month, one-year, two-year, three-year or five-year period, as applicable, as derived using the Bank's market rate system) were 2.13% for three months, 2.17% for six months, 2.18% for one year, 2.03% for two years, 2.31% for three years and 2.49% for five years. As of the same date, the Bank's reference rate was 6.75%. The reference rate refers to the base lending rate used by the Bank and is determined annually by the Bank's Asset & Liability Management Committee based on, among others, the Bank's funding costs, cost efficiency ratio and discretionary margin.

Transaction cost reflects the standardized transaction cost assigned to each loan product and other miscellaneous costs, including contributions to the Credit Guarantee Fund, and education taxes. The Credit Guarantee Fund is a statutorily created entity that provides credit guarantees to loans made by commercial banks and is funded by mandatory contributions from commercial banks in the amount of approximately 0.2% of all loans made by them.

The credit spread is added to the periodic floating rate to reflect the expected loss based on the borrower's credit rating and the value of any collateral or payment guarantee. In addition, the Bank adds a risk premium which takes into account the potential of unexpected loss that may exceed the expected loss from the credit rating assigned to a particular borrower.

A discretionary adjustment rate is added or subtracted to reflect the borrower's current and/or future contribution to the Bank's profitability. If additional credit is provided by way of a guarantee, the adjustment rate is subtracted to reflect such change in the credit spread. In addition, depending on the price and other terms set by competing banks for similar borrowers, the Bank may reduce the interest rate to compete more effectively with other banks.

Treasury

The Bank's treasury division provides funds to all of the Bank's business operations and ensures the liquidity of its operation. To secure stable long-term funds, the Bank uses fixed and floating rate notes, debentures, structured financing and other advanced funding methods. As for overseas funding, the Bank closely monitors the feasibility of raising funds in currencies other than the U.S. dollar, such as the Yen and the Euro. In addition, the Bank makes call loans and borrows call money in the short-term money market. Call loans are short-term lending among banks and financial institutions in either Won or foreign currencies with a minimum transaction amount of ₩100 million and maturities of typically one day.

Securities Investment and Trading

The Bank invests in and trades securities for its own accounts in order to maintain adequate sources of liquidity and to generate interest income, dividend income and capital gains. The Bank'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, debt securities issued by financial institutions and equity securities listed on the KRX KOSPI Market and KRX KOSDAQ Market of the Korea Exchange. For a detailed description of the Bank's securities investment portfolio, see "*Description of Assets and Liabilities — Investment Portfolio*".

Derivatives Trading

The Bank provides to its customers, and to a limited extent, trades for its proprietary accounts, a range of derivatives products, which include:

- interest rate swaps, options, and futures relating to Won interest rate risks and LIBOR risks, respectively;
- cross-currency swaps, largely for Won against U.S. dollars, Yen and Euros;
- equity and equity-linked options;
- foreign currency forwards, options and swaps;
- commodity forwards, swaps and options;
- credit derivatives; and
- KOSPI 200 indexed equity options.

The Bank's outstanding derivatives commitments in terms of notional amount was ₩136,795 billion, ₩122,842 billion and ₩106,498 billion in 2012, 2013 and 2014, respectively. Such derivative operations generally focus on addressing the needs of corporate clients to enter into derivatives contracts to hedge their risk exposure, and entering into back-to-back derivatives to hedge the Bank's risk exposure that results from such client contracts.

The Bank also enters into derivative contracts to hedge the interest rate and foreign currency risk exposures that arise from the Bank's own assets and liabilities. In addition, to a limited extent, the Bank engages in proprietary trading of derivatives within its regulated open position limits. See "*Description of Assets and Liabilities — Derivatives*".

International Business

The Bank also engages in treasury and investment activities in international capital markets, principally including foreign currency-denominated securities trading, foreign exchange trading and services, trade-related financial services, international factoring services and foreign banking operations through its overseas branches and subsidiaries. The Bank aims to become a leading bank in Asia and expand its international business by focusing on further bolstering its overseas network, localizing its overseas operations and diversifying its product offerings, particularly in terms of asset management, in order to meet the various financing needs of its current and potential customers overseas.

Trust Account Management Services

Overview

The Bank's trust account management services involve management of trust accounts, primarily in the form of money trusts. Trust account customers are typically individuals seeking higher rates of return than those offered by bank account deposits. Because deposit reserve requirements do not apply to deposits held in trust accounts as opposed to deposits held in bank accounts, and regulations governing trust accounts tend to be less strict, the Bank is generally able to offer higher rates of return on trust account products than on bank deposit products. However, in recent years, due to the ongoing low interest environment, the Bank has not been able to offer attractive rates of return on its trust account products.

Trust account products generally require higher minimum deposit amounts than those required by comparable bank account deposit products. Unlike bank deposit products, deposits in trust accounts are invested primarily in securities (consisting principally of debt securities and beneficiary certificate for real estate financing) and, to a lesser extent, in loans, as the relative shortage of funding sources require that trust accounts be invested in a higher percentage of liquid assets.

Under the Banking Act, the FSCMA and the Trust Act, assets in trust accounts are required to be segregated from other assets of the trustee bank and are unavailable to satisfy the claims of the depositors or other creditors of such bank. Accordingly, trust accounts that are not guaranteed as to principal (or as to both principal and interest) are accounted for and reported separately from the bank accounts. See "*Supervision and Regulation*". Trust accounts are regulated by the Trust Act and the FSCMA, and most national commercial banks offer similar trust account products. The Bank earns income from trust account management services, which is recorded as net trust management fees.

As of December 31, 2012, 2013 and 2014, the Bank had total trust assets of ₩29,243 billion, ₩26,342 billion and ₩30,986 billion, respectively, comprised principally of securities investments of ₩5,266 billion, ₩5,195 billion and ₩6,239 billion, respectively; real property investments of ₩9,511 billion, ₩4,723 billion and ₩5,913 billion, respectively; and loans with an aggregate principal amount of ₩560 billion, ₩466 billion and ₩434 billion, respectively. Securities investments consisted of corporate bonds, government-related bonds and other securities, primarily commercial paper. As of December 31, 2012, 2013 and 2014, debt securities accounted for 16.3%, 18.3% and 18.9%, respectively, and equity securities constituted 1.7%, 1.4% and 1.3%, respectively, of the Bank's total trust assets. Loans made by trust accounts are similar in type to those made by bank accounts, except that they are made only in Korean Won. As of December 31, 2012, 2013 and 2014, 51.9%, 54.5% and 57.9%, respectively, of the amount of loans from the trust accounts were collateralized or guaranteed. In making investment from funds received for each trust account, each trust product maintains investment guidelines applicable to each such product which set forth, among other things, company-, industry- and security-specific limitations.

Trust Products

In Korea, trust products typically take the form of money trusts, which are discretionary trusts over which (except in the case of a specified money trust) the trustees have investment discretion subject to applicable law and is commingled and managed jointly for each type of trust account. The specified money trusts are established on behalf of customers who give specific directions as to how their trust assets should be invested.

Money trusts managed by the Bank's trust account business amounted to ₩15,453 billion, ₩16,830 billion and ₩19,591 billion as of December 31, 2012, 2013 and 2014, respectively.

The Bank offers variable rate trust products through its retail branch network. As of December 31, 2012, 2013 and 2014, the Bank's variable rate trust accounts amounted to ₩12,289 billion, ₩13,531 billion and ₩16,121 billion, respectively, of which principal guaranteed variable rate trust accounts amounted to ₩3,163 billion, ₩3,298 billion and ₩3,469 billion, respectively. Variable rate trust accounts offer their holders variable rates of return on the principal amount of the deposits in the trust accounts and do not offer a guaranteed return on the principal of deposits, except in the limited cases of principal guaranteed variable rate trust accounts, for which payment of the principal amount is guaranteed. The Bank charges a lump sum or a fixed percentage of the assets held in such trusts as a management fee, and, depending on the trust products, is also entitled to additional fees in the event of early termination of the trusts by the customer. Korean banks, including the Bank, are currently allowed to guarantee the principal of the following types of variable rate trust account products: (i) existing individual pension trusts, (ii) new individual pension trusts, (iii) existing retirement pension trusts, (iv) new retirement pension trusts, (v) pension trusts and (vi) employee retirement benefit trusts. The Bank also offers an insignificant amount of guaranteed fixed rate products (amounting to ₩1.0 billion, ₩1.0 billion and ₩1.0 billion as of December 31, 2012, 2013 and 2014, respectively), which provide to its holders a guaranteed return of the principal as well as a guaranteed fixed rate of return. These products are carry-overs from past offerings, and the Bank no longer offers guaranteed fixed rate trust products.

Distribution Network

The Bank offers a wide range of financial services to retail and corporate customers through a variety of distribution networks and channels, including an extensive domestic branch network specializing in retail and corporate banking services, as complemented by self-service terminals and electronic banking (including mobile phone banking), as well as an overseas services network.

Branch Network in Korea

As of December 31, 2014, the Bank's branch network in Korea comprised of 900 service centers, consisting of 705 retail banking service centers (including 25 private wealth management service center, nine large corporate banking service center and 186 hybrid banking branches designed to serve retail as well as small-business corporate customers.

The following table presents the geographical distribution of the Bank's distribution network in Korea based on the branch offices and other distribution channels, as of December 31, 2014.

	Retail	Corporate	Total
Seoul metropolitan	304	72	376
Kyunggi province	153	47	200
Six major cities	128	38	166
Incheon	42	12	54
Busan	30	9	39
Kwangju	9	3	12
Taegu	21	7	28
Ulsan	9	4	13
Taejon	17	3	20
Sub-total	585	157	742
Others	120	38	158
Total	705	195	900

The Bank's branch network is designed to provide one-stop banking services tailored to their respective target customers.

Retail Banking Channels

In Korea, many retail transactions are conducted in cash or with credit cards, and conventional checking accounts are generally not offered or used as widely as in other countries such as the United States. As a result, an extensive retail branch network plays an important role for Korean banks as customers generally handle most transactions through bank branches. Recently, one of the key initiatives at the Bank has been to target high net worth individuals through private banking. The Bank's private banking services are provided principally through private banking relationship managers who, within target customer groups, assist clients in developing individual investment strategies. The Bank believes that its relationship managers help foster enduring relationships with the Bank's clients. Private banking customers also have access to the Bank's retail branch network and other general banking products the Bank offers through its retail banking operations.

Corporate Banking Channels

The Bank currently provides corporate banking services through corporate banking service centers primarily designed to serve large corporate customers and hybrid banking branches designed to serve retail as well as small-business corporate customers. Small- and medium-sized enterprises have traditionally been the Bank's core corporate customers and the Bank plans to continue to maintain its strength vis-à-vis these customers.

Self-Service Terminals

In order to complement the Bank's banking branch network, it maintains an extensive network of automated banking machines, which are located in branches and in unmanned outlets. These automated banking machines consist of ATMs, cash dispensers and passbook printers. As of December 31, 2014, the Bank had 33 cash dispensers and 7,434 ATMs. The Bank has actively promoted the use of these distribution outlets in order to provide convenient service to customers, as well as to maximize the marketing and sales functions at the branch level, reduce employee costs and improve profitability. In 2014, automated banking machine transactions accounted for a substantial portion and a majority of total deposit and withdrawal transactions of the Bank in terms of the number of transactions and fee revenue generated, respectively.

Electronic Banking

The Bank's internet banking services are more comprehensive than those available at the counter, including such services as 24 hour account balance posting, real-time account transfer, overseas remittance and loan requests. The Bank also offers mobile banking services in order to enable customers to make speedy, convenient and secure banking transactions using mobile phones. As of December 31, 2014, the Bank had approximately 14,306,000 subscribers to its Internet banking services and approximately 8,608,000 users of its smart banking apps. The Bank continues to experience a rise in the number of online and mobile banking users. The Bank began offering online and mobile banking initially with a view to saving costs rather than increasing revenues, but is currently exploring ways to leverage the possibility of increase revenues through online and mobile banking given that these services offer customers with easier and more convenient access to banking services without limitations of time and space as well as offer tailored and customized service to each customer.

Overseas Services Network

The table below sets forth the Bank's overseas banking subsidiaries and branches as of December 31, 2014.

Business Unit	**Location**	**Year Established or Acquired**
Subsidiaries		
Shinhan Asia Ltd.	Hong Kong SAR, China	1982
Shinhan Bank Europe GmbH	Germany	1994
Shinhan Bank America	New York, U.S.A.	2003
Shinhan Bank (China) Limited	Beijing, China	2008
Shinhan Khmer Bank PLC	Cambodia	2007
Shinhan Bank Kazakhstan Limited	Kazakhstan	2008
Shinhan Bank Canada	Toronto, Canada	2009
Shinhan Bank Japan[(1)]	Tokyo, Japan	2009
Shinhan Bank Vietnam, Ltd.[(2)]	Ho Chi Minh City, Vietnam	2011
Branches		
New York	U.S.A.	1989
Singapore	Singapore	1990
London	United Kingdom	1991
Mumbai	India	1996
Hong Kong	China	2006
New Delhi	India	2006
Kancheepuram	India	2014
Pune	India	2014
Representative Office		
Mexico	Mexico City, Mexico	2008
Uzbekistan	Almaty, Uzbekistan	2009
Myanmar	Yangon, Myanmar	2013

Notes:

(1) While the Bank established the subsidiary in Japan in 2009, the Bank provided banking services in Japan through a branch structure since 1986.

(2) Prior to the establishment of this subsidiary in 2011, the Bank provided banking services in Vietnam through a branch structure since 1995.

Currently, the Bank's overseas subsidiaries and branches are primarily engaged in trade financing and local currency funding for Korean companies and Korean nationals in the overseas markets, as well as providing foreign exchange services in conjunction with Shinhan Bank's headquarters. On a limited basis, these overseas branches and subsidiaries also engage in investment and trading of securities of foreign issuers. In the future, as part of the Bank's globalization efforts, the Bank plans to expand its coverage of local customers in the overseas markets by providing a wider range of services in retail and corporate banking, and to that end, the Bank has increasingly established subsidiaries in lieu of branches in select markets and in 2011 merged two of its Vietnam banking subsidiaries in order to enhance its presence and enable a greater flexibility in its service offerings in these markets.

Subsidiaries

As of December 31, 2014, the Bank had nine consolidated subsidiaries (in addition to 33 consolidated special purpose vehicles), details of which are provided in the table below.

Subsidiary[1]	Location	Equity ownership	Business
	(In percentages)		
Shinhan Asia Limited	Hong Kong	99.9	Investment banking services, arranging financing and consulting services for Korean companies, and engages in investment banking business in China and Southeast Asian countries.
Shinhan Bank America	New York and California	100.0	General banking services, mostly for Korean customers living in the United States.
Shinhan Bank Canada	Toronto	100.0	General banking services, mostly for Korean customers living in Canada.
Shinhan Bank (China) Limited	Beijing	100.0	Financial services to both local and Korean communities and companies.
Shinhan Bank Europe Gmbh	Frankfurt	100.0	Overseas lending, mostly to Korean corporations and/or their affiliates.
Shinhan Bank Kazakhstan	Almaty	100.0	General banking services, mostly for Korean customers living in Kazakhstan.
Shinhan Bank Japan	Tokyo	100.0	General banking services, mostly for Korean customers living in Japan.
Shinhan Bank Vietnam	Ho Chi Minh City	100.0	General banking services, mostly for Korean customers living in Vietnam.
Shinhan Khmer Bank	Phnom Penh	90.0	General banking services, mostly for Korean companies in Cambodia.

Note:

(1) The Bank also has 33 structured entities that are treated as consolidated subsidiaries under Korean IFRS.

Competition

Competition in the Korean financial services industry is, and is likely to remain, intense.

The Bank competes principally with other national commercial banks in Korea, but also faces competition from a number of additional banking institutions, including branches and subsidiaries of foreign banks operating in Korea, regional banks, government-owned development banks and Korea's specialized banks, such as Korea Development Bank, the Industrial Bank of Korea and the National Association of Agriculture and Fisheries, as well as various other types of financial service providers, including savings institutions (such as mutual savings and finance companies, credit unions and credit cooperatives), investment companies (such as securities brokerage firms, merchant banking corporations and asset management companies) and life insurance companies. As of December 31, 2014, Korea had seven major nationwide domestic commercial banks (including Citibank Korea Inc. and Standard Chartered Bank Korea Limited, both of which are domestic commercial banks acquired by global financial institutions), six regional commercial banks and branches and subsidiaries of 40 foreign banks. Foreign financial institutions, many of which have greater experiences and resources than the Bank does, may continue to enter the Korean market and compete with the Bank in providing financial products and services either by themselves or in partnership with existing Korean financial institutions.

In the small- and medium-sized enterprise and retail banking segments, which have been the Bank's traditional core businesses, competition is expected to increase further. In recent years, Korean banks, including the Bank, have increasingly focused on stable asset growth based on quality credit, such as corporate borrowers with high credit ratings, loans to "small office, home office" ("**SOHO**") with high levels of collateralization, and mortgage and home equity loans within the limits of the prescribed loan-to-value ratios and debt-to-income ratios. This largely shared shift in focus toward stable growth based on less risky assets has intensified competition as banks compete for the same pool of quality credit by engaging in price competition or by other means. Although the Bank has traditionally focused, and will continue to focus, on enhancing profitability rather than increasing asset size or market share, and has avoided, to the extent practicable, engaging in price competition by way of lowering lending rates. In addition, such competition may result in lower net interest margin and reduced overall profitability, especially if the low interest rate environment were to continue for a significant period of time. Therefore, if competing financial institutions seek to expand market share by lowering their lending rates, the Bank may suffer customer loss, especially among customers who select their lenders principally on the basis of lending rates. In response thereto or for other strategic reasons, the Bank may subsequently lower its lending rates to stay competitive, which could lead to a decrease in its net interest margins and outweigh any positive impact on the net interest margin from a general rise in market interest rates. Any future decline in the Bank's customer base or its net interest margins could have an adverse effect on its results of operations and financial condition.

Consolidation among the Bank's rival institutions may also add competition in the markets in which the Bank and its subsidiaries conduct business. The Korean banking industry may undergo further consolidation either voluntarily or as part of government-led initiatives, including privatization, although the Government announced in March 2013 that it would no longer pursue privatization of Korea Development Bank and Industrial Bank of Korea. Some of the financial institutions resulting from these developments may, by virtue of their increased size, expanded business scope and more efficient operations, provide greater competition for the Bank. For example, partly to facilitate the sale of Woori Bank, one of the four leading commercial banks in Korea in terms of assets, Woori Financial Group was dissolved in November 2014 and was merged into Woori Bank, with all previously subsidiaries of Woori Financial Group currently being subsidiaries of Woori Bank. While recent efforts by the Government to sell Woori Bank have not been successful, the Government was able to sell Woori Investment & Securities, a leading brokerage firm, to the National Agricultural Cooperative Federation. If one of major competitors or a foreign financial institution were to acquire Woori Bank or any of its major operating subsidiaries, the consolidated entity may have a greater scale of operations, including a larger customer base, and financial resources than the Bank, which may hurt the Bank's ability to compete effectively. In addition, in April 2013, Korea Exchange Bank became part of Hana Financial Group after acquisition of the former by the latter in February 2012, and in October 2014, Korea Exchange Bank entered into an agreement to be merged into Hana Bank, one of the major commercial banks in Korea. Any of these developments may place the Bank at a competitive disadvantage and outweigh any potential benefit to the Bank in the form of opportunities to acquire new customers who are displeased with the level of services at the newly reorganized entities or to provide credit facilities to corporate customers who wish to maintain relationships with a wide range of banks in order to diversify their sources of funding.

As the Korean economy further develops and new business opportunities arise, more competitors may enter the financial services industry. Recently, banks are beginning to compete for new customers and competition between bank-operated credit card companies and independent card companies may increase substantially. For example, as part of the aforementioned privatization efforts by the Government, Woori Card may be sold to another major credit card company, in which case it is possible that a credit card company comparable to Shinhan Card, the Bank's credit card affiliate in terms of asset size and customer base may newly emerge. Furthermore, as online service providers with large-scale user networks, such as Daum Kakao, make significant inroads in providing virtual payment services through a system based on a growing convergence of financial services and technology commonly referred to as "fintech", competition for online customers is growing not just among commercial banks, but also from online service providers. Accordingly, the commercial banks are facing increasing pressure to upgrade their service platforms to attract and maintain online users, which represents a growing customer base compared to traditional customers who have primarily conducted banking in-person at physical banking branches. In addition, large non-financial institutions, such as mobile telecommunications companies, which on a combined basis service most of the Korean population, may expand entry into the Korean credit card and consumer finance businesses by way of convergence with the existing and future mobile telephone networks. Accordingly, a widespread consumer acceptance of mobile phone payment services in lieu of credit card services could add to competitive threat to the existing credit card service providers, including the Bank's credit card subsidiary.

Recently, following the global financial crisis, the Government has subjected Korean financial institutions to stricter regulatory requirements and guidelines in areas of asset quality, capital adequacy, liquidity and residential and other lending practices, which has had a dampening effect on competition. The FSC has recently implemented the capital requirements of Basel III, whose minimum requirements were phased in sequentially from December 1, 2013 for full implementation by January 1, 2015, based on the guidelines set forth in the amended Regulation on the Supervision of the Banking Business and the Detailed Regulation on the Supervision of the Banking Business. In addition, the FSC is currently implementing the Basel III requirements relating to liquidity coverage ratio which are to be phased in subsequently from January 1, 2015 for full implementation by January 1, 2019. The FSC also announced that it would implement the Basel III requirements relating to countercyclical capital buffer in 2016. However, there is no assurance that these measures will continue to curb competition or that the Government will not reverse or reduce such measures or introduce other deregulatory measures, which may further intensify competition in the Korean financial services industry.

If the Bank is unable to compete effectively in the changing business and regulatory environment, its profit margin and market share may erode and its future growth opportunities may become limited, which could adversely affect its business, results of operation and financial condition. See "*Risk Factors — Risks Relating to the Bank's Business — Competition in the Korean financial services industry is intense, and may further intensify", "Supervision and Regulation*".

Information Technology

The Bank dedicates substantial resources to maintaining a sophisticated information technology system to support its operations management and provide high quality customer service. The Bank's information and technology system is operated by Shinhan Financial Group at a group-wide level based on a comprehensive group-wide information collection and processing. Shinhan Financial Group also operates a single group-wide enterprise information technology system known as "enterprise data warehouse" for customer relations management capabilities, risk management systems and data processing. Shinhan Financial Group continually upgrades its group-wide information technology system in order to apply the best-in-class technology to its risk management systems to reflect the changes in its business environment as well as enhance differentiation from its competitors.

In 2013, Shinhan Financial Group completed the construction of the Integrated Data Center, which is responsible for comprehensive management of information technology systems for all subsidiaries on a groupwide basis. This center ensures a stable use of a central information processing facilities for at least 15 years and is designed to maximize operational and cost efficiency as well as enhance information security by combining the various data centers. The Bank relocated its information management capabilities to this center in 2014.

In order to enhance security and trustworthiness of the financial services provided by its subsidiaries, Shinhan Financial Group seeks to continually enhance a group-wide set of standards for information security and upgrading the related systems. In 2008, Shinhan Financial Group established group-wide information systems and policies, which have since been continually updated and upgraded. In 2014, Shinhan Financial Group further upgraded the groupwide information security control tower to a best-in-class level and replaced most of its internal information security staff with highly qualified outside experts in order to reinforce its security defense capabilities in the event of cyber breaches.

The Bank also continue to upgrade the information technology systems to enhance the quality of its customer service and thereby bolster its competitiveness, including with respect to electronic and mobile banking (including by means of smartphones), online consultation, expanded sales services and customized informational services. In addition, the Bank has recently strengthened its indirect service channels through a major upgrade of the corporate online banking services and expansion of mobile phone-based product offerings and sales and service networks in light of the growing base of customers who increasingly access financial services through their mobile phones. Furthermore, the Bank has expanded information technology systems to support the sales and operational capabilities of its overseas subsidiaries and branches through a global customer management system as well as provide country-specific financial services.

The Bank's information technology system is currently backed up on a real-time basis. In 2014, Shinhan Financial Group converted the pre-existing data center to a back-up and disaster recovery center for operations in order to provide customer services in a continued seamless manner even in the case of an interruption at Shinhan Data Center.

Properties

The Bank's registered office and corporate headquarters are located at 20 Sejong-Daero 9-Gil, Jung-Gu, Seoul 100-724, Korea. Information regarding certain of the Bank's properties in Korea is presented in the following table.

		Area (in square meters)	
Type of Facility	**Location**	**Building**	**Site (if Different)**
Registered office and corporate headquarters	20, Sejong-Daero 9-Gil, Jung-Gu, Seoul 100-724, Korea	59,519	5,418
Shinhan Bank Gwanggo Annex	54, Cheongyecheon-Ro, Jung-Gu, Seoul 100-757, Korea	3,652	6,783
Shinhan Back Office Support Center	1311, Jungang-Ro, Ilsandong-Gu, Goyang-Si, Kyunggi Province 410-837, Korea	24,496	5,856
Shinhan Bank Back Office and Call Center	251, Yeoksam-Ro, Gangnam-Gu, Seoul 135-514, Korea	23,374	7,964
Shinhan Centennial Building	29, Namdaemun-Ro 10-Gil, Jung-Gu, Seoul 100-200, Korea	19,697	1,389
Shinhan Bank Gwanggyo Branch	54, Cheongyecheon-Ro, Jung- Gu, Seoul 100-200, Korea	16,727	6,783
Shinhan Myongdong Branch	43, Myongdong-Gil, Jung- Gu, Seoul 100-021, Korea	8,936	1,014
Shinhan Youngdungpo Branch	27, Yeongjung-Ro, Yeongdeungpo-Gu, Seoul 150-034, Korea	6,171	1,983
Shinhan Bank Back Office and Storage Center	3, Danjae-Ro 291beon-Gil, Sangdang-Gu, Cheongju-Si, Chungcheongbuk-Do 360-183, Korea	6,019	5,376

The Bank's principal establishment is in Seoul, Korea and has a total floor area of approximately 59,519 square meters. The Bank owns, directly or indirectly, a majority interest in its headquarters building. In addition, the Bank owns or leases various sites and buildings for its branches. The Bank houses its central mainframe computer system at its information technology center in the Seoul metropolitan area.

As of December 31, 2014, the Bank had a countrywide network of 900 branches. Approximately 25.2% of these facilities were housed in buildings owned by the Bank, while the remaining branches were leased properties.

The net book value of all properties owned by the Bank as of December 31, 2014 was ₩1,807 billion. The Bank does not own any material properties outside of Korea.

Legal Proceedings and Other Matters

Legal Proceedings

As of December 31, 2014, the Bank was the defendant in pending lawsuits (including any government proceedings) in the aggregate claim amount of ₩310 billion, for which it recorded a provision of ₩22 billion.

The Bank, like many other commercial banks in Korea, is currently subject to litigation in relation to investment products known as "**KIKOs**". KIKOs, which stand for "knock-in knock-out," are foreign currency derivative products under the terms of which the seller is obligated to pay the buyer a certain amount if the Korean Won depreciates beyond a certain level and the buyer is obligated to pay the seller a certain amount if the Korean Won appreciates beyond a certain level. Intended as a hedging instrument, these products were sold to mostly small businesses primarily prior to the onset of the global financial crisis in 2008, but when the Korean Won significantly and suddenly depreciated during the global financial crisis, the investors became obligated to pay a substantial sum to the banks, including the Bank. Subsequently, the investors brought suit to nullify the contracts on grounds of imperfect sale alleging failure on the part of the selling banks to fully disclose the associated risk. As of December 31, 2014, the courts had conclusively found in the Bank's favor in 45 of 54 KIKO-related cases and at least partially against the Bank in the remaining nine cases. As of December 31, 2014, six KIKO-related cases were in proceeding for which the aggregate amount of claims in dispute was ₩43.4 billion and the Bank set aside ₩6.2 billion as allowance in respect of such claims.

In November 2005, the Bank purchased the shares of Shinho Paper Co., Ltd. (currently known as Artone Paper Co., Ltd.) ("**Shinho**") held by Aram Corporate Restructuring Association ("**Aram**") from Choong-Shik Lee, an executive member of the Aram, who allegedly sold such shares against the will of the other members of Aram in an act of embezzlement (the "**Embezzlement**"). Chung Wook Uhm, who was then in charge of the management of Shinho, brought a claim for damages in the amount of ₩90 billion against the Bank on the grounds that (i) the Bank was aware of the Embezzlement when it bought the shares and (ii) the Bank caused forfeiture of Chung Wook Uhm's management rights when it exercised its voting rights in favor of Kuk-Il Paper MFG Co., Ltd. ("**Kuk-Il**"), which had announced its intention to attempt a hostile takeover of Shinho. In the Bank's rebuttal, it argued that it did not participate in the alleged Embezzlement since the Bank properly purchased the shares through a block trade on the Korea Exchange during trading hours. In September 2011, the Seoul Central District Court ruled in favor of Chung Wook Uhm, ordering the Bank and Choong-Shik Lee to jointly and severally compensate approximately ₩25 billion to Chung Wook Uhm as damages for his loss of management rights. In August 2014, the appellate court ruled partly against the Bank and set the amount of damages payable by the Bank at ₩15 billion. The Bank has made advance contingent payment of ₩21 billion (which amount includes interest) to Chung Wook Uhm and have appealed to the Supreme Court of Korea, where the case is currently pending.

In May 2011, the Bank commenced an action against Dongah Construction Industrial Co., Ltd. ("**Dongah**") and two of its employees in connection with such employees' embezzlement of ₩89.8 billion from funds held in a trust account managed by the Bank on behalf of Dongah's creditors. Through the action, the Bank sought, among other things, a declaratory judgment finding that the Bank is not liable for the embezzlement on the basis that the Bank properly remitted the trust funds at issue in accordance with the release instruction duly executed by the employees of Dongah. The Bank further claimed compensation for damages from the employees of Dongah in the amount of ₩89.8 billion. Dongah, in its counterclaim, alleged that the Bank should reinstate the embezzled funds on the grounds that the Bank, as the trustee, did not manage the trust account properly and thereby caused reduction in trust funds. In May 2011, the Seoul Central District Court dismissed the Bank's claim, ruling that the Bank's transfer of the funds was not in accordance with the terms of the trust agreement and therefore, inappropriate. The court concurrently admitted Dongah's counterclaim and ordered the Bank to restore the embezzled trust funds by depositing ₩89.8 billion, while accepting the Bank's claim for compensatory damages against the employees of Dongah in the amount of ₩89.8 billion and interest accrued thereon (except the claim for loss incurred by delay). The Bank appealed to the Seoul High Court alleging that the Bank is not liable for the embezzlement or, in the alternative, that Dongah should reinstate ₩42.7 billion as unjust profits since such funds were eventually credited to the account of Dongah by its employees and pay damages to the Bank in the amount of ₩18.8 billion for Dongah's failure to properly manage and supervise its employees. In April 2012, the Seoul High Court dismissed the Bank's claim that it was not liable for the embezzlement and ordered the Bank to restore the embezzled trust funds by depositing ₩96.2 billion (representing the principal amount of the embezzled funds and profit that would have been earned by the trust account through March 13, 2012 absent the embezzlement) and paying interest on such deposit amount until the date on which such amount is deposited in full. The Seoul High Court, however, admitted the Bank's alternative claim and ordered Dongah to pay ₩61.5 billion (representing the sum of ₩42.7 billion and ₩18.8 billion claimed by the Bank as described above) and interest accrued thereon to the Bank. Pursuant to the ruling of the Seoul High Court, the Bank has deposited ₩96.8 billion to the trust account managed by the Bank on behalf of Dongah's creditors. The Bank subsequently appealed to the Supreme Court of Korea. In addition, the FSS commenced an investigation of the Bank in connection with this incident, and, in July 2012, issued the institutional warnings against the Bank. The above lawsuit is currently pending in the Supreme Court of Korea.

In July 2012, Namhae Chemical Inc. brought a claim in the amount of ₩43.3 billion against the Bank in the Seoul Central District Court based on allegations that the Bank, which had provided a guarantee on the purchase price for Kyeng-In Energy Inc.'s purchase of oil from Namhee Chemical Inc., is obligated to perform under its guarantee. The lower court has found partly in favor of the Bank and the case is currently pending in the appellate court. The Bank has set aside ₩26.0 billion as allowance.

The FSC conducted a comprehensive audit of the Bank from November to December 2012, and in July 2013 notified the Bank of an institutional caution, imposed disciplinary actions against 65 Bank employees and assessed a fine of ₩87.5 million after finding that the Bank had illegally monitored customer accounts, breached confidentiality with respect to certain financial transactions and violated its obligation to disclose and report to the FSC an investment in an affiliated company of the Bank. Furthermore, in March 2013 the FSC conducted a special audit of the Bank as to incidents of alleged malfunctioning of the Bank's financial computer network and in December 2013, notified the Bank of an institutional caution and imposed disciplinary actions against five Bank employees after finding that the Bank did not properly maintain its information technology administrator account and vaccine server. In October 2013, the FSC also conducted a special audit of the Bank as to incidents of alleged illegal monitoring of customer accounts, and in February 2014, the Prosecutor's Office in Korea also commenced an investigation of the Bank with respect to same. As of the date of this offering circular, neither the FSC nor the Prosecutor's Office has announced the results of its respective investigations.

In August 2014, the Fair Trade Commission of Korea ("**KFTC**") investigated four major commercial banks in Korea, including the Bank, regarding alleged rate fixing (including in relation to certificates of deposit ("**CD**") rates) by commercial banks. It is the Bank's current understanding that the investigation has not been concluded and the Bank is not aware as to when it will be concluded. The Bank also understands that the current investigation is a continuation of an investigation by the KFTC in July 2012 in relation to the same subject matter, which to the Bank's knowledge also has not been concluded to-date. The Bank has not received any notice or report of formal findings by the KFTC in relation to the investigation in July 2012 or the one in August 2014.

Since the investigation has not been concluded and the KFTC has not announced any formal findings, it is presently difficult to speculate what the KFTC has found or will find or how it will rule on the subject matter and accordingly what impact such investigation will have on the Bank's results of operations, capital or liquidity. The Bank does note however it is structurally difficult, if not impossible, for commercial banks, including the Bank, to manipulate the CD rates in violation of Korean antitrust laws since the CD rates are determined and reported daily by the Korea Financial Investment Association ("**KOFIA**") based on the average yields (after excluding the highest and the lowest yields) submitted by 10 securities companies in Korea (and not commercial banks) selected by the KOFIA for the purpose of computing the CD rates. Under Korean antitrust laws and regulations, sanctions that may be imposed for illegal manipulation of the CD rates include corrective orders and/or fines. Based on information available to-date, the Bank's management currently believes that the investigation or the result thereof is unlikely to have a material adverse effect on the Bank's results of operations, capital or liquidity; however, if the Bank were to be found guilty of wrongdoing in regards to this or other subject matter and/or become subject to any penalty or other regulatory sanctions, there is no assurance that it will not have a material adverse effect on the Bank's reputation and, to a lesser extent, its results of operations, capital or liquidity.

The Bank's management believes that these lawsuits will not have a material adverse effect on its financial condition or results of operations. For further details of these and other litigation, see Note 39 to the Bank's consolidated financial statements included in this offering circular.

Unless otherwise indicated, all information set forth below is presented on a consolidated basis. Unless otherwise indicated, the assets and liabilities of the trust accounts of the Bank are discussed under the heading "Trust Accounts".

Loan Portfolio

The Bank extends loans from both its bank and trust accounts. Guarantees are not categorized as loans unless and until the Bank has made a payment on behalf of a customer in relation to the guarantee.

The total exposure of the Bank to any single borrower and exposure to any single group of companies belonging to the same enterprise group as defined in the Monopoly Regulation and Fair Trade Act is limited by law to 20% and 25%, respectively, of the sum of Tier I and Tier II capital (less any capital deductions). The total exposure of Shinhan Financial Group and its subsidiaries, including the Bank, to any single borrower and exposure to any single group of companies belonging to the same enterprise group as defined in the Monopoly Regulation and Fair Trade Act is limited by law to 20% and 25%, respectively, of the Net Total Equity Capital (as defined under the Presidential Decree of the Financial Holding Companies Act).

The following table presents the Bank's loans by type for the periods indicated. Except where specified otherwise, all loan amounts stated below are before deduction for loan loss allowances. Total loans reflect the Bank's loan portfolio, including past due amounts.

	As of December 31,		
	2012	**2013**	**2014**
	(in billions of Won)		
Corporate	₩100,291	₩103,012	₩109,415
Retail	70,933	73,032	80,222
Total[(1)]	₩171,224	₩176,044	₩189,637

Note:

(1) As of December 31, 2012, 2013 and 2014, 88.0%, 88.4% and 87.3% of the Bank's total gross loans, respectively, were Won-denominated.

Ten Largest Exposures by Borrower

As of December 31, 2014, the Bank's ten largest exposures, consisting of loans, securities and guarantees and acceptances, on a separate basis, totaled ₩24,591 billion and accounted for 11.0% of its total exposure on a separate basis, respectively. The following tables set forth the Bank's total exposure to its top ten borrowers, on a separate basis, as of the dates indicated.

As of December 31, 2014	Loans in Won	Loans in Foreign Currency	Securities	Guarantees and Acceptances	Total Exposure
			(in billions of Won)		
Ministry of Strategy and Finance	₩ —	₩ —	₩ 7,085	₩ —	₩ 7,085
The Bank of Korea	1,730	—	5,062	—	6,792
Korea Deposit Insurance Corporation	—	—	2,247	—	2,247
Hyundai Heavy Industries Co., Ltd.	—	145	10	1,832	1,987
Korea Development Bank	12	—	1,472	—	1,484
Industrial Bank of Korea	522	—	731	—	1,253
Samsung Heavy Industries Co., Ltd.	270	—	—	942	1,212
Korea Finance Corporation	—	—	1,058	—	1,058
Hyundai Steel Company	432	422	—	9	863
Korea Land & Housing Corporation	—	—	610	—	610
Total	₩2,966	₩567	₩18,275	₩2,783	₩24,591

Exposure to Main Debtor Groups

As of December 31, 2014, 9.6% of the Bank's total exposure, on a separate basis, was to the ten main debtor groups as identified by the Governor of the FSS, which are largely comprised of *chaebol*s. The following tables show, as of the dates indicated, the Bank's total exposure, on a separate basis, to the ten main debtor groups to which the Bank has the largest exposure.

As of December 31, 2014	Loans in Won Currency	Loans in Foreign Currency	Securities	Guarantees and Acceptances	Others	Total Exposure
			(in billions of Won)			
GS	₩ 240	₩ 302	₩ 51	₩ 248	₩—	₩ 841
LG	347	256	62	743	—	1,408
SK	194	688	133	1,176	—	2,191
Doosan	155	89	—	80	—	324
Lotte	330	428	244	228	—	1,230
Samsung	641	853	173	1,553	—	3,220
Posco	212	329	58	166	—	765
Hanjin	44	25	20	110	—	199
Hyundai Motors	1,076	1,431	142	333	—	2,982
Hyundai Heavy Industries	115	406	10	3,666	—	4,197
Total	₩3,354	₩4,807	₩893	₩8,303	₩—	₩17,357

Loan Concentration by Industry

The following tables show the aggregate balance of the Bank's total loans by industry concentration as of December 31, 2014.

	As of December 31, 2014	
Industry	Aggregate Loan Balance	Percentage of Total Loan Balance
	(in billions of Won, except percentages)	
Manufacturing	₩ 35,642	18.80%
Real estate leasing and service	16,599	8.75
Retail and wholesale	13,014	6.86
Finance and insurance	9,110	4.80
Construction	2,930	1.55
Hotel and leisure(1)	4,406	2.32
Other	₩107,936	56.92
Total	₩189,637	100.00%

Note:

(1) Consists principally of hotels, motels and restaurants.

Loan Concentration by Size of Loans

The following table shows the aggregate balances of the Bank's loans by outstanding loan amount as of December 31, 2014.

As of December 31, 2014	Aggregate Loan Balance	Percentage of Total Loan Balance
	(in billions of Won, except percentages)	
Corporate		
Up to ₩10 million	₩ 687	0.63%
Over ₩10 million to ₩50 million	5,672	5.18
Over ₩50 million to ₩100 million	5,424	4.96
Over ₩100 million to ₩500 million	23,282	21.28
Over ₩500 million to ₩1 billion	12,161	11.11
Over ₩1 billion to ₩5 billion	26,916	24.60
Over ₩5 billion to ₩10 billion	9,820	8.98
Over ₩10 billion to ₩50 billion	16,663	15.23
Over ₩50 billion to ₩100 billion	4,377	4.00
Over ₩100 billion	4,413	4.03
Sub-total	₩109,415	100.00%
Retail		
Up to ₩10 million	₩ 3,506	4.37%
Over ₩10 million to ₩50 million	18,770	23.39
Over ₩50 million to ₩100 million	17,735	22.11
Over ₩100 million to ₩500 million	35,913	44.76
Over ₩500 million to ₩1 billion	2,983	3.72
Over ₩1 billion to ₩5 billion	1,104	1.38
Over ₩5 billion to ₩10 billion	134	0.17
Over ₩10 billion to ₩50 billion	77	0.10
Over ₩50 billion to ₩100 billion	—	—
Over ₩100 billion	—	—
Sub-total	₩ 80,222	100.00%
Total	₩189,637	100.00%

Foreign Outstandings

Cross-border outstandings are defined as loans (including accrued interest), acceptances, interest-bearing deposits with other banks, other interest-bearing investments and any other monetary assets which are denominated in Won or non-local currencies. Local currency outstandings are netted out from cross-bordering outstandings.

The followings tables show the Bank's cross-border outstandings to borrowers in countries (other than Korea) with respect to which the total of such outstandings exceeded 0.75% of the Bank's total assets as of

December 31, 2013 and 2014, respectively. The Bank did not have any cross-border outstandings to borrowers in countries (other than Korea) with respect to which the total of such outstandings exceeded 0.75% of the Bank's total assets as of December 31, 2012.

December 31, 2014	Governments and official institutions	Banks and other financial institutions	Commercial and industrial	Others	Total	% of total assets
	(in billions of Won, except percentages)					
People's Republic of China ……	₩537	₩2,434	₩769	₩(490)	₩3,250	1.27%

December 31, 2013	Governments and official institutions	Banks and other financial institutions	Commercial and industrial	Others	Total	% of total assets
	(in billions of Won, except percentages)					
People's Republic of China ……	₩40	₩1,708	₩1,086	₩14	₩2,848	1.20%

As of December 31, 2012, 2013 and 2014, there were no cross-border outstandings to borrowers in countries (other than Korea) that exceeded 0.75% of total assets in any country currently facing debt restructuring or liquidity problems that the Bank expects would materially impact the country's ability to service its obligations

Maturity Analysis

The following table sets out the scheduled maturities (presented in terms of time remaining until maturity) of the Bank's loan portfolio as of December 31, 2014. The amounts disclosed are before deduction of attributable loan loss reserves.

	As of December 31, 2014			
	1 Year or Less	Over 1 Year but Not More Than 5 Years	Over 5 Years	Total
	(in billions of Won)			
Corporate ……	₩ 83,663	₩22,478	₩ 3,274	₩109,415
Retail ……	32,324	15,995	31,903	80,222
Total gross loans ……	₩115,987	₩38,473	₩35,177	₩189,637

The Bank may roll over its corporate loans (primarily consisting of working capital loans and facility loans) and retail loans (to the extent not payable in installments) after the Bank conducts its standard loan review in accordance with its loan review procedures. Working capital loans of the Bank may be extended on an annual basis for an aggregate term of three to five years for unsecured loans and five years for secured loans. Facilities loans, which are generally secured, may generally be extended once for a maximum of five years from the initial loan date. Retail loans may be extended for additional terms of up to 12 months for an aggregate term of ten years from the initial loan date for both unsecured loans and secured loans.

Interest Rate Sensitivity

The following tables presents a breakdown of the Bank's loans in terms of interest rate sensitivity as of December 31, 2014.

	As of December 31, 2014		
	Due Within 1 Year	Due After 1 Year	Total
	(in billions of Won)		
Fixed rate loans[1]	₩ 36,453	₩26,766	₩ 63,219
Variable rate loans[2]	76,926	49,492	126,418
Total gross loans	₩113,379	₩76,258	₩189,637

Notes:

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

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

For additional information regarding the Bank's management of interest rate risk for its loans, see "*Risk Management — Market Risk Management — Market Risk Exposure from Trading Activities*".

Nonaccrual Loans and Past Due Accruing Loans

Except in the case of repurchased loans, the Bank generally recognizes interest income on nonaccrual loans using the rate of interest used to discount the future cash flows of such loans for the purpose of measuring impairment loss. Generally, the Bank discontinues accruing of interest on loans (other than repurchased loans) when payment of interest and/or principal becomes past due by 90 days. Loans (other than repurchased loans) are not reclassified as accruing until interest and principal payments are brought current.

The Bank generally does not request borrowers to make immediate repayment of the whole outstanding principal balances and related accrued interest on loans whose interest payments are past due for one to 14 days in the case of commercial loans and one to 30 days in the case of retail loans.

Interest foregone is the interest due on nonaccrual loans that has not been accrued in the Bank's books of account. In 2012, 2013 and 2014, the Bank would have recorded gross interest income of ₩96 billion, ₩69 billion and ₩58 billion, respectively, on loans accounted for on a nonaccrual basis throughout the respective years, or since origination for loans held for part of the year, had the loans been current with respect to their original contractual terms. The amount of interest income on those loans that was included in the Bank's net income in 2012, 2013 and 2014 were ₩60 billion, ₩45 billion and ₩35 billion, respectively.

The following table shows, at the dates indicated, the amount of loans that are placed on a nonaccrual basis and accruing loans which are past due one day or more. The term "accruing but past due one day" includes loans which are still accruing interest but on which principal or interest payments are contractually past due one day or more. The Bank continues to accrue interest on loans where the total amount of loan outstanding, including accrued interest, is fully secured by cash on deposits.

	As of December 31,		
	2012[2]	2013	2014
	(in billions of Won)		
Loans accounted for on a nonaccrual basis[1]			
Corporate	₩1,287	₩1,464	₩1,184
Retail	381	195	206
Sub-total	₩1,668	₩1,659	₩1,390
Accruing loans which are contractually past due one day or more as to principal or interest			
Corporate	184	118	176
Retail	299	375	337
Sub-total	483	493	513
Total	₩2,151	₩2,152	₩1,903

Note:

(1) Represents either loans that are "troubled debt restructurings" as defined under Korean IFRS or loans for which payment of interest and/or principal became past due by 90 days or more (adjusting for any overlap due to loans that satisfy both prongs so as to avoid double counting).

Troubled Debt Restructurings

See "— *Credit Exposures to Companies in Workout and Recovery Proceedings*".

The following table presents, at the dates indicated, the Bank's loans which are "troubled debt restructurings". These loans mainly consist of corporate loans that have been restructured through the process of workout and recovery proceedings. See "— *Credit Exposures to Companies in Workout and Recovery Proceedings*." These loans accrue interest at rates lower than the original contractual terms, or involve the extension of the original contractual maturity as a result of a variation of terms upon restructuring.

	As of December 31,		
	2012	2013	2014
	(in billions of Won)		
Loans classified as "troubled debt restructurings" (excluding nonaccrual and past due loans)	₩ 79	₩ 59	₩162
Loans classified as "troubled debt restructurings" (including nonaccrual and past due loans)	₩725	₩701	₩599

The following table presents, for the periods indicated and with respect to the restructured loans, the amounts that would have been recorded as the Bank's interest income under the original contract terms of the restructured loans, and the amounts that were actually recorded as the Bank's interest income for such loans under the restructured contractual terms of such loans.

	2012	2013	2014
		(in billions of Won)	
Interest income under the original contractual terms of the restructured loans(1)	₩46	₩61	₩21
Interest income under the restructured contractual terms of the restructured loans	₩19	₩14	₩10

Note:

(1) Includes nonaccrual and past due loans.

The following table presents a breakdown of the outstanding balance and specific allowance for loan losses as of the dates indicated, of corporate loans classified as "troubled debt restructurings" (including nonaccrual and past due loans) by the type of restructuring to which such loans are subject.

	As of December 31,					
	2012		2013		2014	
	Outstanding balance	Allowance	Outstanding balance	Allowance	Outstanding balance	Allowance
			(in billions of Won)			
Corporate loans classified as "troubled debt restructurings"(1):						
Workout	₩566	₩269	₩560	₩261	₩463	₩237
Court receivership and composition	159	20	141	71	136	23
Total	₩725	₩289	₩701	₩332	₩599	₩260

Note:

(1) Includes nonaccrual and past due loans.

The following table presents the outstanding balance and specific allowance for loan losses as of the dates indicated of retail loans (including nonaccrual and past due loans) subject to workouts under the "pre-workout program" for retail borrowers (which loans are not part of the aforementioned corporate loans and therefore not included in the table above. For more information on the "pre-workout program," see "— *Credit Exposures to Companies in Workout and Recovery Proceedings — Credit Rehabilitation Programs for Delinquent Consumer and Small- and Medium-sized Enterprise Borrowers*."

	As of December 31,					
	2012		2013		2014	
	Outstanding balance	Allowance	Outstanding balance	Allowance	Outstanding balance	Allowance
	(in billions of Won)					
Retail loans subject to workouts under the "pre-workout program"[1]	₩12.4	₩11.8	₩23.7	₩19.3	₩24.0	₩17.4

Note:

(1) Includes nonaccrual and past due loans.

The following table presents, as of the dates indicated and with respect to corporate loans, the amounts of restructured loans that were considered impaired and classified as nonaccrual pursuant to the Bank's general interest accrual policy as described below. The table also presents, for the periods indicated and with respect to corporate loans, the amounts of total charge-off on restructured loans and the amounts of charge-off on restructured loans related to loans converted into equity securities as part of restructuring.

	As of and for the year ended December 31,		
	2012	2013	2014
	(in billions of Won)		
Impaired and nonaccrual restructured loans[1]	₩646	₩642	₩437
Total charge-off on restructured loans[1]	173	123	8
Charge-off on restructured loans related to loans converted into equity securities as part of restructuring[1]	84	46	32

Note:

(1) Includes corporate loans only.

Credit Exposures to Companies in Workout and Recovery Proceedings

The Bank's credit exposures to restructuring are monitored and managed by its Corporate Credit Collection Department. As of December 31, 2014, 0.3% of the Bank's total loans, or ₩599 billion (of which ₩437 billion was classified as nonaccrual and ₩162 billion was classified as accruing), was under restructuring. Restructuring of the Bank's credit exposures generally takes the form of Workout and Recovery Proceedings.

Workout

Under the Corporate Restructuring Promotion Act, which was temporarily suspended but has been in effect since May 19, 2011 for expiry currently scheduled on December 31, 2015, all creditors to borrowers that are financial institutions are required to participate in a creditors' committee. The Corporate Restructuring Promotion Act is mandatorily applicable to a wide range of financial institutions in Korea, which include commercial banks, insurance companies, asset management companies, securities companies, merchant banks, the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation. Under this act, the approval of financial institution creditors holding not less than 75% of the total debt outstanding of a borrower is required for such borrower's restructuring plan, including debt restructuring and provision of additional funds, which plan becomes binding on all the financial institution creditors of the borrower, provided that any financial institution creditor that disagrees with the final restructuring plan approved by the creditors' committee has the right to request the creditors' committee to purchase its claims at a mutually agreed price. If the creditors' committee and the dissenting financial institution creditor fail to come to an agreement, a mediation committee consisting of seven experts is set up to resolve the matter. There is a risk that these procedures may require the Bank to participate in a plan it does not agree with or may require the Bank to sell its claims at prices that it does not believe are adequate. With respect to any workout for which the lead creditor bank called for a meeting of the creditors' committee while the old Corporate Restructuring Promotion Act was still effective, the procedures applicable to such creditors' committee and the related workout remain subject to the old Corporate Restructuring Promotion Act until the suspension or conclusion of such workout, provided that such workout became subject to the procedures under the reinstated Corporate Restructuring Promotion Act as of its effective date, as opposed to the old Corporate Restructuring Promotion Act, even if such workout began while the old law was in effect. Under the reinstated Corporate Restructuring Promotion Act, if any of the Bank's borrowers becomes subject to corporate restructuring procedures, the Bank may be forced to (i) restructure its credits pursuant to restructuring plans approved by other creditor financial institutions holding 75% or more of the total outstanding debt (and 75% or more of the total outstanding secured debt, if the restructuring plan includes the restructuring of existing secured debt) of the borrower or (ii) dispose of its credits to other creditors on unfavorable terms.

The total loan amount currently undergoing workout as of December 31, 2014 was ₩463 billion.

Recovery Proceedings

Under the Debtor Rehabilitation and Bankruptcy Act, court receiverships have been replaced with recovery proceedings. In a recovery proceeding, unlike court receivership proceedings where the management of the debtor company was vested in a court appointed receiver, the existing chief executive officer of the debtor company may continue to manage the debtor company, provided, that (i) neither fraudulent conveyance nor concealment of assets existed, (ii) the financial failure of the debtor company was not due to gross negligence of such chief executive officer, and (iii) no creditors' meeting was convened to request, based on reasonable cause, a court-appointed receiver to replace such chief executive officer. Recovery proceeding may be commenced by any insolvent debtor. Furthermore, in an effort to meet the global standards, international bankruptcy procedures have been introduced in Korea under which a receiver of a foreign bankruptcy proceeding may, upon receiving Korean court approval of the ongoing foreign bankruptcy proceeding, apply for or participate in a Korean bankruptcy proceeding. Similarly, a receiver in a domestic recovery proceeding or a bankruptcy trustee is allowed to perform its duties in a foreign country where an asset of the debtor is located to the extent the applicable foreign law permits.

Any composition, corporate reorganization, bankruptcy and rehabilitation proceedings for individual debtors pending as of April 1, 2006, the effective date of the Debtor Rehabilitation and Bankruptcy Act, continue to proceed in accordance with the respective applicable laws.

As of December 31, 2014 the total loan amount subject to composition proceedings was ₩136 billion. No loan amount was subject to court receivership.

Loans in the process of workout and recovery proceedings are reported as nonaccrual loans on the Bank's statements of financial position as described in "— *Nonaccrual Loans and Past Due Accruing Loans*" above since generally, they are past due by more than 90 days and interest does not accrue on such loans. Restructured loans that meet the definition of a troubled debt restructuring are reported as troubled debt restructurings as described above in "— *Troubled Debt Restructurings*". Such restructured loans are reported as either loans or securities on the Bank's statements of financial position depending on the type of instrument it receives as a result of the restructuring.

Credit Rehabilitation Programs for Delinquent Consumer and Small- and Medium-sized Enterprise Borrowers

In light of the gradual increase in delinquencies in credit card and other consumer credit, the Korean 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 Bank's collections and recoveries on its delinquent consumer credits.

Under the Debtor Rehabilitation and Bankruptcy Act, a qualified individual debtor with outstanding debts in an aggregate amount not exceeding threshold amounts of ₩500 million of unsecured debt and/or ₩1 billion of secured debt may restructure his or her debts through a court-supervised debt restructuring that is binding on creditors.

Kookmin Happy Fund, which has been established by the Financial Services Commission, purchases defaulted loans from creditors or provide credit guarantees to enable refinancing at lower rates in order to assist retail borrowers with low credit scores. More specifically, Kookmin Happy Fund provides credit guarantees to borrowers who (i) have credit scores between category 6 and 10 (which requirement will be waived for individuals who are "basic living welfare recipients" or have an annual income not exceeding ₩30 million); (ii) earn an annual income not exceeding ₩40 million (or, in the case of borrowers who are self-employed or have two or more dependent family members, earn an annual income not exceeding ₩45 million); (iii) have made timely repayments for at least six months in an aggregate repayment amount exceeding ₩10 million or for at least three months in an aggregate repayment amount not exceeding ₩10 million. In 2014, the Bank sold loans in an aggregate amount of ₩0.5 billion to Kookmin Happy Fund.

Under the guidelines of the FSS, Korean banks, including the Bank, operate a "fast track" program to provide liquidity assistance to small- and medium-sized enterprises on an expedited basis. Under the fast track program established by the Bank, which is effective until the end of 2015, the Bank provided liquidity assistance to small- and medium-sized enterprise borrowers applying for such assistance, in the form of new short-term loans or maturity extensions or interest rate adjustments with respect to existing loans, after expedited credit review and approval by the Bank.

Under the guidelines of the FSC, Korean banks, including the Bank, also operate a "pre-workout program," including a credit counseling and recovery service, for retail borrowers with short-term outstanding debt. The Bank's pre-workout program is generally available to retail borrowers meeting all of the following requirements: (i) unsecured borrowings from at least two financial institutions not exceeding ₩500 million in the aggregate; (ii) payment default of more than 30 days but less than 90 days; (iii) all borrowings newly made within six months prior to the application for the pre-workout program not to exceed 30% of the applicant's total outstanding borrowings; (iv) the annual aggregate amount of principal and interest payment obligations being 30% or more of the borrower's annual income; (v) assets in possession of less than ₩1 billion, and in the case of real estate, calculated based on the official land price announced by the Ministry of Land, Infrastructure and Transport; and (vi) a person deemed by the pre-workout committee to be impaired in his or her ability to repay without a pre-workout arrangement due to layoff, unemployment, business closure, disaster or earnings loss. Retail borrowers who fail any of these requirements, have previously participated in the pre-workout program or have lost eligibility in the course of participating in a previous pre-workout program are ineligible to participate in the pre-workout program.

Once a borrower is deemed to be eligible to participate in the pre-workout program, the Bank promptly sells the collateral underlying such borrower's secured loans to mitigate its losses, and the Bank may restructure such borrower's unsecured loans (regardless of their type) as follows:

- *Extension of maturity*: Based on considerations of the type of loan, the total loan amount, the repayment amount and the probability of repayment, the maturity of the loan may be extended by up to 10 years.

- *Interest rate adjustment*. The interest rate of the loan may be adjusted to 70% of the original interest rate or 5% per annum, whichever is higher; *provided that* if the original interest rate is less than 5% per annum, no adjustment applies. The adjusted interest rate applies to the principal amount following any adjustment thereto as part of the pre-workout program, and no interest accrues on the interest already accrued or fees payable.

- *Debt forgiveness*: Debt forgiveness under the pre-workout program is limited to (i) the default interest accrued prior to the application for the pre-workout program and (ii) the regular and default interest accrued following such application but before the approval of the program.

- *Deferral*: If the foregoing three measures are deemed to be insufficient in terms of providing meaningful assistance to a qualifying borrower due to layoff, unemployment, business closure, disaster or earnings loss, loan repayment may be deferred for a maximum of one year, *provided that* the pre-workout committee may extend such deferral period upon the borrower's application which can be made at a one-month interval. The deferral period is not counted toward the repayment period, and interest accrues at 3% per annum during the deferral period.

In 2012, 2013 and 2014, loans in the aggregate amounts of ₩54 billion, ₩35 billion and ₩24 billion were modified under the Bank's pre-workout program, respectively. All such modified loans became beneficiaries of maturity extension and interest rate reductions, while a substantially limited portion of such loans also became beneficiaries of debt forgiveness and deferral.

Loan Modification Programs for Loans Under Restructuring

The Bank generally offers the following types of concessions in relation to restructured loans: reduction of interest rate, forgiveness of overdue interest, extension of the term for repayment of principal, conversion of debt into equity or the combination of the foregoing. The nature and degree of such concessions vary depending on, among other things, the creditworthiness of the borrower, the size of loans being restructured, the existing terms of the loans and other factors deemed relevant by the relevant creditors' committee. The Bank generally does not restructure an existing loan into multiple new loans (for example, an A Note/B Note structure).

The following table presents a breakdown of the gross amount of loans under restructuring as of December 31, 2012, 2013 and 2014 by the Bank's loan modification programs, as further categorized according to the loan category and performing versus nonperforming status.

December 31, 2012			
Modification Programs	**Nonperforming**	**Performing**	**Total**
		(in billions of Won)	
Extension of due date for principal and interest:	₩ —	₩ 97	₩ 97
Reduction of interest rate:	79	426	505
Equity conversion:	—	—	—
Additional lending[(1)]:	—	20	20
Others[(2)]:	25	77	102
Total:	₩104	₩620	₩724

December 31, 2013			
Modification Programs	**Nonperforming**	**Performing**	**Total**
		(in billions of Won)	
Extension of due date for principal and interest:	₩ 2	₩ 81	₩ 83
Reduction of interest rate:	51	283	334
Equity conversion:	—	—	—
Additional lending[(1)]:	—	169	169
Others[(2)]:	18	96	114
Total:	₩71	₩629	₩700

December 31, 2014			
Modification Programs	**Nonperforming**	**Performing**	**Total**
		(in billions of Won)	
Extension of due date for principal and interest:	₩ 56	₩315	₩371
Reduction of interest rate:	—	29	29
Equity conversion:	—	—	—
Additional lending[(1)]:	—	118	118
Others[(2)]:	40	41	81
Total:	₩ 96	₩503	₩599

Notes:

(1) Represents additional loans provided to the borrower at favorable terms as part of the restructuring package, which may include extension of the due date of principal or interest or reduction of interest rate, among others.

(2) Principally consists of restructured loans whose restructuring terms were not determined as of the period indicated. A loan is deemed to be subject to restructuring upon the commencement of the recovery proceedings or when the relevant creditors' committee or the Bank's credit officer determines that the borrower will be subject to workout, and in many cases the restructuring terms for such loans are not determined at the time such loans are deemed to be subject to restructuring.

Debt-to-equity Conversion

The Bank distinguishes between loans that it considers to be collectible under modified terms and loans that it considers to be uncollectible regardless of any modification of terms. With respect to loans that the Bank considers to be in the latter category, it converts a portion of such loans into equity securities following negotiation with the borrowers and charge off the remainder of such loans as further described below. The equity securities so converted are recorded at fair value, based on the market value of such securities if available or the appraisal value of such securities by an outside appraiser if a market value is unavailable. In 2014, the Bank's loans restructured into equity securities amounted to ₩59 billion, of which ₩32 billion was subsequently treated as charge-off and ₩27 billion was treated as the new cost basis of the equity securities.

Debt-to-equity conversion generally has two primary benefits. One, the debt-to-equity conversion reduces the amount of loans and related interest expenses of the borrower, resulting in lesser debt burden and greater liquidity for the borrower, a greater likelihood of its exit from restructuring and the repayment of its obligations to the Bank. Two, in the case of a successful turnaround of the borrower, the Bank is entitled to the upside gains from the increase in the value of the equity securities so converted. Notwithstanding these benefits, however, the resulting impact from the debt-to-equity conversion on the Bank's interest income is generally not material as the loans being converted as part of restructuring are generally deemed to be uncollectible regardless any modification of terms. As for the impact on the Bank's asset classification, the Bank generally applies the same asset classification standards to both non-restructured and restructured loans. As for restructured loans, the Bank also considers additional factors such as the borrower's adherence to its business plans and execution of the self-help measures, among others, to the extent applicable. In consideration of such criteria, the Bank generally classifies loans subject to workout as "precautionary". For a general discussion of our loan classifications, see *"— Supervision and Regulation — Principal Regulations Applicable to Banks — Capital Adequacy."*

Evaluation of Loan Modification Programs

The Bank currently does not conduct a systematic or quantitative evaluation of the success of any particular concession by type, whether historically, relative to each other or relative to other financial institutions in Korea, although it does monitor on an individual basis the compliance by the borrower with the modified terms of the restructured loans. This is principally due to the following reasons.

One, in the case of large corporations subject to or about to be subject to restructuring, which represent the most significant restructuring cases in Korea, the restructuring process is generally not driven by the Bank, but by a creditors' committee involving several large creditor financial institutions, and in the case of very large corporations or corporations that are members of large business conglomerates, the process frequently involves the guidance of the government in light of the potential ripple effects of the restructuring on the general economy. Hence, it is difficult for the Bank to collect data that would help it to evaluate the success of a particular concession based on the credit profile of the borrower and the type of concessions offered.

Two, the unavailability of systematic analysis notwithstanding the Bank's general sense is that the restructuring cases in Korea have, to a large part, been successful as measured in terms of the ability of the borrowers to exit restructuring programs relatively quickly and further that the failed cases have not been particularly material.

As a result, to date, the Bank has not found it particularly necessary or helpful to expend the time and resources required to conduct a systematic analysis for purposes of evaluating the success of concessions by the type of a particular concession offered.

The Bank does, however, measure the success of concessions in limited ways, that is, principally in terms of how well the borrower complies with the terms and conditions of the restructuring plan as agreed between the borrower and its creditor institutions. A restructuring plan typically includes a business plan and self-help measures to be undertaken by the borrower. The Bank monitors the borrower's compliance with the restructuring plan on a periodic basis (namely, annual, semiannual or quarterly in accordance with the terms of the restructuring plan) and evaluates the success thereof principally in terms of three attributes: (i) the progress in the execution of the business plan, (ii) the progress in the execution of the self-help measures and (iii) other qualitative factors such as major developments in the general economy, the regulatory environment, the competitive landscape, the quality of senior management and personnel and transparency in management. The Bank also closely monitors the cash inflows and outflows of the borrower, and the creditors' committee typically has the right to participate in decision-making related to major spending and borrowings by the borrower.

Accrual Policy for Restructured Loans

For purposes of the Bank's accrual policy, the Bank classifies restructured loans principally into (i) loans subject to workout pursuant to the Corporate Restructuring Promotion Act and (ii) loans subject to a recovery proceeding pursuant to the Debtor Rehabilitation and Bankruptcy Act, which is the comprehensive bankruptcy-related law in Korea. See "— *Credit Exposures to Companies in Workout and Recovery Proceedings*". As for loans subject to workout, the Bank's general policy is to discontinue accruing interest on a loan when payment of principal and/or interest thereon becomes past due by 90 days or more, as described above in "— *Nonaccrual Loans and Past Due Accruing Loans*." Interest is recognized on these loans on a cash basis (i.e., when collected) from the date such loan is reclassified as non-accruing, and such loans are not reclassified as accruing until the overdue principal and/or interest amounts are paid in full. This general policy also applies to loans subject to workout even if such loans are restructured loans. In the case of loans subject to recovery proceedings, the Bank discontinues accruing interest immediately upon the borrowers becoming subject to recovery proceedings (even if such loans are not yet delinquent) in light of the heightened uncertainty regarding the borrower's ability to repay. Interest on such loans are recognized on a cash basis and such loans are not reclassified as accruing until the borrower exits a recovery proceedings. Accordingly, under to the Bank's accrual policy, the number of payments made on a nonaccrual restructured loan is not a relevant factor in determining whether to reinstate such loan to the accrual status.

Determination of Performance of Restructured Loans

In determining whether a borrower has satisfactorily performed its obligations under the existing loan terms, the Bank principally reviews the payment history of the borrower, namely whether the borrower has been delinquent by one day or more pursuant to the Bank's general interest accrual policy. In determining whether a borrower has shown the capacity to continue to perform under the restructured terms, the Bank primarily relies upon the assessment of its credit officers (or the creditors' committee in the case of large corporate borrowers with significant outstanding loans) of the likelihood of the borrower's ability to repay under the restructured terms, which assessment takes into account the size of the loans in question, the credit profile of the borrower, the original terms of the loans and other factors deemed relevant by the relevant credit officers. Depending on various factors such as the size of the loans in question and the credit profile of the borrower, the Bank or the relevant creditors' committee, as the case may be, sometimes engages an outside advisory firm to perform further due diligence in order to supplement the aforementioned assessment. In certain cases, the borrowers also submit self-help proposals to facilitate obtaining the approval for restructuring, which measures are then also taken into consideration by the Bank's credit officers or the relevant creditors' committees, as the case may be, in determining their future capacity to continue to perform under the restructured terms.

Charge-off of Restructured Loans

As for loans that the Bank considers to be collectible under modified terms (for example, by extending the due date for the payment of principal and/or interest or reducing the interest rate below the applicable interest rate to a rate below the prevailing market rate, or a combination of the foregoing), it generally restructures such loans under the modified terms and does not charge off any portion of such loans.

As for loans that the Bank considers to be uncollectible regardless of any modification of terms, it negotiates with the borrower to have a portion of such loans converted into equity securities (usually common stock) of the borrower in consideration, among others, of (i) the degree to which such conversion will alleviate the debt burdens and liquidity concerns of the borrower, (ii) the Bank's potential upside from the gain in the value of the equity securities compared to the likelihood of collection if the loans were not converted into equity securities, and (iii) the borrower's concerns regarding its shareholding structure subsequent to such conversion. The Bank then charges off the remainder of the loans not so converted into equity securities. The equity securities so converted are recorded at fair value, based on the market value of such securities if available or the appraisal value of such securities by an outside appraiser if a market value is unavailable.

Since the Bank generally does not accrue interest on loans subject to a recovery proceeding while it generally accrues interest on loans subject to workout unless past due by 90 days or more, charge-off is not a relevant factor the Bank considers when determining the accrual status of a particular restructured loan.

The Bank continues to accrue interest on restructured loans if it concludes that repayment of interest and principal contractually due on the entire debt is reasonably assured. Such conclusion is reached only after the Bank has carefully reviewed the borrower's ability to repay based on the assessment, among others, of various factors such as the size of the loans in question and the credit quality of the borrower by the Bank's credit officer or the relevant creditors' committee as supplemented by the due diligence by outside advisory firms, as the case may be.

Potential Problem Loans

In 2012, in order to enable a more systematic and real-time monitoring of loans with a significant potential of non-repayment, the Bank has upgraded its "early warning system". This system enables the Bank's management to determine potential problem loans to include all loans which have caused management to have serious doubt as to the ability of the borrowers to comply with their respective loan repayment terms.

The Bank classifies potential problem loans as loans that are designated as "early warning loans" and reported to the FSS. The "early warning loans" designation applies to borrowers that have been (i) identified by the Bank's early warning system as exhibiting signs of credit risk based on the relevant borrower's financial data, credit information and/or transactions with banks and, following such identification and (ii) designated by the Bank's loan officers as potential problem loans on their evaluation of known information about such borrowers' possible credit problems. Such loans are required to be reported on a quarterly basis to the FSS. If a borrower's loans are designated as "early warning loans" pursuant to the process described above and included in the Bank's quarterly report to the FSS, the Bank considers this to be an indication of serious doubt as to such borrower's ability to comply with repayment terms in the near future. As of December 31, 2014, the Bank had ₩1,328 billion of potential problem loans.

Other Problematic Interest-Earning Assets

In the past, the Bank received certain other interest-earning assets in connection with troubled debt restructuring that, if they were loans, would be required to be disclosed as part of the problem, past due or restructuring or potential problem loan disclosures provided above. However, as of December 31, 2012, 2013 and 2014, the Bank had no such assets.

Provisioning Policy

The Bank conducts periodic and systematic detailed reviews of its loan portfolios to identify credit risks and to establish the overall allowance for loan losses. The Bank's management believes the allowance for loan losses reflects the best estimate of the probable loan losses incurred as of the date of each statement of financial position.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that a financial asset, such as a loan or receivable, has suffered impairment loss, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow (excluding anticipated future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

If the financial asset in question is a loan or receivable with a floating rate, the discount rate used to evaluate impairment loss is the current effective interest rate defined in the relevant transaction agreement. The present value of estimated future cash flows of secured financial assets is calculated by including cash flows from collateral after deducting costs to acquire and sell the collateral, regardless of the probability of realization of such collateral.

In assessing collective impairment, the Bank rates and classifies financial assets based on credit risk assessment or credit rating assessment process that takes into account asset type, industry, regional location, collateral type, delinquency and other relevant factors.

Future cash flow of financial assets applicable to collective impairment assessment is estimated by using statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, as adjusted for management's judgment as to whether current economic and credit conditions are such that the impairment losses are likely to be greater or less than suggested by historical modeling. When adjusting future cash flow based on historical modeling, the Bank ensures that such adjustments are in line with changes and trends of observable data. Methodologies and assumptions used to estimate future cash flow are evaluated on a regular basis in order to reduce any discrepancy between impairment loss estimation and actual loss. See "— *Critical Accounting Policies — Impairment of Financial Assets — Loans and Receivables*".

Corporate Loans

The Bank reviews corporate loans annually for potential impairment through a formal credit review. In addition, the Bank's loan officers consider the credits for impairment throughout the year if there is an indication that an impairment event has occurred.

Under Korean IFRS, a loan is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and if the loss event had a negative effect on the estimated future cash flows of that asset and can be estimated reliably. The Bank considers, among others, the following loans to be impaired:

- loans whose principal or interest amount is more than 90 days past due;

- loans that by reason of non-performance becomes subject to write-off, charge-off, debt restructuring (including recovery proceedings and work-out) or bankruptcy;

- loans to customers whose credit record shows past instances of delinquency, enforcement of guarantee or subrogation; and

- loans to customers who become finally insolvent by an order to suspend settlement of personal checks, corporate checks or promissory note.

Loan loss allowances for corporate loans are established based on whether a particular loan is impaired. Corporate loans with relatively small balances are evaluated collectively for impairment as they are managed collectively.

- Loans individually identified for review and considered impaired

Consistent with the internal credit risk monitoring policies, the Bank evaluates impaired loans with relatively large balances (typically more than ₩3 billion) individually for impairment. Loan loss allowances for these loans are generally established by discounting the estimated future cash flows (both principal and interest) the Bank expects to receive using the loan's effective interest rate. The Bank considers the likelihood of all possible outcomes in determining its best estimate of expected future cash flows. Management consults closely with individual loan officers and reviews the cash flow assumptions used to ensure these estimates are valid.

The Bank establishes allowances for impaired corporate loans when the discounted cash flow of the loan is lower than its carrying amount. The allowance is equal to the difference between the discounted cash flow amount of the loan and its carrying amount.

The Bank may also measure impairment by reference to the loan's observable market price. However, this information is not commonly available in Korea.

- Loans collectively evaluated for impairment

The Bank also establishes allowances for impaired corporate loans with relatively small balances (typically ₩3 billion or less). The Bank manages these loans on a portfolio basis and therefore collectively evaluates them for impairment since it is impractical to analyze each such loan on an individual basis. The allowance for such loans is determined based on loss factors taking into consideration past performance of the portfolio, previous loan loss history and charge-off information.

The Bank identifies loss factors based on the discounted cash flow ("**DCF**") model using a statistical tool with look-back periods longer than a year. For impaired corporate loans whose amounts are relatively small, the Bank uses the collective DCF model under which cash flow projections for the relevant loans are not individually computed for each borrower, but are collectively computed for a group of loans sharing similar characteristics (for example, retail versus corporate, secured versus unsecured, and so forth), except that, when the Bank discounts the projected cash flow at the present value, the Bank applies the interest rate effective prior to impairment specific to each borrower.

- Loans not specifically identified as impaired

The Bank establishes allowances collectively for non-impaired corporate loans to reflect losses incurred within the portfolio which have not yet been specifically identified as impaired. The Bank uses the probability of default / loss-given default method, also known as the Advanced Internal Rating-Based approach under Basel II, to calculate the historical loss rate on migration analysis based on measurable long-term risk factors such as probability of default from risk grading and loss given default based on the Basel II framework.

As for the probability of default-based loan grouping, corporate loans are grouped into different risk classes based on the credit rating assigned by the relevant credit evaluation model, and retail loans are grouped into different risk classes based on the type of the loan, maturity structure and the duration of delinquency.

As for the loss given default-based loan grouping, secured loans are grouped into different risk classes based on the type of collateral, the location of the collateral and the loan-to-value ratio to which they are subject, and unsecured loans are grouped into different risk classes based on the type of the loan.

Retail Loans

The Bank considers the following retail loans to be impaired for an individual assessment of impairment:

- loans whose principal or interest amount is more than 90 days past due;

- loans that by reason of non-performance becomes subject to write-off, charge-off, debt restructuring (including recovery proceedings and work-out) or bankruptcy;

- loans to customers whose credit record shows past instances of delinquency, enforcement of guarantee or subrogation; and

- loans to customers who become finally insolvent by an order to suspend settlement of personal checks, corporate checks or promissory note.

The provisioning policy for retail loans is similar to that for corporate loans, except that different groupings are used for retail loans for purposes of determining probability of default and loss-given default in that all retail loans, regardless of their size, are collectively (rather than individually) assessed due to difficulties in obtaining personal information, such as personal income and assets.

For loan losses for retail loans, the Bank also establishes allowances based on loss factors taking into consideration the historical performance of the portfolio, previous loan loss history and charge-off information over a nine-year look-back period for loans secured by real estate and a four-year look-back period for unsecured loans and other secured loans.

The Bank further adjusts the loss factors based on factors that may impact loss recognition which have not been adequately captured by the Bank's historical analysis. These factors include:

- changes in economic and business conditions such as levels of unemployment and housing price;

- changes in the nature and volume of the portfolio, including any concentration of credits; and

- external factors such as regulatory or government requirements.

Loan Aging Schedule

The following table shows the Bank's loan aging schedule (excluding accrued interest) for all loans as of the dates indicated.

	Current		Past Due Up to 3 Months		Past Due 3-6 Months		Past Due More Than 6 Months		Total
As of December 31,	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**
	(in billions of Won, except percentages)								
2012	₩169,732	99.13%	₩666	0.39%	₩178	0.10%	₩648	0.38%	₩171,224
2013	174,815	99.30	759	0.43	118	0.07	352	0.20	176,044
2014	188,483	99.39	603	0.32	144	0.08	407	0.21	189,637

Non-Performing Loans

Non-performing loans are defined as loans past due by more than 90 days. The following table shows, as of the dates indicated, the amount of the total non-performing loan portfolio and as a percentage of the Bank's total loans.

	As of December 31,		
	2012	**2013**	**2014**
	(in billions of Won, except percentages)		
Total non-performing loans	₩ 826	₩ 470	₩ 551
As a percentage of total loans	0.48%	0.27%	0.29%

Analysis of Non-Performing Loans

The following table sets forth, for the periods indicated, the total non-performing loans by the borrower type.

	As of December 31,								
	2012			2013			2014		
	Total Loans	Non-Performing Loans[(1)]	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans[(1)]	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans[(1)]	Ratio of Non-Performing Loans
	(in billions of Won, except percentages)								
Corporate	₩100,291	₩493	0.49%	₩103,012	₩338	0.33%	₩109,415	₩410	0.37%
Retail	70,933	333	0.47	73,032	132	0.18	80,222	141	0.18
Total	₩171,224	₩826	0.48	₩176,044	₩470	0.27%	₩189,637	₩551	0.29%

Note:

(1) Includes unsecured loans past due by more than six months.

Non-Performing Loans by Industry

The following table sets forth a breakdown of the Bank's non-performing corporate loans by industry as of December 31, 2014.

Industry	Aggregate Non-Performing Corporate Loan Balance	Percentage of Total Non-Performing Corporate Loan Balance
	(In billions of Won)	*(Percentages)*
Real estate, leasing and service	₩155	37.81%
Construction	31	7.56
Manufacturing	144	35.12
Retail and wholesale	17	4.15
Transportation, storage and communication	19	4.63
Hotel and leisure	7	1.71
Finance and insurance	—	—
Other service[(1)]	18	4.39
Other[(2)]	19	4.63
Total	₩410	100.00%

Notes:

(1) Includes other service industries such as publication, media and education.

(2) Includes other industries such as agriculture, forestry, mining, electricity and gas.

20 Non-Performing Loans

As of December 31, 2014, the Bank's 20 largest non-performing loans accounted for 52.27% of its total non-performing loan portfolio. The following tables show, as of the dates indicated, certain information regarding the Bank's 20 largest non-performing loans.

		As of December 31, 2014		
		Industry	Gross Principal Outstanding	Allowance for Loan Losses
			(in billions of Won)	
1	Borrower A	Real estate, leasing and service	90	—
2	Borrower B	Manufacturing	29	3
3	Borrower C	Real estate, leasing and service	23	1
4	Borrower D	Manufacturing	22	—
5	Borrower E	Construction	18	6
6	Borrower F	Manufacturing	18	—
7	Borrower G	Manufacturing	13	—
8	Borrower H	Manufacturing	9	9
9	Borrower I	Real estate, leasing and service	9	—
10	Borrower J	Real estate, leasing and service	9	—
11	Borrower K	Other service	6	—
12	Borrower L	Transportation, storage and communication	6	—
13	Borrower M	Construction	5	—
14	Borrower N	Manufacturing	5	2
15	Borrower O	Real estate, leasing and service	5	1
16	Borrower P	Transportation, storage and communication	5	—
17	Borrower Q	Transportation, storage and communication	4	—
18	Borrower R	Construction	4	—
19	Borrower S	Real estate, leasing and service	4	—
20	Borrower T	Manufacturing	4	4
			288	26

Non-Performing Loan Strategy

One of the Bank's primary objectives is to prevent its loans from becoming non-performing. Through the Bank's corporate credit rating system, which is designed to prevent the Bank's loan officers from extending new loans to borrowers with high credit risks based on the borrower's credit rating, the Bank seeks to reduce credit risk related to future non-performing loans. The Bank's early warning system is designed to bring any sudden increase in a borrower's credit risk to the attention of its loan officers, who then closely monitor such loans.

If a loan becomes non-performing notwithstanding such preventive mechanism, an officer at the branch level responsible for monitoring non-performing loans will commence due diligence on the borrower's assets, send a notice demanding payment or a notice that the Bank will take or prepare for legal action.

At the same time, the Bank also initiates its non-performing loan management process, which includes:

- 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

- to a limited extent, identifying commercial loans subject to normalization efforts based on the cash-flow situation of the borrower.

Once the details of a non-performing loan are identified, the Bank pursues early solutions for recovery. Actual recovery efforts for non-performing loans are handled by the relevant department, depending on the nature of such loans and the borrower, among others.

The officers or agents of the responsible departments and units use a variety of methods to resolve non-performing loans, including:

- making phone calls and paying visits to the borrower to request payment;

- continuing to assess and evaluate assets of the Bank's borrowers; and

- if necessary, initiating legal action such as foreclosures, attachment and litigation.

In order to promote speedy recovery on loans subject to foreclosures and litigation, the branch responsible for handling these loans may transfer them to the relevant unit at headquarters.

The Bank's policy is to commence legal action within one month after default on promissory note and four months after delinquency of payment on other types of loans. For loans to insolvent or bankrupt borrowers or when the Bank concludes that it is not possible to recover through normal procedures, the Bank takes prompt legal actions regardless of the grace period.

In addition to making efforts to collect on these non-performing loans, the Bank also takes other measures to reduce the level of its non-performing loans, including:

- selling non-performing loans to third parties including the Korea Asset Management Corporation;

- entering into asset-backed securitization transactions with respect to non-performing loans;

- managing retail loans that are three months or more past due through Shinhan Credit Information under an agency agreement; and

- using third-party collection agencies including credit information companies such as Solomon Credit Information.

In 2014, the Bank sold non-performing loans in the amount of ₩24 billion to third parties and transferred ₩13 billion to the Baro Investment and Securities. See "*Risk Factors — Risks Relating to Law, Regulation and Government Policy — The Government may encourage targeted lending to certain sectors in furtherance of policy objectives, and the Bank may take this factor into account*." Loans transferred to third parties generally meet the criteria of true sale and are derecognized accordingly.

The following table presents a roll-forward of the Bank's nonperforming loans in 2014.

	(in billions of Won)
Non-performing loans as of December 31, 2013	₩470
Additional non-performing loans due to delinquency	251
Loans sold	(24)
Loans charged off	(60)
Loans modified and returned to performing	6
Other adjustments[1]	(92)
Non-performing loans as of December 31, 2014	₩551

Note:

(1) Represents loans paid down or paid off and loans returned to performing other than as a result of modification. The Bank does not separately collect and analyze data relating to non-performing loans other than those that were sold, charged off, modified and returned to performing, or transferred to held-for-sale investment portfolio.

Allocation of Allowance for Loan Losses

The following table presents, as of the dates indicated, the allocation of the Bank's loan loss allowance by loan type.

	As of December 31,					
	2012		2013		2014	
	Amt.	Loans as % of Total Loans	Amt.	Loans as % of Total Loans	Amt.	Loans as % of Total Loans
	(in billions of Won, except percentages)					
Corporate	₩1,493	84.83%	₩1,415	88.00%	₩1,370	86.71%
Retail	267	15.17	193	12.00	210	13.29
Total allowance for loan losses	₩1,760	100.00%	₩1,608	100.00%	₩1,580	100.00%

The Bank's total allowance for loan losses decreased by ₩28 billion, or 1.74%, to ₩1,580 billion as of December 31, 2014 from ₩1,608 billion as of December 31, 2013, primarily as a result of a decrease in loss rate for other retail loans due to a decrease in delinquency in retail loans and a corresponding increase in the proportion of loans with sound quality.

The Bank's total allowance for loan losses decreased by ₩152 billion, or 8.64%, to ₩1,608 billion as of December 31, 2013 from ₩1,760 billion as of December 31, 2012, primarily as a result of a decrease in loss rate for other retail loans due to a decrease in delinquency in retail loans and a corresponding increase in the proportion of loans with sound quality.

Analysis of the Allowance for Loan Losses

The following table presents an analysis of the Bank's loan loss experience for each of the periods indicated.

	For the Year ended December 31,		
	2012	2013	2014
	(in billions of Won, except percentages)		
Balance at the beginning of the period	₩ 1,688	₩ 1,760	₩ 1,608
Amounts charged against income	849	663	442
Gross charge-offs:			
Corporate	(605)	(583)	(382)
Retail	(109)	(182)	(141)
Total gross charge-offs	(714)	(765)	(523)
Recoveries:			
Corporate	66	128	169
Retail	30	25	16
Total recoveries	96	153	185
Net charge-offs	(618)	(612)	(337)
Allowance related to loan transferred	(100)	(117)	(33)
Other	(59)	(86)	(99)
Balance at the end of the period	₩ 1,760	₩ 1,608	₩ 1,580
Ratio of net charge-offs during the period to average loans outstanding during the period	0.36%	0.36%	0.19%

Loan Charge-offs

The Bank's gross charge-offs increased by 7.1% to ₩765 billion in 2013 from ₩714 billion in 2012, primarily due to an increase in charge-off of impaired retail loans as part of the Bank's efforts to enhance the asset quality of the remaining assets. The Bank's gross charge-offs decreased by 31.6% to ₩523 billion in 2014 from ₩765 billion in 2013, primarily due to a decrease in impaired assets following a substantial charge-off of impaired loans to shipbuilding and construction companies in 2013.

In 2014, the charge-off on restructured loans amounted to ₩67 billion, of which ₩59 billion was related to loans converted into equity securities as part of restructuring. With respect to a loan that the Bank considers to be uncollectible regardless of any modification of terms, the Bank converts a portion of such loan into equity securities following negotiation with the borrower and charge off the remainder of such loan as previously discussed in "— *Troubled Debt Restructurings — Charge-off of Loans Subject to Restructuring*". The equity securities so converted are recorded at fair value, based on the market value of such securities if available or the appraisal value of such securities by an outside appraiser if a market value is unavailable.

Basic Principles

The Bank attempts to minimize loans to be charged off, by practicing a sound credit approval process based on credit risk analysis prior to extending loans and a systematic management of outstanding loans.

Loans to be Charged-off

Loans are charged-off if they are deemed to be uncollectible by falling under any of the following categories:

- loans for which collection is not foreseeable due to insolvency or bankruptcy, dissolution or the termination of the debtor's business;
- loans for which collection is not foreseeable due to the death or disappearance of debtors;
- loans for which collection expenses exceed the collectable amount;
- loans for which collection is not possible through legal or any other means;
- payments outstanding on unsecured retail loans that are overdue for more than six months;
- payments in arrears in respect of leases that are overdue for more than 12 months; or
- 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

An application for the Bank's loans to be charged-off is submitted by the relevant branch to the Corporate Credit Collection Department in the case of corporate loans and foreign branches, and the Consumer Credit Collection Department in the case of retail loans. An application for charge-off is generally submitted immediately after the relevant loan becomes 180 days past due. The General Manager in charge of review evaluates the application. The General Manager of the Audit and Examination Department conducts review of compliance with the Bank's internal procedures for charge-offs, and if the review is satisfactory, requests approval from the President of the Bank.

Treatment of Loans Charged-Off

Once loans are charged off, they are derecognized from the Bank's statements of financial position. The Bank continues collection efforts in respect of these loans through third-party collection agencies including the Korea Asset Management Corporation and Shinhan Credit Information.

Treatment of Collateral

When the Bank determines that a loan collateralized by real estate cannot be recovered through normal collection channels, the Bank generally petitions a court to foreclose and sell the collateral through a court-supervised auction within one month after default and insolvency and within four months after delinquency. However, this procedure does not apply to companies under restructuring, recovery, workout or other court proceedings where there are restrictions on such auction procedures. Filing of such petition with the court generally encourages the debtor to repay the overdue loan. If a debtor ultimately fails to repay and the court grants its approval for foreclosure, the Bank will sell the collateral and recover the principal amount and interest accrued up to the sales price, net of expenses incurred from the auction. Foreclosure proceedings under the laws and regulations of Korea typically take seven months to one year from initiation to collection depending on the nature of the collateral.

Financial Statement Presentation

The Bank's financial statements report as charges-offs all unsecured retail loans that are overdue for more than six months. Leases are charged off when past due for more than twelve months. For collateral dependent loans, the Bank charges off the excess of the book value of the subject loan over the amount received or to be received from the sale of the underlying collateral when the collateral is sold as part of a foreclosure proceeding and its sale price becomes known through court publication as part of such proceeding.

Credit Types

The following table sets forth, as of the dates indicated, the Bank's credit portfolio on a separate basis as reported to the FSS pursuant to FSS regulations, which consists principally of the following:

- loans net of present value discounts and excluding certain items, principally interbank loans, call loans and securities purchased under resale agreements;

- confirmed guarantees and acceptances, which are off-balance sheet items, and loans from the Bank's trust accounts whose principal and/or interest are guaranteed by the Bank; and

- certain other items, principally merchant bank credits and suspense receivables.

	As of December 31,		
	2012	2013	2014
	(in billions of Won)		
Loans in Won	₩143,529	₩146,365	₩159,321
Loans in foreign currencies	8,344	7,728	9,030
Bills bought in foreign currencies	4,500	4,281	4,988
Privately placed bonds	847	591	369
Merchant banking loans	225	490	224
Trust account loans	559	466	483
Factoring receivables	105	119	154
Advances under guarantees and acceptances	6	2	4
Total loans(1)	₩158,115	₩160,042	₩174,573
Other credits:			
Guarantees and acceptances	₩ 9,657	₩ 10,708	₩ 11,390
Suspense receivables as credit	6	3	4
Total credits	₩167,778	₩170,753	₩185,967

Note:

(1) For purposes of calculating total credits as reported to the FSC, total loans are stated net of present value discounts, and certain loan items (consisting of interbank loans, call loans and securities purchased under resale agreements) are excluded from total loans.

Substandard or Below Credits

Substandard or below credits are defined as those credits that are classified as substandard or below based on the FSC's asset classification criteria. See "— *Provisioning Policy*" above.

The following table shows as of the dates indicated, certain details regarding the asset quality of the Bank's credits on a separate basis, net of present value discounts, including its substandard or below credits, as reported to the FSC.

	As of December 31,		
	2012	2013	2014
	(in billions of Won, except percentages)		
Credits(1):			
Normal	₩ 163,853	₩ 167,398	₩ 182,864
Precautionary	2,111	1,384	1,181
Substandard	1,079	913	995
Doubtful	333	257	215
Estimated loss	402	815	712
Total credits	₩ 167,778	₩ 170,767	₩ 185,967
Total substandard or below credits	₩ 1,814	₩ 1,985	₩ 1,922
Precautionary and substandard or below credits	3,925	3,369	3,103
Allowance for credit losses(2)(3)	3,107	2,973	2,967
Substandard or below credits as a percentage of total credits	1.08%	1.16%	1.03%
Precautionary and substandard or below credits as a percentage of total credits	2.34%	1.97%	1.67%
Allowance for credit losses as a percentage of substandard or below credits	171.28%	149.77%	154.37%
Allowance for credit losses as a percentage of total credits	1.85%	1.74%	1.60%

Notes:

(1) Net of present value discounts of ₩34 billion, ₩37 billion and ₩47 billion as of December 31, 2012, 2013 and 2014, respectively.

(2) Allowance for credit losses consists of allowance for loan losses, allowance for suspense receivables, allowance for acceptances and guarantees and regulatory reserve for loan loss in accordance with Articles 29-1 and 29-2 of the Regulation on Supervision of Banking Business.

(3) Excludes allowance for credit commitments and regulatory reserve for loan loss with regard to credit commitments.

Trust Accounts

Under Korean law, assets accepted in trust accounts by the Bank are segregated from other assets of the Bank and are not available to satisfy the claims of the depositors or other creditors of the Bank. Accordingly, the Bank's trust assets and liabilities (other than those which are guaranteed as to principal (or as to both principal and interest)) are accounted for and reported separately from the bank accounts.

The following table sets forth the assets and liabilities of the Bank's trust accounts as of the dates indicated.

	As of December 31,		
	2012	2013	2014
	(in billions of Won)		
Assets:			
Loans	₩ 560	₩ 466	₩ 434
Securities	5,266	5,195	6,239
Loans to bank accounts	2,062	2,221	1,619
Other[1]	21,356	18,461	22,695
Allowance for valuation of receivables	(1)	(1)	(1)
Total assets	₩29,243	₩26,342	₩30,986
Liabilities:			
Money trusts	₩15,453	₩16,830	₩19,591
Property trusts	13,237	8,849	10,665
Special reserves	86	88	92
Other	467	575	638
Total liabilities	₩29,243	₩26,342	₩30,986

Note:

(1) Includes principally real estate assets received under property trusts.

The Bank provides guarantees as to principal and/or interest for a limited amount of the assets and liabilities of its trust accounts. As of December 31, 2014, guaranteed fixed rate trust accounts, for which the Bank guarantees a fixed rate of interest, accounted for 0.01% of the total money trusts in the Bank's trust accounts. As of December 31, 2014, the aggregate amount of money trusts guaranteed as to principal or as to principal and interest was ₩3,469 billion, or 17.71% of total money trusts for the Bank.

Money trusts for which the Bank provides guarantees as to principal and both principal and interest are consolidated under Korean IFRS. The following table sets forth the assets and liabilities of the money trusts for which the Bank provides guarantees as to principal and both principal and interest and such money trusts as a percentage of the Bank's total trust assets:

	As of December 31,		
	2012	2013	2014
	(in billions of Won, except percentages)		
Assets	₩3,563	₩3,707	₩3,925
Liabilities	₩3,563	₩3,707	₩3,925
As a percentage of total trust assets	12.18%	14.07%	12.67%

Investment Portfolio

The Bank invests in and trades Won-denominated and, to a lesser extent, foreign currency-denominated securities for its own account in order to:

- maintain the stability and diversification of the Bank's assets;
- maintain adequate sources of back-up liquidity to match the Bank's funding requirements; and
- supplement income from the Bank's core lending activities.

When making an investment decision with respect to particular securities, the Bank considers macroeconomic trends, industry analysis and credit evaluation, among others.

The Bank's securities investment activities are subject to a number of regulatory guidelines, including limitations prescribed under the Banking Act. Under these regulations, the Bank must limit its investments in shares and other securities with a maturity in excess of three years that are debt securities (other than monetary stabilization bonds issued by the Bank of Korea and national government bonds) derivatives-combined securities, beneficiary certificates, investment contract securities and securities depository receipts to 100.0% of the sum of Tier I and Tier II capital (less any deductions) of the Bank. Generally, the Bank is also prohibited from acquiring more than 15.0% of the shares with voting rights issued by another company (other than if it invests in a company falling under the type of business determined by the FSC or obtains approval from the FSC as necessary for promoting corporate restructuring). Further information on the regulatory environment governing the Bank's investment activities is set out in "*Supervision and Regulation — Principal Regulations Applicable to Banks — Restrictions on Shareholdings in Other Companies*".

Book Value and Market Value

The following tables set out the book value and market value of investments in the Bank's investment portfolio as of the dates indicated.

	As of December 31, 2012		As of December 31, 2013		As of December 31, 2014	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
	(in billions of Won)					
Available-for-sale financial assets:						
Equity securities	₩ 3,502	₩ 3,502	₩ 2,860	₩ 2,860	₩ 2,330	₩ 2,330
Debt securities:						
Government bonds	3,952	3,952	2,828	2,828	2,844	2,844
Financial institutions bonds	11,850	11,850	10,984	10,984	9,908	9,908
Corporate bonds	9,013	9,013	7,421	7,421	7,252	7,252
Other	—	—	—	—	29	29
Sub-total	24,815	24,815	21,233	21,233	20,033	20,033
Total available-for-sale	₩28,317	₩28,317	₩24,093	₩24,093	₩22,363	₩22,363
Held-to-maturity financial assets:						
Debt securities:						
Government bonds	4,981	5,243	4,260	4,447	5,150	5,393
Financial institutions bonds	1,102	1,122	653	660	501	506
Corporate bonds	3,141	3,215	2,521	2,561	2,361	2,418
Total held-to-maturity	₩ 9,224	₩ 9,580	₩ 7,434	₩ 7,668	₩ 8,012	₩ 8,317
Trading assets:						
Equity securities	1,179	1,179	970	970	1,012	1,012
Debt securities:						
Government bonds	160	160	256	256	337	337
Financial institutions bonds	1,366	1,366	1,595	1,595	1,429	1,429
Corporate bonds	1,067	1,067	1,040	1,040	1,213	1,213
Bills bought	2,767	2,767	2,539	2,539	2,893	2,893
CMA	1,018	1,018	1,044	1,044	1,197	1,197
Others	—	—	—	—	10	10
Sub-total	7,557	7,557	7,444	7,444	8,091	8,091
Gold deposits	438	438	76	76	225	225
Total trading	₩ 7,995	₩ 7,995	₩ 7,520	₩ 7,520	₩ 8,316	₩ 8,316
Total securities	₩45,536	₩45,892	₩39,047	₩39,281	₩38,691	₩38,996

Maturity Analysis

The following table categorizes the Bank's securities by maturity and weighted average yield as of December 31, 2014.

	As of December 31, 2014									
	1 Year or Less		Over 1 but within 5 Years		Over 5 but within 10 Years		Over 10 Years		Total	
	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	Weighted Average Yield(1)
	(in billions of Won, except percentages)									
Trading securities:										
Government bonds	₩ 45	0.00%	₩ 266	0.00%	₩ 26	0.00%	₩ —	0.00%	₩ 337	0.00%
Financial institution bonds	721	0.00	708	0.00	—	0.00	—	0.00	1,429	0.00
Corporate bonds	597	1.94	616	0.00	—	0.00	—	0.00	1,213	0.00
Bills Bought	2,893	2.19	—	0.00	—	0.00	—	0.00	2,893	2.19
CMA	1,197	2.29	—	0.00	—	0.00	—	0.00	1,197	2.29
Other	10	0.00	—	0.00	—	0.00	—	0.00	10	0.00
Total	₩ 5,463	1.66%	₩ 1,590	0.00%	₩ 26	0.00%	₩ —	0.00%	₩ 7,079	1.28%
Available-for-sale securities:										
Government bonds	₩ 291	3.39%	₩ 2,117	3.44%	₩ 357	3.14%	₩ 79	3.87%	₩ 2,844	3.41%
Financial institutions bonds	4,558	2.64	5,322	2.67	28	5.06	—	0.00	9,908	2.66
Corporate bonds	1,809	3.47	5,200	2.96	243	3.50	—	0.00	7,252	3.10
Other	29	0.00	—	0.00	—	0.00	—	0.00	29	0.00
Total	₩ 6,687	2.89%	₩12,639	2.91%	₩ 628	3.37%	₩ 79	3.87%	₩20,033	2.92%
Held-to-maturity securities:										
Government bonds	₩ 447	4.80%	₩ 3,934	3.85%	₩ 744	3.00%	₩ 25	3.70%	₩ 5,150	3.81%
Financial institutions bonds	358	2.74	143	3.75	—	0.00	—	0.00	501	3.03
Corporate bonds	853	3.99	1,244	2.98	254	3.33	10	3.27	2,361	3.38
Total	₩ 1,658	3.94%	₩ 5,321	3.65%	₩ 998	3.08%	₩ 35	3.58%	₩ 8,012	3.64%
Total debt securities	₩13,808	2.53%	₩19,550	2.88%	₩1,652	3.14%	₩114	3.78%	₩35,124	2.76%

Note:

(1) The weighted-average yield for the portfolio represents the yield to maturity for each individual security, weighted using its amortized cost.

Concentrations of Risk

The following table presents securities held by the Bank whose aggregate book value exceeded 10% of the Bank's stockholders' equity as of December 31, 2014, which was ₩12,147 billion as of such date.

	As of December 31, 2014	
	Book Value	Market Value
	(in billions of Won)	
Name of Issuer:		
Korean Government	₩ 7,085	₩ 7,319
Bank of Korea	5,062	5,063
Total	₩12,147	₩12,382

All of the above entities (other than the Government) are either an agency of the Government or an entity controlled by the Government.

Credit-Related Commitments and Guarantees

In the normal course of its operations, the Bank makes various commitments and guarantees to meet the financing and other business needs of its customers. Commitments and guarantees are usually in the form of, among others, commitments to extend credit, commercial letters of credit, standby letters of credit and performance guarantees. The contractual amount of these financial instruments represents the maximum possible loss amount if the account party draws down the commitment or the Bank should fulfill its obligation under the guarantee and the account party fails to perform under the contract.

The following tables set forth the Bank's credit-related commitments and guarantees as of the dates indicated.

	As of December 31,		
	2012	2013	2014
	(in billions of Won)		
Commitments to extend credit:			
Corporate	₩60,323	₩62,313	₩60,849
Retail	10,006	10,669	11,542
Liquidity facilities to SPEs	1,527	1,416	1,986
Commercial letters of credit(1)	3,695	3,622	3,599
Standby letters of credit, other financial and performance guarantees	10,990	11,930	11,511
Total	₩86,541	₩89,950	₩89,487

Note:

(1) These are generally short-term and collateralized by the underlying shipments of goods to which they relate.

The Bank has credit-related commitments that are not reflected on the Bank's statements of financial position, which primarily consist of commitments to extend credit and commercial letters of credit. Commitments to extend credit, including credit lines, represent unfunded portions of authorizations to extend credit in the form of loans. These commitments expire on fixed dates and a customer is required to comply with predetermined conditions to draw funds under the commitments.

Commercial letters of credit are undertakings on behalf of customers authorizing third parties to make drawdowns up to a stipulated amount under specific terms and conditions. They are generally short-term and collateralized by the underlying shipments of goods to which they relate.

The Bank also has guarantees that are recorded on the Bank's statements of financial position at their fair value at inception which are amortized over the life of the guarantees. Such guarantees generally include standby letters of credit, other financial and performance guarantees and liquidity facilities to special purpose entities.

Standby letters of credit are irrevocable obligations to pay third-party beneficiaries when the Bank's customers fail to repay loans or debt instruments, which are generally in foreign currencies. A substantial portion of these standby letters of credit are secured by collateral, including trade-related documents.

Other financial and performance guarantees are irrevocable assurances that the Bank will pay beneficiaries if its customers fail to perform their obligations under certain contracts. Liquidity facilities to SPEs represent irrevocable commitments to provide contingent liquidity credit lines to SPEs established by the Bank's customers in the event that a triggering event such as shortage of cash occurs.

The commitments and guarantees do not necessarily represent the Bank's exposure since they often expire unused.

Derivatives

As discussed under "*Business — Business Overview — The Bank's Principal Activities — Corporate and Investment Banking Services — Derivatives Trading*" above, the Bank engages in derivatives trading activities primarily on behalf of its customers so that they may hedge their risks and also enters into back-to-back derivatives with other financial institutions to cover exposures arising from such transactions. In addition, the Bank enters into derivatives transactions to hedge against risk exposures arising from its own assets and liabilities, some of which are non-trading derivatives that do not qualify for hedge accounting treatment.

The following table shows, as of December 31, 2012, 2013 and 2014, the gross notional or contractual amounts of derivatives held or issued for (i) trading and (ii) non-trading that qualify for hedge accounting.

	As of December 31, 2012			As of December 31, 2013			As of December 31, 2014		
	Underlying Notional Amount[(2)]	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Underlying Notional Amount[(1)]	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Underlying Notional Amount[(1)]	Estimated Fair Value Assets	Estimated Fair Value Liabilities
	(in billions of Won)								
Trading:									
Foreign exchange derivatives:									
Future and forward contracts	₩ 32,382	₩ 507	₩ 612	₩ 27,785	₩ 411	₩ 494	₩30,801	₩ 440	₩ 480
Swaps	11,689	361	256	14,294	428	352	14,267	248	271
Options	366	25	—	120	2	2	738	4	5
Sub-total	44,437	893	868	42,199	841	848	45,806	692	756
Interest rate derivatives:									
Future and forward contracts	—	—	—	204	—	—	—	—	—
Swaps	77,651	652	541	67,212	441	357	49,680	481	423
Options	5,777	25	34	3,146	13	17	1,846	10	16
Sub-total	83,428	677	575	70,562	454	374	51,526	491	439
Equity derivatives:									
Swaps	—	—	—	204	—	—	6	—	—
Options	574	14	6	1,106	11	11	719	7	8
Future contracts	65	—	—	12	—	—	6	—	—
Sub-total	639	14	6	1,118	11	11	731	7	8
Commodity derivatives:									
Swaps and forward contracts	—	—	—	400	—	10	167	2	2
Options	28	—	—	6	—	—	—	—	—
Sub-total	28	—	—	406	—	10	167	2	2
Total	₩128,532	₩1,584	₩1,449	₩114,285	₩1,306	₩1,243	₩98,230	₩1,192	₩1,205
Non-trading:									
Interest rate derivatives:									
Swaps	₩ 8,265	₩ 260	₩ 89	₩ 8,451	₩ 152	₩ 235	₩ 8,047	₩ 117	₩ 48
Foreign exchange derivatives:									
Future and forward contracts	—	—	—	106	—	—	220	—	3
Total	₩ 8,265	₩ 260	₩ 89	₩ 8,557	₩ 152	₩ 235	₩ 8,267	₩ 117	₩ 51

Note:

(1) Notional amounts in foreign currencies were converted into Won at prevailing exchange rates as of December 31, 2012, 2013 and 2014, respectively.

Funding

For the Bank's banking activities, the Bank obtains funding from a variety of sources, both domestic and foreign. The Bank's principal source of funding is customer deposits obtained from its banking operations. In addition, the Bank acquires funding through call money, borrowings from the Bank of Korea, other short-term borrowings, corporate debentures and other long-term debt, including debt and equity securities issuances, asset-backed securitizations and repurchase transactions, to complement, or, if necessary, replace funding through customer deposits. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources*".

Deposits

Although a majority of the Bank's bank deposits are short-term, the majority of the Bank's depositors have historically rolled over their deposits at maturity, providing its banking operations with a stable source of funding.

The following tables show the average balances of the Bank's deposits and the average rates paid on the Bank's deposits for the periods indicated.

	For the Year Ended December 31,					
	2012		2013		2014	
	Average Balance(1)	Average Rate Paid	Average Balance(1)	Average Rate Paid	Average Balance(1)	Average Rate Paid
	(in billions of Won, except percentages)					
Interest-bearing deposits:						
Demand deposits	₩ 16,173	0.67%	₩ 18,434	0.62%	₩ 20,744	0.54%
Time and savings deposits	146,696	2.98	149,592	2.45	155,302	2.08
Other deposits	1,831	3.22	1,637	1.95	2,113	1.28
Total interest-bearing deposits	₩164,700	2.76%	₩169,663	2.25%	₩178,159	1.89%

Note:

(1) Based on average daily balances.

For a breakdown of deposit products, see "*Business — Business Overview — The Bank's Principal Activities — Deposit-taking Activities*", except that cover bills sold are recorded on short-term borrowings and securities sold under repurchase agreements are recorded as secured borrowings.

Certificates of Deposit and Other Time Deposits

The following table presents the balance and remaining maturities of certificates of deposit and other time deposits which had a fixed maturity in excess of ₩100 million or more as of December 31, 2014.

	As of December 31, 2014		
	Certificates of Deposit	Other Time Deposits	Total
	(In billions of Won)		
Maturing within three months	₩1,248	₩31,234	₩32,482
After three but within six months	284	21,725	22,009
After six but within 12 months	434	24,051	24,485
After 12 months	96	5,436	5,532
Total	₩2,062	₩82,446	₩84,508

A majority of the Bank's certificates of deposit accounts and other time deposits issued by its foreign offices is in the amount of US$100,000 or more.

Short-term Borrowings

The following table presents information regarding the Bank's short-term borrowings (borrowings with an original maturity of one year or less) for the periods indicated.

	2012				
	Balance Outstanding	Average Balance Outstanding(1)	Highest Balances at Any Month-end	Weighted Average Interest Rate(2)	Year-end Interest Rate
	(in billions of Won, except for percentages)				
Borrowings from:					
Bank of Korea(3)	₩ 1,478	₩ 1,123	₩ 1,478	1.16%	0.10 - 1.50%
Call money	274	1,733	2,082	5.08	0.07 - 9.00
Other short-term borrowings(4)	5,136	7,375	8,355	1.44	0.00 - 3.80
	₩6,888	₩10,231	₩11,915	2.02%	

	2013				
	Balance Outstanding	**Average Balance Outstanding[(1)]**	**Highest Balances at Any Month-end**	**Weighted Average Interest Rate[(2)]**	**Year-end Interest Rate**
	(in billions of Won, except for percentages)				
Borrowings from:					
Bank of Korea[(3)]	₩1,364	₩1,349	₩1,511	0.96%	0.10 - 1.00%
Call money	318	1,378	2,652	3.92	0.10 - 5.08
Other short-term borrowings[(4)]	4,640	4,377	5,404	1.33	0.00 - 2.93
	₩6,322	₩7,104	₩9,567	1.76%	

	2014				
	Balance Outstanding	**Average Balance Outstanding[(1)]**	**Highest Balances at Any Month-end**	**Weighted Average Interest Rate[(2)]**	**Year-end Interest Rate**
	(in billions of Won, except for percentages)				
Borrowings from:					
Bank of Korea[(3)]	₩1,443	₩1,226	₩1,443	0.82%	0.10 - 1.00%
Call money	1,783	1,852	2,671	2.92	0.10 - 9.00
Other short-term borrowings[(4)]	5,172	5,502	5,608	1.05	0.00 - 8.91
	₩8,398	₩8,580	₩9,722	1.42%	

Notes:

(1) Average balances are based on (a) daily balances of the Bank and (b) quarterly balances for the Bank's affiliates.

(2) Weighted-average interest rates are calculated by dividing the total interest expenses by the average amount borrowed.

(3) Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies.

(4) Other short-term borrowings included borrowings from trust accounts, bills sold, and borrowings in domestic and foreign currencies.

The Bank's short-term borrowings have maturities of less than one year and are generally unsecured with the exception of borrowings from the Bank of Korea, which are generally secured with available-for-sale or held-to-maturity securities held by the Bank.

RISK MANAGEMENT

Overview

The Bank has a comprehensive system of risk management in order to manage the risks of the Bank within acceptable limits and ensure the soundness of its assets. The Bank strives to stabilize its long-term profitability through effective risk management.

The Board of Directors ("**Board**") sets basic guidelines with respect to the Bank's risk management and controls, such as total risk limits for the Bank. Under the supervision of the Board, the Risk Management Committee determines capital allocation and risk limits for each business group, and assists the management in formulating basic management guidelines for all banking operations.

In accordance with these basic policies and guidelines, the Risk Policy Committee and the Asset & Liability Management Committee ("**ALM Committee**"), both consisting of senior executives and group heads, oversee credit, market and operational risks. The Risk Management Group, which is independent from all business units, identifies, evaluates and controls all risks of the Bank and supports the Risk Management Committee.

Credit Risk Management

Credit risk, which is the risk of loss from default by borrowers, other obligors or other counterparties to the transactions that the Bank has entered into, is the greatest risk the Bank faces. The Bank's credit risk management encompasses all areas of credit that may result in potential economic loss, including not just transactions that are recorded on its balance sheets, but also off-balance-sheet transactions such as guarantees, loan commitments and derivatives transactions. The Bank's credit risk management is guided by the following principles:

- achieve a profit level corresponding to the level of risks involved;
- improve asset quality and achieve an optimal mix of asset portfolios;
- avoid excessive loan concentration in a particular borrower or sector;
- closely monitor the borrower's ability to repay the debt; and
- provide financial support to advance the growth of select customers.

Major policies for the Bank's credit risk management, including the Bank's overall credit risk management plan and credit policy guidelines, are determined by the Bank's Risk Policy Committee, the executive decision-making body for management of credit risk. The Risk Policy Committee is headed by the Chief Risk Officer, and also comprises of the Chief Credit Officer and the heads of each business unit. In order to separate the loan approval functions from credit policy decision-making, the Bank has a Credit Review Committee that performs credit review evaluations with a focus on improving the asset quality of and profitability from the loans being made, and operates separately from the Risk Policy Committee. Both the Risk Policy Committee and the Credit Review Committee make decisions by a vote of two-thirds or more of the attending members of the respective committees, which must constitute at least two-thirds of the respective committee members to satisfy the respective quorum.

The Bank complies with credit risk management procedures pursuant to internal guidelines and regulations and continually monitors and improves these guidelines and regulations. Its credit risk management procedures include:

- credit evaluation and approval;
- credit review and monitoring; and
- credit risk assessment and control.

Credit Evaluation and Approval

All loan applicants and guarantors are subject to credit evaluation before approval of any loans. Credit evaluation of loan applicants are carried out by senior officers of the Bank specifically charged with granting loan approvals. Loan evaluation is carried out by a group rather than at by an individual reviewer through an objective and deliberative process. Credit ratings of loan applicants and guarantors influence loan interest rates, the level of internal approval required, credit exposure limits, calculation of potential losses and estimated cost of capital, and therefore are determined objectively and independently by the relevant business unit. The Bank uses a credit scoring system for retail loans and a credit-risk rating system for corporate loans.

Each of the Bank's borrowers is assigned a credit rating, which is based on a comprehensive internal credit evaluation system that considers a variety of criteria. For retail borrowers, the credit rating takes into account the borrower's biographic details, past dealings with the Bank and external credit rating information, among other things. For corporate borrowers, the credit rating takes into account financial indicators as well as non-financial indicators such as industry risk, operational risk and management risk, among other things. The credit rating, once assigned, serves as the fundamental instrument for the Bank's credit risk management, and is applied to a wide range of credit risk management processes, including credit approval, credit limit management, loan pricing and computation of allowance for loan losses. The Bank has separate credit evaluation systems for retail customers, SOHO customers and corporate customers, which are further segmented and refined to meet Basel II requirements. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Impairment of Financial Assets*".

Retail Loans

Loan applications for retail loans are reviewed in accordance with the Bank's credit scoring system and the objective statistics models for secured and unsecured loans maintained and operated by the Bank's Retail Banking Division. The Bank's credit scoring system is an automated credit approval system used to evaluate loan applications and determine the appropriate pricing for the loan, and takes into account factors such as a borrower's personal information, transaction history with the Bank and other financial institutions and other relevant credit information. The applicant is assigned a score, which is used to determine (i) whether to approve the applicant's loan, (ii) the amount of loan to be granted, and (iii) the interest rates thereon. The applicant's score also determines whether the applicant is approved for credit, conditionally approved, subject to further assessment, or denied. If the applicant becomes subject to further assessment, the appropriate discretionary body, either at the branch level or at the headquarter level, makes a reassessment based on qualitative as well as quantitative factors, such as credit history, occupation and past relationship with the Bank.

For mortgage and home equity loans and loans secured by real estate, the Bank evaluates the value of the real estate offered as collateral using a proprietary database, which contains information about real estate values throughout Korea. In addition, the Bank uses up-to-date information provided by third parties regarding the real estate market and property values in Korea. While the Bank uses internal staff from the processing centers to appraise the value of the real estate collateral, it also hires certified appraisers to review and co-sign the appraisal value of real estate collateral that have an appraisal value exceeding ₩5 billion, as initially determined by the processing centers. The Bank also reevaluates internally, on a summary basis, the appraisal value of collateral at least every year.

For loans secured by securities, deposits or other assets other than real estate, the Bank requires borrowers to observe specified collateral ratios in respect of secured obligations.

Corporate Loans

The Bank rates all of its corporate borrowers using internally developed credit evaluation systems. These systems consider a variety of criteria (quantitative, qualitative, financial and non-financial) in order to standardize credit decisions and focus on the quality of borrowers rather than the size of loans. The quantitative considerations include the borrower's financial and other data, while the qualitative considerations are based on the judgment of the Bank's credit officers as to the borrower's ability to repay. Financial considerations include financial variables and ratios based on customer's financial statements, such as return on assets and cash flow to total debt ratios, and non-financial considerations include, among other things, the industry to which the borrower's businesses belong, the borrower's competitive position in its industry, its operating and funding capabilities, the quality of its management and controlling stockholders (based in part on interviews with its officers and employees), technological capabilities and labor relations.

In addition, in order to enhance the accuracy of its internal credit reviews, the Bank also considers reports prepared by external credit rating services, such as Nice Information Service and Korea Enterprise Data, and monitors and improves the effectiveness of the credit risk-rating systems using a database that it updates continually with actual default records.

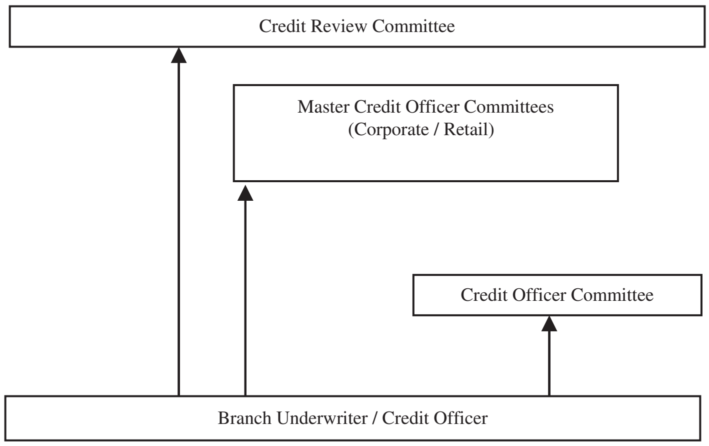
Based on the scores calculated under the credit rating system, which takes into account the evaluation criteria described above and the probability of default, the Bank assigns the borrower one of 20 grades (from the highest of AAA to the lowest of D). Grades AA through B are further broken down into "+", "0" or "-". Grades AAA through B- are classified as normal, grade CCC precautionary, and grades CC through D non-performing. The credit risk-rating model is further differentiated by the size of the corporate borrower and the type of credit facilities.

Loan Approval Process

Loans are generally approved after evaluations and approvals by the relationship manager at the branch level as well as the committee of the applicable business unit at the Bank. The approval limit for retail loans is made based on the Bank's automated credit scoring system. In the case of large corporate loans, approval limits are also reviewed and approved by a Credit Officer at the headquarter level. Depending on the size and the importance of the loan, the approval process is further reviewed by the Credit Officer Committee or the Master Credit Officer Committee. If the loan is considered significant or the amount exceeds the discretion limit of the Master Credit Officer Committee, further evaluation is made by the Credit Review Committee, which is the

Bank's highest decision-making body in relation to credit approval. The Credit Review Committee's evaluation and approval of loan limits vary depending on the credit ratings of the borrowers as determined by the Bank's internal credit rating system. For example, for borrowers with a credit rating of B-, the Credit Review Committee evaluates and approves unsecured loans in excess of ₩10 billion and secured loans in excess of ₩15 billion, whereas for borrowers with a credit rating of AAA, the Credit Review Committee evaluates and approves unsecured loans in excess of ₩40 billion and secured loans in excess of ₩90 billion. The Credit Review Committee holds at least two meetings a week to approve applications for large-sized loans whose principal amounts exceed prescribed levels set by it.

The chart below summarizes the Bank's credit approval process. The Master Credit Officer and the Head of Business Division do not make individual decisions on loan approval, but are part of the decision-making process at the group level.



The reviewer at each level of the review process may in its discretion approve loans up to a maximum amount per loan assigned to such level. The discretionary loan approval limit for each level of the loan approval process takes into account the total amount of loans extended to the borrower, the credit level of the applicant based on credit review, the existence and value of collateral and the level of credit risk established by the credit rating system. The discretionary loan amount approval limit ranges from ₩30 million for unsecured retail loans with a credit rating of B-, which are subject to approvals by the retail branch manager, to ₩90 billion for secured loans with a credit rating of AAA, which are subject to approvals by the Master Credit Officer Committee. Any loans exceeding the maximum discretionary loan amount approval limit must be approved by the Credit Review Committee.

Credit Review and Monitoring

The Bank continually reviews and monitors existing credit risks primarily with respect to borrowers. In particular, the Bank's automated early warning system conducts daily examination for borrowers using over 192 financial and non-financial factors, and the relationship manager and the credit officer must conduct periodic loan review and report to an independent loan review team, which analyzes in detail the results and adjusts credit ratings accordingly. Based on these reviews, the Bank adjusts a borrower's credit rating, credit limit, applied interest rates and credit policies. In addition, the group credit rating of the borrower's group, if applicable, may be adjusted following a periodic review of the main debtor groups, mostly comprised of *chaebols*, as identified by the Governor of the FSS based on their outstanding credit exposures, of which 54 were identified as such as of December 31, 2014. The Bank also continually reviews other factors, such as industry-specific conditions for the borrower's business and its domestic and overseas asset base and operations, in order to ensure that the assigned ratings are appropriate. The Credit Review Department provides credit review reports, independent of underwriting, to the Chief Risk Officer on a monthly basis.

The early warning system performs automatic daily checks for borrowers to whom the Bank has more than ₩1 billion of total exposure or ₩500 million of credit exposure. When the early warning systems detects a warning signal, the results of such monitoring are reviewed by the Credit Review Department in the case of a borrower to whom the Bank has more than ₩2 billion of exposure, and the relationship manager and the Credit Officer in the case of a borrower to whom the Bank has ₩2 billion or less of exposure. In addition, the Bank carries out a planned review of each borrower in accordance with changing credit risk factors based on the changing economic environment. The results of such planned review are continually reported to the Chief Risk Officer of the Bank.

The early warning system performs automatic daily checks for borrowers to whom the Bank has more than ₩1 billion of total exposure (which represents the total outstanding amount due from a borrower, net of collateral for deposit, installment savings, guarantees and import guarantee money) or ₩500 million of net credit exposure (which represents total exposure net of effective collateral). When the early warning systems detects a warning signal, such signal and other findings from the monitoring are reviewed by the Credit Review Department in the case of a borrower to whom the Bank has more than ₩2 billion of exposure, and by the relationship manager and the Credit Officer in the case of a borrower to whom the Bank has less than ₩2 billion or less of exposure. In addition, the Bank carries out a preemptive review of each borrower in accordance with changes in credit risk factors based on changes in the economic environment. The results of such preemptive review are continually reported to the Chief Risk Officer of the Bank.

Depending on the nature of the signals detected by the early warning system, a borrower may be classified as "deteriorating credit" and become subject to evaluation for a possible downgrade in rating, or may be initially classified as "showing early warning signs" or become reinstated to the "normal borrower" status. For borrowers classified as "showing early warning signs," the relevant relationship manager gathers information and conducts a review of the borrower to determine whether the borrower should be classified as a deteriorating credit or whether to impose management improvement warnings or implement joint creditors' management. If the borrower becomes non-performing, the Bank's collection department directly manages such borrower's account in order to maximize recovery rate, and conducts auctions, court proceedings, sale of assets or corporate restructuring as needed.

Pursuant to the foregoing credit review and monitoring procedures and in order to promptly prevent deterioration of loan qualities, the Bank classifies potentially problematic borrowers into (i) borrowers that show early warning signals, (ii) borrowers that require precaution, (iii) borrowers that require observation and (iv) normal borrowers, and treats them differentially accordingly.

In order to curtail delinquency among the Bank's corporate customers, the Bank takes primarily the following measures: (i) systematic monitoring of borrowers with sizable outstanding loans, (ii) heightened monitoring of borrowers with bad credit history and/or belonging to troubled industries, and (iii) assignment of industry-specific lending caps, as adjusted for whether specific industries are particularly sensitive to general business cycles and/or are troubled at a given time.

Systematic monitoring of borrowers with sizable outstanding loans. The Bank currently applies a heightened monitoring system to corporate borrowers with outstanding loans (other than guaranteed loans and loans secured by specified types of collaterals such as deposits with the Bank or letters of credit) in the aggregate amount of

₩1 billion or more and borrowers with net outstanding loans (i.e., the outstanding loan amount minus the fair value of collaterals (other than as aforesaid) securing such loans) in the aggregate amount of ₩500 million or more. Under this monitoring system, each such borrower is assigned one of the following ratings:

- "Normal borrower" — a borrower with a credit rating of B- or above that are deemed to carry a low risk of default;

- "Borrower that requires observation" — a borrower that carries some risk of potential default and therefore requires periodic monitoring to detect any elevation of such risk;

- "Borrower that requires precaution" — a borrower with an elevated risk of default and therefore requires detailed re-assessment of the credit quality of such borrower and precaution in extending any further loans;

- "Borrower with early warning signs" — a borrower with a high level of default risk; and

- "Problematic or reorganized borrower" — a borrower currently in default and either subject to workout or restructuring or showing no signs of recovery.

The Bank conducts systematic monitoring of the foregoing borrowers at intervals depending on the borrower's credit rating (for example, every 12 months for "normal" borrowers with a credit rating of AAA to A, every nine months for "normal" borrowers with a credit rating of A- to BBB+, every six months for a credit rating of BBB to B- and every three months for borrowers with a credit rating of CCC or below and borrowers not deemed to be "normal"). In addition, the loan reviewer may request more frequent monitoring if the borrower is showing signs of deteriorating credit quality. For borrowers with outstanding loan amounts of ₩2 billion or more, the Bank also monitors the revenues and earnings of such borrower on a quarterly basis within 10 weeks following the end of each quarter.

Heightened monitoring of borrowers with bad credit history and/or belong to troubled industries. In addition to the systematic monitoring discussed above, the Bank also carries out additional monitoring for borrowers that, among others, (i) are rated as "requiring observation" or "requiring precaution" or "with early warning signs" as noted above, (ii) have prior history of delinquency or restructuring or (iii) have borrowings that are classified as substandard or below. Based on the heightened monitoring of these borrowers, the Bank adjusts contingency planning as to how the overall asset quality of a specific industry should change for each phase of the business cycle, how the Bank should limit or reduce its exposure to such borrowers, and how the Bank's group-wide delinquency and non-performing ratio would change, among others.

Assignment of industry-specific lending caps. The Bank currently classifies loans to corporate borrowers by industry, and caps the aggregate amount of loans to each industry, which amount varies depending on the respective industry forecasts and industry-specific loan default rates, among other factors. By doing so, the Bank seeks to avoid concentration of loans in risky industries and subject loans to risky industries to heightened monitoring and risk management.

The Bank currently places the following industries with relatively high risk profiles on the "intensive management" watch list for heightened monitoring and management: real estate supply, leasing and service; restaurants; lodging; construction; shipbuilding; shipping; non-metallic minerals and golf operation. For each of these industries, the Bank enforces a conservative cap on the aggregate amount of loans to such industry, and the business units responsible for exceeding such limits are penalized in their performance evaluations, which would have a negative impact on the pay and promotion of the employees belonging to such units.

Credit Risk Assessment and Control

In order to assess credit risk in a systematic manner, the Bank has developed and upgraded systems designed to quantify credit risk based on selection and monitoring of various statistics, including delinquency rate, non-performing loan ratio, expected loan loss and weighted average risk rating.

The Bank controls loan concentration by monitoring and managing loans at two levels: portfolio level and individual loan account level. In order to maintain portfolio-level credit risk at an appropriate level, the Bank manages its loans using value-at-risk ("**VaR**") limits for the entire bank as well as for each of its business units. In order to prevent concentration of risk in a particular borrower or borrower class, the Bank also manages credit risk by borrower, industry, country and other detailed categories.

The Bank measures credit risk using internally accumulated data. The Bank measures expected and unexpected losses with respect to total assets monthly, which the Bank refers to when setting risk limits for, and allocating capital to, its business groups. Expected loss is calculated based on the probability of default, the loss given default, the exposure at default and the past bankruptcy rate and recovery rate, and the Bank provides allowance for loan losses accordingly. The Bank makes provisioning at a level which is the higher of the FSS requirement or the Bank's internal calculation. Unexpected loss is predicted based on VaR, which is used to determine compliance with the aggregate credit risk limit for the Bank as well as the credit risk limit for the relevant department within the Bank. The Bank uses the Advanced Internal Rating-Based ("**AIRB**") method as proposed by the Basel Committee to compute VaR at the account-specific level as well as to measure risk adjusted performance.

Market Risk Management

Market risk is the risk of loss generated by fluctuations in market prices such as interest rates, foreign exchange rates and equity prices. The principal market risks to which the Bank is exposed are interest rate risk and, to a lesser extent, foreign exchange and equity price risk. These risks stem from the Bank's trading and non-trading activities relating to financial instruments such as loans, deposits, securities and financial derivatives. The Bank divides market risk into risks arising from trading activities and risks arising from non-trading activities.

The Bank's Risk Management Committee establishes overall market risk management principles for both the trading and non-trading activities of the Bank. Based on these principles, the Bank's Risk Policy Committee acts as the executive decision-making body in relation to market risks in terms of setting its risk management policies and risk limits in relation to market risks and assets and controlling market risks arising from trading and non-trading activities of the Bank. The Risk Policy Committee consists of deputy presidents in charge of the Bank's seven business groups the Chief Risk Officer and the Chief Financial Officer. At least on a monthly basis, the Risk Policy Committee reviews and approves reports relating to, among others, the position and VaR with respect to the Bank's trading activities and the position, VaR, duration gap and market value analysis and net interest income simulation with respect to its non-trading activities. In addition, the Bank's Risk Management Department comprehensively manages market risks on an independent basis from the Bank's operating departments, and functions as the middle office of the Bank. The Bank measures market risk with respect to all assets and liabilities in the bank accounts and trust accounts in accordance with the regulations promulgated by the FSC.

Market Risk Exposure from Trading Activities

The Bank's trading activities principally consist of:

- trading activities to realize short-term profits from trading in the equity and debt securities markets and the foreign currency markets based on the Bank's short-term forecast of changes in market situation and customer demand, for its own account as well as for the trust accounts of its customers; and

- trading activities primarily to realize profits from arbitrage transactions involving derivatives such as swaps, forwards, futures and options, and, to a lesser extent, to sell derivative products to its customers and to cover market risk associated with those trading activities.

As a result of these trading activities, the Bank is exposed principally to interest rate risk, foreign currency exchange rate risk and equity risk.

Interest Rate Risk

The Bank's exposure to interest rate risk arises primarily from Won-denominated debt securities, directly held or indirectly held through beneficiary certificates, and, to a lesser extent, from interest rate derivatives. The Bank's exposure to interest rate risk arising from foreign currency-denominated trading debt securities is minimal since its net position in those securities is not significant. As the Bank's trading accounts are marked-to-market daily, it manages the interest rate risk related to its trading accounts using VaR, a market value-based tool.

Foreign Currency Exchange Rate Risk

The Bank's exposure to foreign currency exchange rate risk mainly relates to its assets and liabilities, including derivatives such as foreign currency forwards and futures and currency swaps, which are denominated in currencies other than the Won. The Bank manages foreign currency exchange rate risk on a consolidated basis, including the corresponding risks faced by its overseas branches, by covering all of its foreign exchange spot and forward positions in both trading and non-trading accounts.

The Bank's net foreign currency open position represents the difference between its foreign currency assets and liabilities as offset against forward foreign currency positions, and is the Bank's principal exposure to foreign currency exchange rate risk. The Risk Policy Committee oversees the Bank's foreign currency exposure for both trading and non-trading activities by establishing limits for the net foreign currency open position, loss limits and VaR limits. The Bank centrally monitors and manages its foreign exchange positions through its FX & Derivatives Department. Dealers in the FX & Derivatives Department manage the Bank's consolidated position within preset limits through spot trading, forward contracts, currency options, futures and swaps and foreign currency swaps. The Bank sets a limit for net open positions by currency. The limits for currencies other than the U.S. Dollar, Japanese Yen, Euro and Chinese Yuan are set in a conservative manner in order to minimize trading in such currencies.

The following table shows the Bank's net foreign currency open positions as of December 31, 2012, 2013 and 2014. Positive amounts represent long exposures and negative amounts represent short exposures.

Currency	As of December 31, 2012	2013	2014
	(in millions of U.S. dollars)		
U.S. dollars	US$165.5	US$ 53.1	US$101.6
Yen	(54.6)	(54.7)	(72.4)
Euro	2.2	1.8	(1.5)
Others	668.4	698.3	614.8
Total	US$781.7	US$698.5	US$642.6

Equity Risk

The Bank's equity risk related to trading activities mainly involves trading equity portfolios of Korean companies and Korea Stock Price Index futures and options. The trading equity portfolio consists of stocks listed on the KRX KOSPI Market or the KRX KOSDAQ Market of the Korea Exchange and nearest-month or second nearest-month futures contracts under strict limits on diversification as well as limits on positions. The Bank maintains strict scrutiny of these activities in light of the volatility in the Korean stock market and closely monitors the loss limits and the observance thereof. Although the Bank holds a substantially smaller amount of equity securities than debt securities in its trading accounts, the VaR of trading account equity risk is generally higher than that of trading account interest rate risk due to high volatility in the value of equity securities. As of December 31, 2012, 2013 and 2014, the Bank held ₩165.4 billion, ₩64.6 billion and ₩60.7 billion, respectively, of equity securities in its trading accounts (including the trust accounts).

Management of Market Risk from Trading Activities

The following tables present an overview of market risk, measured by VaR, from trading activities of the Bank as of and for the year ended December 31, 2014. For market risk management purposes, the Bank includes in the computation of total VaR its trading portfolio in bank accounts and assets in trust accounts, in each case, for which it guarantees principal or fixed return in accordance with the FSC regulations.

	Trading Portfolio VaR for the Year 2014[(1)]			
	Average	Minimum	Maximum	As of December 31, 2014
	(In billions of Won)			
Interest rate	₩ 17.3	₩ 8.7	₩ 25.9	₩ 13.4
Foreign exchange[(2)]	43.9	34.9	54.4	49.4
Equities	4.3	2.5	7.4	3.4
Option volatility[(3)]	0.2	0.1	0.3	0.1
Less: portfolio diversification[(4)]	(18.7)	(5.2)	(32.3)	(13.3)
Total VaR[(5)]	₩ 47.0	₩41.0	₩ 55.5	₩ 53.0

Notes:

(1) Ten-day VaR results with a 99.9% confidence level.

(2) Includes both trading and non-trading accounts as the Bank manages foreign exchange risk on a total position basis.

(3) Volatility implied from the option price using the Black-Scholes or a similar model.

(4) Calculation of portfolio diversification effects is conducted on different days scenarios for different risk components. Total VaRs are less than the simple sum of the risk component VaRs due to offsets resulting from portfolio diversification.

(5) Includes trading portfolios in the Bank's bank accounts and assets in trust accounts, in each case, for which it guarantees principal or fixed return.

The Bank generally manages its market risk from trading activities of its portfolios on an aggregated basis. To control its trading portfolio market risk, the Bank uses position limits, VaR limits, stop loss limits, Greek limits and stressed loss limits. In addition, it establishes separate limits for investment securities. The Bank maintains risk control and management guidelines for derivative trading based on the regulations and guidelines promulgated by the FSC, and measures market risk from trading activities to monitor and control the risk of its operating divisions and teams that perform trading activities. The Bank manages VaR measurements and limits on a daily basis based on automatic interfacing of its trading positions into its market risk measurement system. In addition, the Bank presets limits on loss, sensitivity, investment and stress for its trading departments and desks and daily monitors such limits.

Value-at-risk analysis. The Bank uses ten-day and one-day VaRs to measure its market risk. The Bank calculates (i) 10-day VaRs on a daily basis based on data for the previous 12 months for the holding periods of ten days and (ii) one-day VARs on a daily basis based on data for the previous 12 months for the holding periods of one day. A ten-day VaR and one-day VaR are statistically estimated maximum amounts of loss that can occur for ten days and one day, respectively, under normal market conditions. If a VaR is measured using a 99% confidence level, the actual amount of loss may exceed the expected VaR, on average, once out of every 100 business days, while if a VaR is measured using a 99.9% confidence level, the actual amount of loss may exceed the VaR, on average, once out of 1,000 business days.

The Bank currently uses the ten-day 99% confidence level-based VaR and stressed VaR for purposes of calculating the regulatory capital used in reporting to the FSS. Stressed VaR reflects the potential significant loss in the current trading portfolio based on scenarios derived from a crisis simulation during the preceding 12 months. The Bank also uses the more conservative ten-day 99.9% confidence level-based VaR for purposes of calculating its "economic" capital used for internal management purposes, which is a concept used in determining the amount of the Bank's requisite capital in light of the market risk. In addition, the Bank uses the one-day 99% confidence level-based VaR on a supplemental basis for purposes of setting and managing risk limits specific to each desk or team in its operating units as well as for back-testing purposes. For the Bank, the actual amount of losses exceeded the one-day 99% confidence level-based VaR amount twice in 2013, by 23% on April 11, 2013 and by 73% on July 1, 2013, and once in 2014, by 58% on December 16, 2014.

Value-at-risk is a commonly used market risk management technique. However, VaR models have the following 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 reliable indicator of future events, particularly those that are extreme in nature;

- VaR may underestimate the probability of extreme market movements;

- The Bank's VaR models assume that a holding period of generally one to ten days is sufficient prior to liquidating the underlying positions, but such assumption regarding the length of the holding period may actually prove to be inadequate;

- The 99.9% confidence level does not take into account or provide indication of any losses that might occur beyond this confidence level; and

- VaR does not capture all complex effects of various risk factors on the value of positions and portfolios and could underestimate potential losses.

Currently, the Bank conducts back-testing of VaR results against actual outcomes on a daily basis.

The Bank operates an integrated market risk management system which manages the Bank's Won-denominated and foreign-denominated accounts. This system uses historical simulation to measure both linear risks arising from such products as equity and debt securities and nonlinear risks arising from other products including options. The Bank believes that this system enables it to generate elaborate and consistent VaR information and to perform sensitivity analysis and back testing in order to check the validity of the models on a daily basis.

Stress test. In addition to VaR, the Bank performs stress tests to measure market risk. As VaR assumes normal market situations, the Bank assesses its market risk exposure to unlikely abnormal market fluctuations through the stress test. Stress test is a valuable supplement to VaR since VaR does not cover potential loss if the market moves in a manner which is outside the Bank's normal expectations. Stress test 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.

The Bank uses seven relatively simple but fundamental scenarios for stress test by taking into account four market risk components: foreign currency exchange rates, stock prices, and Won-denominated interest rates and foreign currency-denominated interest rates. For the worst case scenario, the Bank assumes instantaneous and simultaneous movements in four market risk components: appreciation of Won by 20%, a decrease in Korea Exchange Composite Index by 30% and increases in Won-denominated and U.S. Dollar-denominated interest rates by 200 basis points each, respectively. Under this worst-case scenario, the market value of the Bank's trading portfolio would have declined by ₩317 billion as of December 31, 2014. The Bank performs stress test on a daily basis and reports the results to its Risk Policy Committee on a monthly basis and its Risk Management Committee on a quarterly basis.

The Bank sets limits on stress testing for its overall operations. If the potential impact of market turmoil or other abnormalities is large, their respective chief risk officer may request a portfolio restructuring or other proper action.

Hedging and Derivative Market Risk

The principal objective of the Bank's group-wide hedging strategy is to manage its market risk within established limits. The Bank uses derivative instruments to hedge its market risk as well as to make profits by trading derivative products within preset risk limits. The Bank's derivative trading includes interest rate and cross-currency swaps, foreign currency forwards and futures, stock index and interest rate futures, and stock index and currency options.

While the Bank uses derivatives for hedging purposes, derivative transactions by nature involve market risk since the Bank takes trading positions for the purpose of making profits. These activities consist primarily of the following:

- arbitrage transactions to make profits from short-term discrepancies between the spot and derivative markets or within the derivative markets;

- sales of tailor-made derivative products that meet various needs of the Bank's corporate customers, and related transactions to reduce its exposure resulting from those sales;

- taking positions in limited cases when the Bank expects short-swing profits based on its market forecasts; and

- trading to hedge the Bank's interest rate and foreign currency risk exposure as described above.

In relation to the Bank's adoption of IAS 39, "Financial Instruments: Recognition and Measurement", the Bank 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.

The Bank assesses the adequacy of the fair market value of a new product derived from its internal model prior to the launch of such product. The assessment process involves the following:

- computation of an internal dealing system market value (based on assessment by the quantitative analysis team of the adequacy of the formula and the model used to compute the market value as derived from the dealing system);

- computation of the market value as obtained from an outside credit evaluation company; and

- following comparison of the market value derived from an internal dealing system to that obtained from outside credit evaluation companies, determination as to whether to use the internally developed market value based on inter-departmental consensus.

The dealing system market value, which is used officially by the Bank after undergoing the assessment process above, does not undergo a sampling process that confirms the value based on review of individual transactions, but is subject to an additional assessment procedure of comparing such value against the profits derived from the dealing systems based on the deal portfolio sensitivity. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies*" and Note 3 of the notes to the Bank's consolidated financial statements.

Market risk from derivatives is not significant since derivative trading activities of the Bank are primarily driven by arbitrage and customer deals with narrowly limited open trading positions.

Market Risk Management for Non-trading Activities

Interest Rate Risk

Interest rate risk represents the Bank's principal market risk from non-trading activities. Interest rate risk is the risk of loss resulting from interest rate fluctuations that adversely affect the financial condition and results of operations of the Bank. The Bank's interest rate risk primarily relates to the differences between the timing of rate changes for interest-earning assets and that for interest-bearing liabilities.

Interest rate risk affects the Bank's earnings and the economic value of the Bank's net assets as follows:

- *Earnings*. Interest rate fluctuations have an effect on the Bank's net interest income by affecting its interest-sensitive operating income and expenses.

- *Economic value of net assets*. Interest rate fluctuations influence the Bank's net worth by affecting the present value of cash flows from the assets, liabilities and other transactions of the Bank.

Accordingly, the Bank measures and manages interest rate risk for non-trading activities by taking into account the effects of interest rate changes on both its income and net asset value. The Bank measures and manages interest rate risk on a daily and monthly basis with respect to all interest-earning assets and interest-bearing liabilities in the Bank's bank accounts (including derivatives denominated in Won which are principally interest rate swaps entered into for the purpose of hedging) and in the trust accounts, except that the Bank measures VaRs on a monthly basis. Most of the Bank's interest-earning assets and interest-bearing liabilities are denominated in Won.

Interest Rate Risk Management

The principal objectives of the Bank's interest rate risk management are to generate stable net interest income and to protect the Bank's net asset value against interest rate fluctuations. Through its asset and liability management system, the Bank monitors and manages its interest rate risk based on various analytical measures such as interest rate gap, duration gap and net present value and net interest income simulations, and monitors on a monthly basis its interest rate VaR limits, interest rate earnings at risk ("**EaR**") limits and interest rate gap ratio limits. The Bank measures its interest rate VaR and interest rate EaR based on simulated estimation of the maximum decrease in net asset value and net interest income in a one-year period based on various scenario analyses of historical interest rates. The Risk Policy Committee sets the interest rate risk limits for the Bank's Won-denominated and foreign currency-denominated non-trading accounts and trust accounts, and the Risk Management Committee sets the Bank's overall interest rate risk limit, in both cases, at least annually. The Risk Management Department monitors the Bank's compliance with these limits and reports the monitoring results to the Risk Policy Committee on a monthly basis and the Risk Management Committee on a quarterly basis. The Bank uses interest rate swaps to control its interest rate exposure limits.

Interest rate VaR represents the maximum anticipated loss in a net present value calculation (computed as the present value of interest-earning assets minus the present value of interest-bearing liabilities), whereas interest rate EaR represents the maximum anticipated loss in a net earnings calculation (computed as interest income minus interest expenses) for the immediately following one-year period, in each case, as a result of negative movements in interest rates. Therefore, interest rate VaR is a more expansive concept than interest rate EaR in that the former covers all interest-earning assets and all interest-bearing liabilities, whereas the latter covers only those interest-earning assets and interest-bearing liabilities that are exposed to interest rate volatility for a one-year period.

Hence, for interest rate VaRs, the duration gap (namely, the weighted average duration of all interest-earning assets minus the weighted average duration of all interest-bearing liabilities) can be a more critical factor than the relative sizes of the relevant assets and liabilities in influencing interest rate VaRs. In comparison, for interest rate EaRs, the relative sizes of the relevant assets and liabilities in the form of the "one year or less interest rate" gap (namely, the volume of interest-earning assets with maturities of less than one year minus the volume of interest-bearing liabilities with maturities of less than one year) is the most critical factor in influencing the interest rate EaRs.

The interest rate VaR limits are set as the sum of (i) the average of the monthly non-trading interest rate VARs as a percentage of interest-bearing assets over a period of one year and (ii) the standard deviation at the 99% confidence level (namely, 2.33 times the standard deviation of the monthly non-trading interest rate VARs as a percentage of interest-bearing assets).

The interest rate EaR limits are set at the maximum decrease in net interest income by (i) assuming that the estimated interest rate gap will expand to the maximum level of manageable (tolerable) situations and (ii) applying the interest rate shock scenario to the annual volatility of interest rates using past 10-year market interest rates.

On a monthly basis, the Bank monitors whether the non-trading positions for interest rate VaR and EaR exceed their respective limits as described above.

Interest rate VaR cannot be meaningfully compared to the ten-day 99% confidence level based VaR ("**market risk VaR**") for managing trading risk principally because (i) the underlying assets are different (namely, non-trading interest-bearing assets as well as liabilities in the case of the interest rate VaR, compared to trading assets only in the case of the market risk VaR), and (ii) interest rate VaR is sensitive to interest rate movements only while the market risk VaR is sensitive to interest rate movements as well as other factors such as foreign currency exchange rates, stock market prices and option volatility.

Even if comparison were to be made between the interest rate VaR and the interest rate portion only of the market risk VaR, the Bank does not believe such comparison would be meaningful since the interest rate VaR examines the impact of interest rate movements on both assets and liabilities (which will likely have offsetting effects), whereas the interest rate portion of the market VaR examines the impact of interest rate movements on assets only.

The Bank uses various analytical methodologies to measure and manage its interest rate risk for non-trading activities on a daily and monthly basis, including the following analyses:

- Interest rate gap analysis;
- Duration gap analysis;
- Market value analysis; and
- Net interest income simulation analysis.

Interest Rate Gap Analysis

The Bank performs an interest gap analysis to measure the difference between the amount of interest-earning assets and that of interest-bearing liabilities at each maturity and re-pricing date for specific time intervals by preparing interest rate gap tables in which the Bank's interest-earning assets and interest-bearing liabilities are allocated to the applicable time intervals based on the expected cash flows and re-pricing dates. On a daily basis, the Bank performs interest rate gap analysis for Won and foreign currency denominated assets and liabilities in its bank and trust accounts. The Bank's gap analysis includes Won-denominated derivatives (which are interest rate swaps for the purpose of hedging) and foreign currency-denominated derivatives (which are currency swaps for the purpose of hedging), which are managed centrally at the FX & Derivatives Department. Through the interest rate gap analysis that measures interest rate sensitivity gaps, cumulative gaps and gap ratios, the Bank assesses its exposure to future interest risk fluctuations.

For interest rate gap analysis, the Bank assumes and uses the following maturities for different types of assets and liabilities:

- With respect to the maturities and re-pricing dates of the Bank's assets, the Bank assumes that the maturity of its prime rate-linked loans is the same as that of its fixed-rate loans. The Bank excludes equity securities from interest-earning assets.

- With respect to the maturities and re-pricing of the Bank's liabilities, the Bank assumes that money market deposit accounts and "non-core" demand deposits under the FSC guidelines have a maturity of one month or less for both Won-denominated accounts and foreign currency-denominated accounts.

- With respect to "core" demand deposits under the FSC guidelines, the Bank assumes that they have maturities of eight different intervals ranging from one month to five years.

The following tables show the Bank's interest rate gaps as of December 31, 2014 for (i) Won-denominated non-trading bank accounts, including derivatives entered into for the purpose of hedging and (ii) foreign currency-denominated non-trading bank accounts, including derivatives entered into for the purpose of hedging.

Won-denominated non-trading bank accounts[1]

	As of December 31, 2014						
	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2-3 Years	Over 3 Years	Total
	(In billions of Won, except percentages)						
Interest-earning assets	₩101,077	₩ 46,100	₩ 9,662	₩ 11,025	₩ 11,221	₩17,664	₩196,749
Fixed rates	22,076	3,908	7,262	9,239	6,217	7,874	56,576
Floating rates	77,861	41,412	1,090	1,225	4,724	9,310	135,623
Interest rate swaps	1,140	780	1,310	560	280	480	4,550
Interest-bearing liabilities	₩ 86,329	₩ 30,414	₩ 42,006	₩ 13,136	₩ 8,103	₩14,608	₩194,595
Fixed liabilities	59,530	29,716	41,678	13,092	8,073	13,879	165,968
Floating liabilities	22,248	698	328	43	30	729	24,077
Interest rate swaps	4,550	—	—	—	—	—	4,550
Sensitivity gap	14,749	15,686	(32,344)	(2,111)	3,118	3,055	2,154
Cumulative gap	14,749	30,435	(1,909)	(4,020)	(902)	2,154	2,154
% of total assets	7.50%	15.47%	(0.97)%	(2.04)%	(0.46)%	1.09%	1.09%

Foreign currency-denominated non-trading bank accounts[1]

	As of December 31, 2014					
	0-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Total
	(In millions of US$, except percentages)					
Interest-earning assets	$17,372	$ 3,698	$ 3,206	$ 3,385	$ 2,092	$29,753
Interest-bearing liabilities	15,191	3,341	4,821	4,060	2,253	29,665
Sensitivity gap	2,181	357	(1,615)	(674)	(160)	88
Cumulative gap	2,181	2,538	923	249	88	88
% of total assets	7.33%	8.53%	3.10%	0.84%	0.30%	0.30%

Note:

(1) Includes merchant banking accounts.

Duration Gap Analysis

The Bank performs a duration gap analysis to measure the differential effects of interest rate risk on the market value of its assets and liabilities by examining the difference between the durations of the Bank's interest-earning assets and those of its interest-bearing liabilities, which durations represent their respective weighted average maturities calculated based on their respective discounted cash flows using applicable yield curves. These measurements are done on a daily basis and for each operating department, account, product and currency, the respective durations of interest-earning assets and interest-bearing liabilities.

The following tables show duration gaps and market values of the Bank's Won-denominated interest-earning assets and interest-bearing liabilities in its non-trading accounts as of December 31, 2014 and changes in these market values when interest rate increases by one percentage point.

Duration as of December 31, 2014 (for non-trading Won-denominated bank accounts[(1)])

	Duration as of December 31, 2014
	(in months)
Interest-earning assets	9.78
Interest-bearing liabilities	9.53
Gap	0.47

Market Value Analysis

The Bank performs a market value analysis to measure changes in the market value of the Bank's interest-earning assets compared to that of its interest-bearing liabilities based on the assumption of parallel shifts in interest rates. These measurements are done on a daily basis.

Market Value as of December 31, 2014 (for non-trading Won-denominated bank accounts[(1)])

	Market Value as of December 31, 2014		
	Actual	1% Point Increase	Changes
	(In billions of Won)		
Interest-earning assets	₩200,675	₩199,134	₩(1,541)
Interest-bearing liabilities	195,954	194,535	(1,419)
Gap	4,721	4,599	(122)

Note:

(1) Includes merchant banking accounts and derivatives for the purpose of hedging.

Net Interest Income Simulation

The Bank performs net interest income simulation to measure the effects of the change in interest rate on its results of operations. Such simulation uses the deterministic analysis methodology to measure the estimated changes in the Bank's annual net interest income (interest income less interest expenses) under the current maturity structure, using different scenarios for interest rates (assuming parallel shifts) and funding requirements. For simulations involving interest rate changes, based on the assumption that there is no change in funding requirements, the Bank applies three scenarios of parallel shifts in interest rate: (1) no change, (2) a 1% point increase in interest rates and (3) a 1% point decrease in interest rates.

The following table illustrates by way of an example the simulated changes in the Bank's annual net interest income for 2014 with respect to Won-denominated interest-earning assets and interest-bearing liabilities, using the Bank's net interest income simulation model, assuming (a) the maturity structure and funding requirement of the Bank as of December 31, 2014 and (b) the same interest rates as of December 31, 2014 and a 1% point increase or decrease in the interest rates.

	Simulated Net Interest Income for 2014 (For Non-Trading Won-Denominated Bank Accounts[1])						
	Assumed Interest Rates			Change in Net Interest Income		Change in Net Interest Income	
	No Change	1% Point Increase	1% Point Decrease	Amount (1% Point Increase)	% Change (1% Point Increase)	Amount (1% Point Decrease)	% Change (1% Point Decrease)
	(In billions of Won, except percentages)						
Simulated interest income	₩7,074	₩8,210	₩5,938	₩1,136	16.05%	₩1,136	(16.05)%
Simulated interest expense	3,531	4,396	2,666	865	24.51	(865)	(24.51)
Net interest income	3,543	3,814	3,273	270	7.63	(270)	(7.63)

Note:

(1) Includes merchant banking accounts and derivatives entered into for the purpose of hedging.

The Bank's Won-denominated interest-earning assets and interest-bearing liabilities in non-trading accounts have a maturity structure that benefits from an increase in interest rates, because the re-pricing periods for interest-earning assets in the Bank's non-trading accounts are, on average, shorter than those of the interest-bearing liabilities in these accounts. This is primarily due to a sustained low interest rate environment in the recent years in Korea, which resulted in a significant increase in demand for floating rate loans (which tend to have shorter maturities or re-pricing periods than fixed rate loans) as a portion of the Bank's overall loans, which in turn led to the shortening, on average, of the maturities or re-pricing periods of the Bank's loans on an aggregate basis. As a result, the Bank's net interest income tends to decrease during times of a decrease in the market interest rates while the opposite is generally true during times of an increase in the market interest rates.

Interest Rate VaRs for Non-trading Assets and Liabilities

The Bank measures VaRs for interest rate risk from non-trading activities on a monthly basis. The following table shows, as of and for the year ended December 31, 2014, the VaRs of interest rate mismatch risk for other assets and liabilities, which arises from mismatches between the re-pricing dates for the Bank's non-trading interest-earning assets (including available-for-sale investment securities) and those for its interest-bearing liabilities. Under the regulations of the FSC, the Bank includes in calculation of these VaRs interest-earning assets and interest-bearing liabilities in its bank accounts and its merchant banking accounts.

	VaR for the Year 2014[1]			
	Average	Minimum	Maximum	As of December 31
	(In billions of Won)			
Interest rate mismatch — non-trading assets and liabilities	₩115	₩91	₩163	₩163

Note:

(1) One-year VaR results with a 99.9% confidence level.

Equity Risk

Substantially all of the Bank's equity risk relates to its portfolio of common stock in Korean companies. As of December 31, 2014, the Bank held an aggregate amount of held an aggregate amount of ₩126 billion of equity interest in unlisted foreign companies (including ₩99 billion invested in unlisted private equity funds).

The equity securities in Won held in the Bank's investment portfolio consist of stocks listed on the KRX KOSPI Market or the KRX KOSDAQ Market of the Korea Exchange and certain non-listed stocks. The Bank sets exposure limits for most of these equity securities to manage their related risk. As of December 31, 2014, the Bank held equity securities in an aggregate amount of ₩2,068 billion in its non-trading accounts, including equity securities in the amount of ₩419 billion that it held, among other reasons, for management control purposes and as a result of debt-to-equity conversion as a part of reorganization proceedings of the companies to which it had extended loans.

As of December 31, 2014, the Bank held Won-denominated convertible bonds in an aggregate amount of ₩46 billion and Won-denominated bonds with warrants in an aggregate amount of ₩2 billion, in each case, in its non-trading accounts. The Bank does not measure equity risk with respect to convertible bonds or bonds with warrants and the interest rate risk of these equity-linked securities are measured together with the other debt securities. As such, the Bank measures interest rate risk VaRs but not equity risk VaRs for these equity-linked securities.

Liquidity Risk Management

Liquidity risk is the risk of insolvency, default or loss due to disparity between inflow and outflow of funds, including the risk of having to obtain funds at a high price or to dispose of securities at an unfavorable price due to lack of available funds. The Bank seeks to minimize liquidity risk through early detection of risk factors related to the sourcing and managing of funds that may cause volatility in liquidity and by ensuring that it maintains an appropriate level of liquidity through systematic management. In addition, in order to preemptively and comprehensively manage liquidity risk, the Bank measures and monitors liquidity risk management using various indices, including the "limit management index", "early warning index" and "monitoring index".

The Bank applies the following basic principles for liquidity risk management:

- raise funds in sufficient amounts, at the optimal time at reasonable costs;
- maintain liquidity risk at appropriate levels and preemptively manage them through a prescribed risk limit system and an early warning signal detection system;
- secure stable sources of revenue and minimize actual losses by implementing an effective asset-liability management system based on diversified sources of funding with varying maturities;
- monitor and manage daily and intra-daily liquidity positions and risk exposures for timely payment and settlement of financial obligations due under both normal and crisis situations;
- conduct periodic contingency analysis in anticipation of any potential liquidity crisis and establish and implement emergency plans in case of an actual crisis; and
- consider liquidity-related costs, benefits of and risks in determining the pricing of its products and services, employee performance evaluations and approval of launching of new products and services.

The Bank manages liquidity risk in accordance with the risk limits and guidelines established internally and by the relevant regulatory authorities. Pursuant to principal regulations applicable to banks as promulgated by the FSC, the Bank is required to keep a specific Won currency liquidity coverage ratio and a foreign currency liquidity ratio. The Bank is required to keep the relevant ratios above certain minimum levels.

The Bank manages its 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 to maintain a Won liquidity coverage ratio of at least 100.0% and a foreign currency liquidity ratio of at least 85.0%. The FSC defines the foreign currency liquidity ratio as foreign currency-denominated liquid assets (including marketable securities) divided by foreign currency-denominated liabilities, in each case, due within three months. In addition, the FSC defines Won liquidity coverage ratio as high liquid assets that can be easily transferred to cash, divided by the net amount of cash outflow for the next one month period, under the stress level established according to the Won liquidity coverage ratio, pursuant to Regulation on the Supervision of the Banking Business, which was amended as of December 26, 2014 to implement the liquidity coverage ratio requirements under Basel III.

The monthly weighted average balance for the preceding 12-month period is calculated using the following formula:

$$\sum_{i=0}^{11} \text{monthly average balance}_{t\text{-}i} \text{ x weighted period coefficient}_{t\text{-}i}.$$

The standard deviation of the monthly weighted average balance during the preceding 12-month period is calculated using the following formula:

$$\sqrt{\sum_{i=0}^{11} (\text{monthly average balance}_{t\text{-}i} - \text{weighted average balance for the period})^2 \times \text{weighted period coefficient}_{t\text{-}i}}.$$

The weighed period coefficients for the applicable month are set forth below:

Applicable Month	Weighed Period Coefficient
t-11 month	1/78
t-10 month	2/78
t-9 month	3/78
t-8 month	4/78
t-7 month	5/78
t-6 month	6/78
t-5 month	7/78
t-4 month	8/78
t-3 month	9/78
t-2 month	10/78
t-1 month	11/78
t month	12/78
Sum	1

With respect to Won-denominated demand deposits with no fixed maturity, given that a portion of the balance of such demand deposits may be withdrawn at any time, the Bank categorizes them as core deposits and non-core deposits each as defined above.

The table below sets forth the Won liquid assets and liabilities, together with a breakdown of their respective components, as of December 31, 2014.

Won-denominated accounts (including derivatives and merchant banking accounts)

Won-Denominated Accounts	0-1 Months	1-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Substandard or Below	Total
				(In billions of Won, except percentages)				
Assets:	₩ 55,338	₩19,938	₩31,611	₩49.129	₩30,145	₩51,924	₩1,746	₩239,831
Cash and deposit	10,551	100	100	—	—	—	—	10,751
Available-for-sale securities	26,217	—	—	—	—	3,722	84	30,023
Loans	8,869	15,436	27,672	44,108	25,544	40,951	1,662	164,241
Other assets	3,607	—	—	—	—	5,673	—	9,280
Derivative assets	3,389	4,147	3,500	4,021	4,384	1,139	—	20,580
Merchant banking account assets	2,706	256	339	1,000	217	439	—	4,957
Liabilities:	45,259	24,236	29,102	43,808	15,505	59,869	—	217,779
Deposits (including certificates of deposit)	28,531	19,273	23,927	36,531	5,965	49,477	—	163,703
Borrowings	3,050	290	88	142	608	1,913	—	6,090
Debt securities	122	620	2,084	2,960	4,520	2,233	—	12,540
Other liabilities	6,289	—	—	—	—	3,955	—	10,244
Derivatives liabilities	3,542	4,054	3,003	4,175	4,412	1,092	—	20,278
Merchant banking account liabilities	3,724	—	—	—	—	1,199	—	4,924
Liquidity gap	10,080							
Liquidity ratio	122.27%							
Limit	100%							

The breakdown of financial instruments by contractual maturities for purposes of analyzing liquidity risk as set forth in Note 4-3 in the notes to the Bank's consolidated financial statements included elsewhere in this offering circular was prepared based on the relevant line items presented in the Bank's statement of financial position. In comparison, the breakdown of financial instruments by contractual maturities for purposes of analyzing liquidity gap as set forth above was prepared based on the Banking Regulations promulgated by the FSC.

For the most part, the criteria used for determining the remaining maturities on these two sections are the same, the primary exception being in respect of demand deposits. Under Korean IFRS, all demand deposits are categorized as having maturities of less than one month; however, under the Banking Regulations, demand deposits are categorized as having maturities of less than one month in an amount equal to the sum of (x) the non-core deposits and (y) 15% of core deposits. The Bank's total demand deposit balance as of December 31, 2014 was ₩62,085 billion of which ₩55,866 billion was classified as core deposits and ₩14,736 billion was classified as Won liquid liabilities (namely, liabilities with maturities of less than one month based on the formula under the Banking Regulations).

The Treasury Department is in charge of liquidity risk management with respect to the Bank's Won and foreign currency funds. The Treasury Department submits the Bank's monthly funding and asset management plans to the ALM Committee for approval, based on the analysis of various factors, including macroeconomic indices, interest rate and foreign exchange movements and maturity structures of the Bank's assets and liabilities. The Risk Management Department measures the Bank's liquidity ratio and liquidity gap ratio on a daily basis and reports whether they are in compliance with the limits to the Risk Policy Committee, which sets and monitors the Bank's liquidity ratio and liquidity gap ratio, on a monthly basis.

The following tables show the Bank's liquidity status and limits for Won-denominated and foreign currency-denominated accounts (including derivatives and merchant banking accounts) as of December 31, 2014 in accordance with the regulations of the FSC.

Won-denominated accounts
(including derivatives and merchant banking accounts)

	As of December 31, 2014							
Won-Denominated Accounts	**0-1 Month**	**1-3 Months**	**3-6 Months**	**6-12 Months**	**1-3 years**	**Over 3 Years**	**Sub-standard or Below**	**Total**
	(in billions of Won, except percentages)							
Assets	₩ 55,338	₩19,938	₩31,611	₩49,129	₩30,145	₩51,924	₩1,746	₩239,831
Liabilities	45,259	24,236	29,102	43,808	15,505	59,869	—	217,779
For one month or less:								
Liquidity gap	10,080							
Liquidity ratio	122.27%							
Limit	100.00%							

Foreign currency-denominated accounts
(including derivatives and merchant banking accounts)

	As of December 31, 2014							
Foreign Currency Denominated Accounts:	**7 Days or Less**	**1 Month or Less**	**3 Months or Less**	**6 Months or Less**	**12 Months or Less**	**Total Before Sub-Standard or Below(1)**	**Sub-Standard or Below**	**Total**
	(In millions of US$, except percentages)							
Assets:	$8,259	$15,285	$ 25,309	$34,587	$42,735	$52,795	$93	$52,888
Liabilities	5,838	11,388	19,473	26,310	36,437	52,198	—	52,198
For three months or less:								
Assets			25,309					
Liabilities			19,473					
Liquidity ratio			129.97%					
Limit			85.00%					

Note:

(1) Cumulative total of accounts, including accounts over one year, but excluding accounts that are sub-standard or below.

The Bank maintains diverse sources of liquidity to facilitate flexibility in meeting its funding requirements. The Bank 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 one month), issuing debentures and borrowing from the Bank of Korea. The Bank uses the funds primarily to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

In addition to liquidity risk management under the normal market situations, the Bank has contingency plans to effectively cope with possible liquidity crisis. Liquidity crisis arises when the Bank would not be able to effectively manage the situations with its normal liquidity management measures due to, among other reasons, inability to access the Bank's normal sources of funds or epidemic withdrawals of deposits as a result of various external or internal factors, including a collapse in the financial markets or abrupt deterioration of the Bank's credit. The Bank has contingency plans corresponding to different stages of liquidity crisis: namely "alert stage", "imminent-crisis stage" and "crisis stage", based on the following liquidity indices:

- indices that reflect the market movements such as interest rates and stock prices;
- indices that reflect financial market sentiments, an example being the size of money market funds; and
- indices that reflect the Bank's internal liquidity condition.

Operational Risk Management

Operational risk is difficult to quantify and subject to different definitions. The Basel Committee defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from other external events. Similarly, the Bank defines operational risk as the risks related to its overall management other than credit risk, market risk, interest rate risk and liquidity risk. These include risks arising from system failure, human error, non-adherence to policy and procedures, fraud, inadequate internal controls and procedures or environmental changes and resulting in financial and non-financial loss. The Bank monitors and assesses operational risks related to its business operations, including administrative risk, information technology risk (including cyber security risk), managerial risk and legal risk, with a view to minimizing such losses.

To monitor and manage operational risks, the Bank maintains, a system of comprehensive policies and has in place a control framework designed to provide a stable and well-managed operational environment throughout the organization. Currently, the primary responsibility for ensuring compliance with the Bank's banking operational risk procedures remains with each of the business units and operational teams. In addition, the Audit Department, the Risk Management Department and the Compliance Department of the Bank also play important roles in reviewing and maintaining the integrity of the Bank's internal control environment.

The operational risk management system of the Bank is managed by the operational risk team under the Risk Management Department. The current system principally consists of risk control self-assessment, risk quantification using key risk indicators, loss data collection, scenario management and operational risk capital measurement. The Bank operates several educational and awareness programs designed to have all of its employees to be familiar with this system. In addition, the Bank has a designated operational risk manager at each of its departments and branch offices, who serves as a coordinator between the operational risk team at the headquarters and the employees in the front office and seeking to provide centralized feedback to further improve the operational risk management system.

As of December 31, 2014, the Bank has conducted risk control self-assessments on its departments as well as domestic and overseas branch offices, from which it collects systematized data on all of its branch offices, and uses the findings from such self-assessments to improve the procedures and processes for the relevant departments or branch offices. In addition, the Bank has accumulated risk-related data since 2003, improved the procedures for monitoring operational losses and is developing risk simulation models. In addition, the Bank selects and monitors, at the department level, approximately 196 key risk indicators.

The Audit Committee of the Bank, which consists of three outside directors, is an independent inspection authority that supervises the Bank's internal controls and compliance with established ethical and legal principles. The Audit Committee performs internal audits of, among other matters, the Bank's overall management and accounting, and supervises its Audit Department, which assists the Bank's Audit Committee. The Bank's Audit Committee also reviews and evaluates the Bank's accounting policies and their changes, financial and accounting matters and fairness of financial reporting.

The Bank's Audit Committee and Audit Department supervise and perform the following audits:

- general audits, including full-scale audits performed annually for the overall operations, sectional audits of selected operations performed as needed, and periodic and irregular spot audits;

- special audits, performed when the Audit Committee or standing auditor deems it necessary or pursuant to requests by the chief executive officer or supervisory authorities such as the FSS;

- day-to-day audits, performed by the standing auditor for material transactions or operations that are subject to approval by the heads of the Bank's operational departments or senior executives;

- real-time monitoring audits, performed by the computerized audit system to identify any irregular transactions and take any necessary actions; and

- self-audits as a self-check by each operational department to ensure its compliance with the Bank's business regulations and policies, which include daily audits, monthly audits and special audits.

In addition to these audits and compliance activities, the Bank's Audit Department designates operational risk management examiners to monitor the appropriateness of operational risk management frameworks and the functions and activities of the board of directors, relevant departments and business units, and conducts periodic checks on the operational risk and reports such findings. The Bank's Audit Department also reviews in advance proposed banking products or other business or service plans with a view to minimizing operational risk.

General audits, special audits, day-to-day audits and real-time monitoring audits are performed by the Bank's examiners, and self-audits are performed by the self-auditors of the relevant operational departments.

In addition to internal audits and inspections, the FSS conducts general annual audits of the Bank's operations. The FSS also performs special audits as the need arises on particular aspects of the Bank's operations such as risk management, credit monitoring and liquidity. In the ordinary course of these audits, the FSS routinely issues warning notices where it determines that a regulated financial institution or such institution's employees have failed to comply with the applicable laws or rules, regulations and guidelines of the FSS. The Bank has in the past received, and expects in the future to receive, such notices and it has taken and will continue to take appropriate actions in response to such notices. For example, in July 2012, the FSS issued an institutional warning in relation to an embezzlement case involving Dongah Construction Industrial Co., Ltd. on the grounds that there were misconduct in payment of funds held in the trust account and mismanagement of internal control. For a detailed description of the Dongah Construction case, please see "*Business — Legal Proceedings and Other Matters*". The FSC conducted a comprehensive audit of the Bank from November to December 2012, and in July 2013 notified the Bank of an institutional caution, imposed disciplinary actions against 65 Bank employees and assessed a fine of ₩87.5 million after finding that the Bank had illegally monitored customer accounts, breached confidentiality with respect to certain financial transactions and violated its obligation to disclose and report to the FSC an investment in an affiliated company of the Bank. Furthermore, in March 2013 the FSC conducted a special audit of the Bank as to an alleged malfunctioning of the Bank's financial computer network and in December 2013, notified the Bank of an institutional caution and imposed disciplinary actions against five Bank employees after finding that the Bank did not properly maintain its information technology administrator account and vaccine server. In October 2013, the FSC also conducted a special audit of the Bank as to an alleged illegal monitoring of customer accounts, and in February 2014, the Prosecutor's Office in Korea also commenced an investigation of the Bank with respect to same. As of the date of this offering circular, neither the FSC nor the Prosecutor's Office has announced the results of its respective investigations.

The Bank considers legal risk as a part of operational risk. The uncertainty of the enforceability of obligations of the Bank's customers and counterparties, including foreclosure on collateral, creates legal risk. Changes in laws and regulations could also adversely affect the Bank. 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 Bank's traditional business to the extent that the legal and regulatory landscape in Korea changes and many new laws and regulations governing the banking industry remain untested. The Bank seeks to minimize legal risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorized and consulting legal advisers. The Compliance Department operates the Bank's compliance system. This system is designed to ensure that all of the Bank's employees comply with the relevant laws and regulations. The compliance system's main function is to monitor the degree of improvement in compliance with the relevant laws and regulations, maintain internal controls (including ensuring that each department has established proper internal policies and that it complies with those policies) and educate employees about observance of the relevant laws and regulations. The Compliance Department also supervises the management, execution and performance of self-audits.

Upgrades of Risk Management System

In order to strengthen risk management of its overseas subsidiaries and effectively comply with local and domestic regulations, the Bank is in the process of laying out a global risk management system network, which records the risk data of its overseas subsidiaries. The Bank seeks to leverage the development of this system for further overseas expansion and stable growth of existing overseas subsidiaries. To-date, the Bank has completed the development of such system for its subsidiaries in China, Japan, Vietnam, the United States and India and plans to expand the application of this system to its other overseas subsidiaries.

The Bank has also completed development of a system to calculate stressed VaR based on Basel II standards in order to prepare for stress situations such as the global financial crisis in 2008. The Bank has received approval for such system from the FSS and has been implemented since 2012.

In 2012, the Bank developed a system for improving collection and recovery of bad assets through enhanced loss given default ("**LGD**") data processing. In addition, in 2012, the Bank received approvals from the FSS for upgrades to its credit evaluation modeling for risk assessment of small- to medium-sized enterprises that are not required to be audited by outside accounting firms and for SOHOs, which upgrades related to factoring in the credit profile of the head of such enterprises and SOHOs. In 2014, the Bank further upgraded the credit evaluation modeling for risk assessment of small- and medium-size enterprises that are not required to be audited by outside accounting firms by entirely revamping the modeling for enterprises subject to outside audits, enterprises that are not subject to outside auditors and enterprise heads. Such upgraded modeling was approved by the FSS and the Bank began implementation of the upgraded system since 2014.

In addition, in 2013, the Bank obtained approval from the FSS to use an internal evaluation model with respect to Basel II credit risks related to the Bank's retail SOHO exposures.

The Bank also upgraded the asset and liability management system in 2012 in order to timely comply with Basel III, IFRS and other regulatory requirements as well as to upgrade the quality of risk-related data. In 2014, the Bank upgraded the liquidity coverage ratio and net stable funding ratio systems under Basel III in order facilitate daily measurement and efficient management.

Following the approval by the FSS of the advanced measurement approach for risk management, the Bank has re-established the operational risk management system in order to further enhance its operational risk management capabilities.

MANAGEMENT AND EMPLOYEES

Management

Board of Directors

The Bank is managed by the Board of Directors of the Bank (the "**Board**"), which is responsible for policy and strategic matters, has the ultimate responsibility for the administration of the affairs of the Bank and oversees the day-to-day operations through several governing bodies. The address for each of the Directors of the Board is: c/o Shinhan Bank, 20, Sejong-Daero 9-Gil, Jung-Gu, Seoul 100-724, Korea.

The Board is comprised of three Executive Directors, one Director and Standing auditor, one Non-Standing Director and six Outside Directors.

The Executive Directors are elected for a renewable term of up to three years as determined at the general meeting of the Bank's shareholders. Non-Standing Directors and Outside Directors are elected for a renewable term of two-years. The Director who is a member of the Audit Committee (as described below) is elected for a renewable term of three years. The Board meets at least once every quarter and additional extraordinary meetings can be convened at the request of the chairman of the Board.

The Board has established four committees to carry out duties for the purpose of supporting the administration of various Board responsibilities: an Audit Committee, a Risk Management Committee, an Audit Committee Member Nomination Committee and an Outside Director Nomination Committee.

The purpose of the Audit Committee is to (i) establish internal audit plans, carry out such plans, evaluate the results, take appropriate follow-up measures and propose appropriate reforms, (ii) evaluate and propose appropriate reforms regarding the comprehensive system of internal controls, (iii) approve the appointment(s) of external auditor(s) and (iv) perform various other functions similar to the foregoing.

The purpose of the Risk Management Committee is to (i) review risk, evaluation and limit policies of the Bank, (ii) review asset liability management and credit and market risk measures, and (iii) regulate asset quality, risk exposure and problem assets.

The purpose of the Audit Committee Nomination Committee is to nominate, and recommend to the Board for appointment candidates for members of the audit committee.

The purpose of the Outside Director Nomination Committee is to nominate, and recommend at the relevant general shareholders meeting for appointment candidates for outside directors.

Executive Directors

As of the date of this offering circular, the Bank had four Executive Directors, who are full-time employees of the Bank and hold executive positions as listed below.

Name	Age	Position	Executive Director Since	Date Term Ends
Yong Byoung Cho	57	President, Chief Executive Officer and Executive Director	March 18, 2015	Date of the ordinary general meeting of stockholders in 2017
Young Jin Lim	54	Executive Director and Deputy President, Head of Wealth Management Group	May 27, 2013	December 31, 2015
Dong Hwan Lee	55	Executive Director and Deputy President, Head of Corporate and Investment Banking Group	January 1, 2013	December 31, 2015

Yong Byoung Cho has been the Bank's President, Chief Executive Officer and Executive Director since March 18, 2015. Mr. Cho previously served as Shinhan Financial Group's Deputy President and Shinhan BNP Paribas' President, Chief Executive Officer and Executive Director. Mr. Cho received his L.L.B. in law from Korea University.

Young Jin Lim has been the Bank's Executive Director and Deputy President since May 27, 2013. Mr. Lim previously served as Head of the Bank's Management Support Group, Head of the Bank's Eastern Gyunggi regional sales division, General Manager of the Bank's Osaka branch office in Japan and General Manager of the Bank's Business Department. Mr. Lim received a B.A. in business administration from Korea University.

Dong Hwan Lee has been the Bank's Executive Director and Deputy President since January 1, 2013. Mr. Lee previously served as Head of the Bank's Capital Market and Trading Division and Head of Shinhan Financial Group's investor relations team. Mr. Lee received a B.A. in business administration from Yonsei University and a M.B.A. from Duke University.

Director and Standing Auditor

Name	Age	Position	Executive Director Since	Date Term Ends
Seok Keun Lee	56	Director and Standing Auditor	January 1, 2014	December 31, 2015

Seok Keun Lee has been the Bank's Director and Standing Auditor since January 1, 2014. Mr. Lee previously served as Standing Advisor of Deloitte Consulting, Head of Strategy Planning Division and General Manager of General Affairs of Financial Supervisory Services. Mr. Lee received his B.A. in business administration from Yonsei University.

Non-Standing Director

As of the date of this offering circular, the Bank had one Non-Standing Director who is neither a full-time employee of the Bank nor holds an executive position with the Bank but is otherwise affiliated with the Bank.

Name	Age	Position	Statutory Auditor Since	Date Term Ends
Hyung Jin Kim	56	Vice President of Shinhan Financial Group	March 25, 2014	Date of the ordinary general meeting of stockholders, 2016

Hyung Jin Kim has been the Bank's Non-Standing Director since March 25, 2014. Mr. Kim is currently the Vice President of Shinhan Financial Group Mr. Kim previously served as Chief Executive Officer of Shinhan Data System, General Manger of the Bank's Human Resources Department and held various positions at the Bank. Mr. Kim received his bachelor's degree in economics from Young Nam University.

Outside Directors

As of the date of this offering circular, the Bank had six Outside Directors who are neither employees of the Bank nor hold executive positions with the Bank nor are otherwise affiliated with the Bank, as listed below.

Name	Age	Position	Director Since	Date Term Ends
Se Jin Park	64	Principal of the School of Global SARANG	March 22, 2011	Date of the ordinary general meeting of stockholders, 2016
Bon Il Koo	55	Professor of Yonsei University	March 27, 2013	Date of the ordinary general meeting of stockholders, 2016
Dong Chul Cho	53	Chief Economist of Korea Development Institute	September 22, 2014	Date of the ordinary general meeting of stockholders, 2016
Sun Tae Hwang	66	Lawyer of Logos(law firm)	March 18, 2015	Date of the ordinary general meeting of stockholders, 2017
Kook Jae Hwang	55	Professor of Sogang University	March 18, 2015	Date of the ordinary general meeting of stockholders, 2017
Fukuda Hiroshi	72	Director of Kyowa Create Co., Ltd.	March 18, 2015	Date of the ordinary general meeting of stockholders, 2017

Bon Il Koo has been an Outside Director since March 27, 2013. Mr. Koo is currently a professor of Yonsei University. Mr. Koo received a B.A. in business administration from Yonsei University and a Ph.D. in financial management from Columbia University.

Se Jin Park has been an Outside Director since March 22, 2011. Mr. Park is currently the principal of the School of Global SARANG and has previously served as a visiting professor of law at Dankook University, the Vice Minister of the Ministry of Government Legislation and the Director of the Eighth Korea Legislation Research Institute. Mr. Park received his bachelor's degree in commerce and trade from Seoul National University and graduated from the Graduate School of the University of Florida.

Dong Chul Cho has been an Outside Director since September 22, 2014. Mr. Cho is currently a chief economist of Korea Development Institute (KDI). Mr. Cho received both B.A. and M.A. in Economy from Seoul National University and Ph.D. in economics from University of Wisconsin.

Sun Tae Hwang has been an Outside Director since March 18, 2015. Mr. Hwang is currently a lawyer of Logos law firm. Mr. Hwang has previously served as the 10th chairman of Korea Legal and Corporation, a chief prosecutor of the Seoul East District Public Prosecutor's Office. Mr. Hwang received L.L.B. in law from Seoul National University.

Kook Jae Hwang has been an Outside Director since March 18, 2015. Mr. Hwang is currently a professor of Sogang University. Mr. Hwang has previously served as a certified public accountant and a researcher of Samsung Economic Research Laboratory. Mr. Hwang received a doctoral degree in business administration from Syracuse University.

Fukuda Hiroshi has been an Outside Director since March 18, 2015. Mr. Hiroshi is currently a director of Kyowa create corporation, a director of Kyowa corporation and New Japan Tourism Corporation. Mr. Hiroshi received his bachelor's degree in economics from Japan University of Economics.

Substantially all of the Outside Directors hold positions with companies or organizations other than the Bank (the principal such positions are specified above).

Management

As of the date of this offering circular, the management of the Bank consists of 12 Non-Director Executive Officers.

Non-Director Executive Officers	Age	Department	Executive Officer Since	Date Term Ends
Young Suk Lim	55	Institutional Banking Group	January 1, 2013	December 31, 2015
Hyun Ju Seo	54	Retail Business Unit	January 1, 2013	December 31, 2015
Seung Woog Yoon	55	Management Support Group	May 27, 2013	May 26, 2015
Tae Wook Wang	54	Consumer Brand Group	January 1, 2014	December 31, 2015
Jae Youl Choi	54	Global Business Group	January 1, 2014	December 31, 2015
Byeong Wha Choi	53	Corporate Business Unit	January 1, 2014	December 31, 2015
Sun Cheor Shin	54	Business Improvement Group	January 1, 2014	December 31, 2015
Jae Jung Kwon	52	Risk Management Group	January 1, 2014	December 31, 2015
Hyo Jin Ahn	54	Management Planning Group	January 1, 2014	December 31, 2015
Soon Seog Huh	55	Compliance Department	January 1, 2015	December 31, 2016
Ki Jun Lee	53	Credit Analysis & Assessment Group	January 1, 2015	December 31, 2016
Dong Ook Ryu	53	Marketing Service Group	January 1, 2015	December 31, 2016

Young Suk Lim has been the Bank's Executive Vice President and Non-Director Executive Officer since January 1, 2013. Mr. Lim previously served as Head of the Bank's Gangnam II Regional Sales Division, Head of the Bank's Busan/Ulsan Regional Sales Division and Branch Manager of the Bank's Kimpo Airport branch. Mr. Lim graduated from Seonrin Commercial High School.

Hyun Ju Seo has been the Bank's Executive Vice President and Non-Director Executive Officer since January 1, 2013. Mr. Seo previously served as Head of the Bank's Synergy Support Division, General Manager of the Bank's Retail Customer Department and General Manager of the Bank's Customer Satisfaction Department. Mr. Seo graduated from Busan Commercial High School and received his A.M.P. from Sungyungwan University.

Seung Yoog Yoon has been the Bank's Executive Vice President and Non-Director Executive Officer since May 7, 2013. Mr. Yoon previously served as Head of the Bank's Gangnam II Regional Sales Division, Head of the Bank's Chungbuk Regional Sales Division and General Manager of the Bank's General Affairs Department. Mr. Yoon received his B.A. in business administration from Chungju University.

Tae Wook Wang has been the Bank's Executive Vice President and Non-Director Executive Officer since January 1, 2014. Mr. Wang previously served as Head of the Bank's Gangnam II Regional Sales Division, Head of the Bank's East Seoul Regional Sales Division and General Manager of the Bank's Public Relations Department. Mr. Wang received his B.A. in business administration from Dong A University.

Jae Youl Choi has been the Bank's Executive Vice President and Non-Director Executive Officer since January 1, 2014. Mr. Choi previously served as Head of the Bank's Capital Market and Trading Division, Head representative of Shinhan Bank Europe GmbH and General Manager of the Bank's Financial Engineering Center. Mr. Choi received his B.A. in German language and literature from Sungyungwan University.

Byeong Hwa Choi has been the Bank's Executive Vice President and Non-Director Executive Officer since January 1, 2014. Mr. Choi previously served as Head of the Bank's Industry Complex Finance Division, General Manager of the Bank's Corporate Banking Department. Mr. Choi received his B.A. in business administration from Kwangwun University.

Sun Cheor Shin has been the Bank's Executive Vice President and Non-Director Executive Officer since January 1, 2014. Ms. Shin previously served as Head of the Bank's Mid Gyunggi Regional Sales Division, and General Manager of the Bank's Personal Banking Department. Ms. Shin received his B.A. in business administration from Korea National Open University.

Jae Jung Kwon has been the Bank's Executive Vice President and Non-Director Executive Officer since January 1, 2014. Mr. Kwon previously served as Head of the Bank's Audit Division, Vice President of Standard Chartered Holding Company's Policy & Strategy Planning. Mr. Kwon received his bachelor's degree in economics from Seoul National University and Ph.D. in economics from Rice University.

Ahn Hyo Jin has been the Bank's Executive Vice President and Non-Director Executive Officer since January 1, 2014. Mr. Ahn previously served as General Manager of the Bank's Strategy Planning Department, General Manager of Gangnam Spoworld Branch, and Representative of Shinhan Bank America. Mr. Choi received his B.A. in English language and literature from Yonsei University.

Soon Seog Huh has been the Bank's Executive Vice President and Non-Director Executive Officer since January 1, 2015. Mr. Huh previously served as General Manager of the Bank's Institutional Banking Department, General Manager of Suwon Branch, and General Manager of Hak-dong Branch. Mr. Huh received his L.L.B. in law from Seoul National University.

Ki Jun Lee has been the Bank's Executive Vice President and Non-Director Executive Officer since January 1, 2015. Mr. Lee previously served as a Head of the Bank's Jungbu Business Division, Head of the Corporate Restoration Support Division. Mr. Lee received his master's degree in finance from Korea University.

Dong Ook Ryu has been the Bank's Executive Vice President and Non-Director Executive Officer since January 1, 2015. Mr. Ryu previously served as a Head of the Bank's Investment Product and Service, General Manager of the Bank's Retail Business Development Department, General Manager of Bundang Jeongja-dong Branch. Mr. Ryu received his B.A. in business administration from Korea University.

Audit Committee

The Bank has an Audit Committee under the Board. The rights and responsibilities of the Audit Committee include the following: (i) conduct the audit of accounting and business of the Bank, (ii) investigate the agenda and documents to be submitted at general shareholders meetings and state at general shareholders meetings its opinion on whether there exists any violation of laws, regulations or articles of incorporation or remarkable illegality, (iii) demand the convening of extraordinary shareholders meetings, (iv) request reports on business of subsidiaries and if necessary, investigate business or status of properties of subsidiaries, (v) approve the appointment of external auditors and (vi) handle other matters delegated by the Board.

As of the date of this offering circular, the Audit Committee of the Bank consists of the following members.

Name	Age	Position	Audit Committee Member Since	Date Term Ends
Bon Il Koo	55	Member of the Audit Committee; Outside director	March 27, 2013	Date of the ordinary general meeting of stockholders in 2016
Sun Tae Hwang	66	Member of the Audit Committee; Outside director	March 18, 2015	Date of the ordinary general meeting of stockholders in 2017
Seok Keun Lee	56	Member of the Audit Committee; Director and Standing Auditor	January 1, 2014	December 31, 2015

Risk Management Committee

The Risk Management Committee currently consists of two Outside Directors and one Non-Standing Director, namely Dong Chul Cho, Kook Jae Hwang and Hyung Jin Kim. The committee oversees and makes determinations on significant issues relating to the Bank's comprehensive risk management function. In order to ensure the Bank's stable financial condition and to maximize its risk-adjusted profits, the committee monitors the Bank's overall risk exposure and reviews the Bank's compliance with risk policies and processes. In addition, the committee examines and amends risk and control strategies and policies and the Bank's overall risk management system, evaluates whether each risk is at an adequate level and reviews risk-based capital allocations. The committee holds a regular meeting every quarter.

Audit Committee Nomination Committee

Members of this committee will be appointed by the Bank's Board if and only to the extent necessary to recommend and nominate candidates for the Bank's audit committee member positions and related matters. This committee recommends candidates for the members of the Audit Committee and is required to act on the basis of a two-thirds vote of the members present.

Outside Director Recommendation Committee

Members of this committee will be appointed by the Bank's Board if and only to the extent necessary to recommend and nominate candidates for the Bank's outside director positions and related matters. The committee meetings are called by the chairman of this committee, who must be an outside director.

Remuneration

The aggregate remuneration and benefits in kind granted by the Bank to its directors and executive officers as of December 31, 2014 was ₩2,859 million.

Employees

As of December 31, 2014, the Bank's workforce consisted of 13,489 regular employees and 2,603 contract-based employees of the Bank. As of December 31, 2014, 9,919 employees were members of the Bank's labor union. The Bank maintains a good relationship with its labor union and there has been no material labor dispute in the past three years.

Share Ownership

All of the Bank's share capital is owned by Shinhan Financial Group.

Stock Options

Prior to April 1, 2010, Shinhan Financial Group granted stock options to select members of senior management. On March 18, 2015, the exercise period for all outstanding stock options expired, and there are currently no stock options outstanding.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

As of December 31, 2014, there were no loans outstanding made by the Bank to the members of the Bank's board of directors or the Bank's executive officers. There are no guarantees provided by the Bank and its consolidated subsidiaries for the benefit of any of the Bank's directors or executive officers. Other than housing-related legacy loans in the aggregate of ₩1 billion, none of the directors or executive officers has or has had any interest in any transactions effected by the Bank which are or were unusual in their nature or conditional or significant to the business of the Bank and which were effected during the current or immediately preceding year or were effected during an earlier year and remain in any respect outstanding or unperformed.

Directors, executive officers and certain employees of the Bank, as is the case with certain other subsidiaries of Shinhan Financial Group, receive from time to time shares of Shinhan Financial Group's common stock and/or stock options exercisable into such shares, as part of their compensation. See "*Management and Employees — Share Ownership" and "Management and Employees — Stock Options*".

As a subsidiary of Shinhan Financial Group, the Bank engages from time to time in ordinary course of business activities with other subsidiaries of Shinhan Financial Group, including cross-selling activities. See Note 41 in the notes to the consolidated financial statements included in this offering circular.

SHINHAN FINANCIAL GROUP

Introduction

Shinhan Financial Group is one of the leading financial institutions in Korea in terms of total assets, revenues, profitability and capital adequacy, among others. Incorporated on September 1, 2001, Shinhan Financial Group is the first privately-held financial holding company to be established in Korea. Since inception, Shinhan Financial Group has developed and introduced a wide range of financial products and services in Korea and aimed to deliver comprehensive financial solutions to clients through a convenient one-portal network. According to reports by the FSS, Shinhan Financial Group is the largest financial services provider in Korea as measured by total assets as of December 31, 2014 and operate the third largest banking business (as measured by consolidated total assets as of December 31, 2014) and the largest credit card business (as measured by the total credit purchase volume as of December 31, 2014) in Korea.

Shinhan Financial Group has experienced substantial growth through several mergers and acquisitions. Most notably, Shinhan Financial Group's acquisition of Chohung Bank in 2003 has enabled Shinhan Financial Group to have the third largest banking operations in Korea. In addition, Shinhan Financial Group's acquisition in March 2007 of LG Card, the then largest credit card company in Korea, has enabled to have the largest credit card operations in Korea and significantly expand Shinhan Financial Group's non-banking business capacity so as to achieve a balanced business portfolio.

Shinhan Financial Group currently has 13 direct subsidiaries and 18 indirect subsidiaries offering a wide range of financial products and services, including commercial banking, corporate banking, private banking, credit card, asset management, brokerage and insurance services. Shinhan Financial Group believes that such breadth of services will help it to meet the diversified needs of the Bank present and potential clients. Shinhan Financial Group currently serves approximately 29 million active customers, which Shinhan Financial Group believes the largest customer base in Korea, through approximately 23,555 employees at approximately 1,372 network branches group-wide. While substantially all of Shinhan Financial Group's revenues have been historically derived from Korea, it aim to serve the needs of the Bank's customers through a global network of 76 offices in the United States, Canada, the United Kingdom, Japan, the People's Republic of China, Germany, India, Hong Kong, Vietnam, Cambodia, Kazakhstan, Singapore, Mexico, Uzbekistan, Myanmar and Poland.

History and Organization

On September 1, 2001, Shinhan Financial Group was formed as a financial holding company under the Financial Holding Companies Act, as a result of acquiring all of the issued shares of the following four entities from their former shareholders in exchange for shares of Shinhan Financial Group's common stock: (i) the Bank, a nationwide commercial bank listed on the Korea Exchange, (ii) Shinhan Securities Co., Ltd., a securities brokerage company listed on the Korea Exchange, (iii) Shinhan Capital Co., Ltd., a leasing company listed on the Korea Exchange Korean Securities Dealers Automated Quotations ("**KRX KOSDAQ**"), and (iv) Shinhan Investment Trust Management Co., Ltd., a privately held investment trust management company. On September 10, 2001, the common stock of Shinhan Financial Group's holding company was listed on what is currently the KRX KOSPI Market.

Since its inception, Shinhan Financial Group has expanded its operations, in large part, through strategic acquisitions or formation of joint ventures. Shinhan Financial Group's key acquisitions and joint venture formations are described as below:

Date of Acquisition	Entity	Principal Activities	Method of Establishment
April 2002	Jeju Bank	Regional banking	Acquisition from Korea Deposit Insurance Corporation
July 2002	Shinhan Investment Corp.(1)	Securities and investment	Acquisition from the SsangYong Group
August 2002	Shinhan BNP Paribas Investment Trust Management Co., Ltd.(2)	Investment advisory	50:50 joint venture with BNP Paribas
August 2003	Chohung Bank	Commercial banking	Acquisition from creditors
December 2005	Shinhan Life Insurance	Life insurance services	Acquisition from shareholders
March 2007	LG Card	Credit card services	Acquisition from creditors
January 2012	Tomato Mutual Savings Bank(3)	Savings bank	Purchase and assumption of assets and liabilities from creditors
January 2013	Yehanbyoul Savings Bank(4)	Savings bank	Acquisition from Korea Deposit Insurance Corporation

Notes:

(1) Renamed as Shinhan Investment Corp. from Goodmorning Shinhan Securities Co., Ltd. effective August 2009.

(2) In January 2009, SH Asset Management Co., Ltd. and Shinhan BNP Paribas Investment Trust Management merged to form Shinhan BNP Paribas Asset Management Co., Ltd.

(3) Shinhan Hope Co., Ltd. was established on December 12, 2011, to purchase and assume certain assets and liabilities of Tomato Mutual Savings Bank. On December 28, 2011, Shinhan Hope Co., Ltd. obtained a savings bank license, changed its name to Shinhan Savings Bank and became Shinhan Financial Group's direct subsidiary.

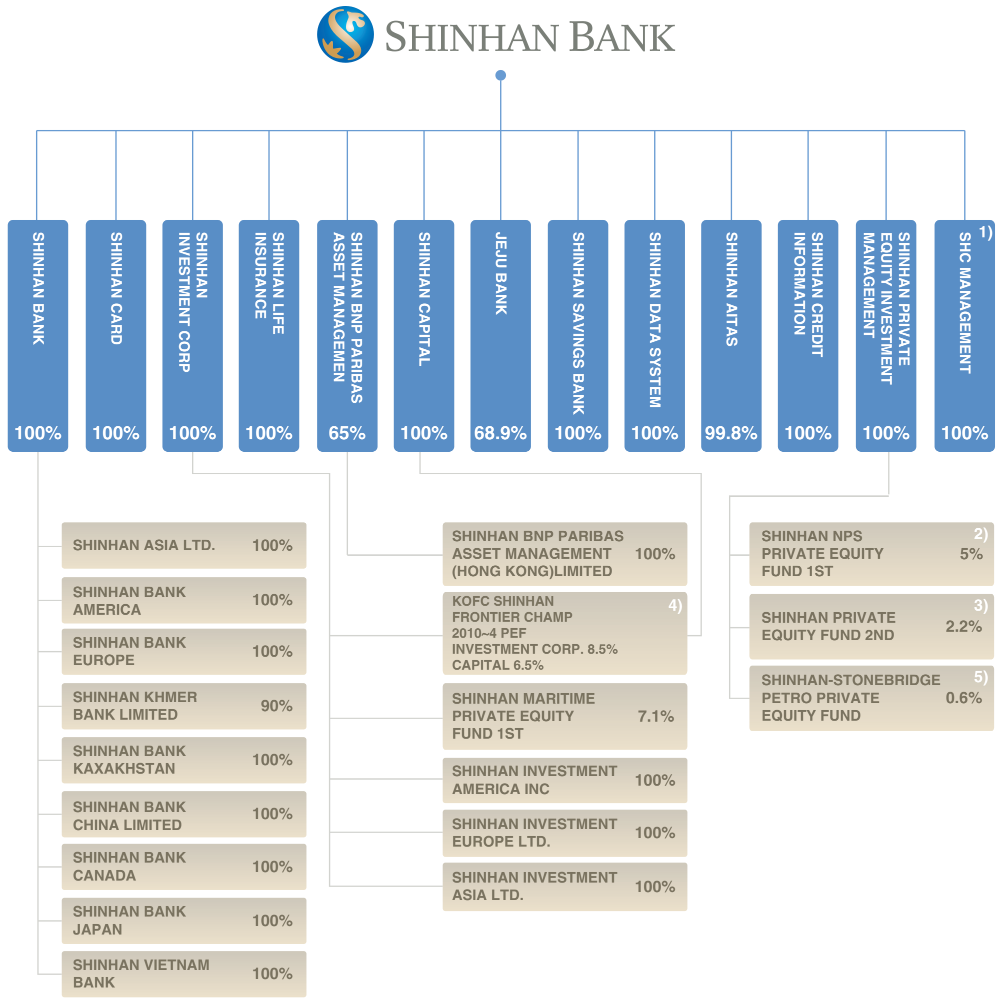
(4) In January 2013, Shinhan Financial Group entered into a share purchase agreement with Korea Deposit Insurance Corporation for the acquisition of Yehanbyoul Savings Bank, a savings bank located in Korea, for ₩45.3 billion, and received regulatory approval to merge Yehanbyoul Savings Bank into Shinhan Financial Group's existing subsidiary Shinhan Saving Bank. On April 1, 2013, Shinhan Savings Bank and Yehanbyoul Savings Bank merged into a single entity, with Yehanbyoul Savings Bank being the surviving entity and the newly merged bank being named Shinhan Savings Bank.

All of Shinhan Financial Group's subsidiaries are incorporated in Korea, except for the following:

- Shinhan Asia Limited (incorporated in Hong Kong);

- Shinhan Bank America (incorporated in the United States);
- Shinhan Bank Canada (incorporated in Canada);
- Shinhan Bank (China) Limited (incorporated in the People's Republic of China);
- Shinhan Bank Europe GmbH (incorporated in Germany);
- Shinhan Bank Kazakhstan Limited (incorporated in Kazakhstan);
- Shinhan Bank Japan (incorporated in Japan);
- Shinhan Khmer Bank PLC (incorporated in Cambodia);
- Shinhan Bank Vietnam Ltd. (incorporated in Vietnam);
- LLP MFO Shinhan Card (incorporated in Kazakhstan);
- Shinhan Investment Corp., USA Inc. (incorporated in the United States);
- Shinhan Investment Corp., Asia Ltd. (incorporated in Hong Kong); and
- Shinhan BNP Paribas Asset Management (Hong Kong) Limited (incorporated in Hong Kong).

As of the date hereof, Shinhan Financial Group has 13 direct and 18 indirect subsidiaries. The following diagram shows Shinhan Financial Group's organization structure as of the date hereof:



The following table sets forth certain information relating to the beneficial ownership of Shinhan Financial Group's common shares (unless otherwise indicated) as of December 31, 2014.

Name of Shareholder	Number of Common Shares Beneficially Owned	Beneficial Ownership (%)
National Pension Service[(1)]	42,133,294	8.89
BNP Paribas SA	25,356,276	5.35
Saudi Arabian Monetary Agency	20,863,893	4.40
Shinhan Financial Group Employee Stock Ownership Association	19,344,136	4.08
Citibank, N.A. (ADR Department)	12,478,312	2.63
The Government of Singapore	10,053,958	2.12
The Lazard Funds Inc.	7,748,374	1.63
Samsung Asset Management	6,073,694	1.28
Mizuho	5,955,000	1.26
People's Bank of China	4,762,564	1.00
Others	319,430,086	67.36
Total	474,199,587	100.00

Note:

(1) As of December 31, 2014, National Pension Service held 2,000,000 shares, or 18.02% of Shinhan Financial Group's Series 12 redeemable preferred stock, which Shinhan Financial Group issued in April 2011. The redeemable preferred stock does not carry voting rights.

Other than those listed above, no other shareholders own more than 1% of Shinhan Financial Group's issued and outstanding voting securities. None of Shinhan Financial Group's shareholders have different voting rights.

SUPERVISION AND REGULATION

Principal Regulations Applicable to Banks

The banking system in Korea is governed by the Banking Act of 1950, as amended (the "**Banking Act**") and the Bank of Korea Act of 1950, as amended (the "**Bank of Korea Act**"). In addition, Korean banks are subject to the regulations and supervision of the Bank of Korea, the Bank of Korea's Monetary Policy Committee, the FSC and its executive body, the FSS.

The Bank of Korea, 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 stabilization through establishing and implementing efficient monetary and credit policies. The Bank of Korea acts under instructions of the Monetary Policy Committee, the supreme policy-making body of the Bank of Korea.

Under the Bank of Korea Act, the Monetary Policy Committee's primary responsibilities are to formulate monetary and credit policies and to determine the operations, management and administration of the Bank of Korea. The FSC, established on April 1, 1998, regulates commercial banks pursuant to the Banking 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 Organization Act and the Banking Act on May 24, 1999, the FSC, instead of the Ministry of Strategy and Finance, now regulates market entry into the banking business.

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 settlement of bad loans.

Under the Banking 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 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 deposits with maturities of at least one year, or the issuance of bonds or other securities. A bank wishing to enter any business other than commercial banking and long-term financing businesses, such as the trust business, must obtain approval from the FSC. Approval to merge with any other banking institution, to liquidate, to close a banking business or to transfer all or a part of a business must also be obtained from the FSC.

If the Government 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 government may order, among others,:

- capital increases or reductions;
- suspension of officers' performance of their duties and appointment of custodians;
- stock cancellations or consolidations;

- transfers of a part or all of business;
- sale of assets and bar on acquisition of high-risk assets;
- closures or downsizing of branch offices or workforce;
- mergers or becoming a subsidiary under the Financial Holding Companies Act of a financial holding company;
- acquisition of a bank by a third party;
- suspensions of a part or all of business operation; or
- assignments of contractual rights and obligations relating to financial transactions.

Capital Adequacy

The Banking Act requires nationwide banks to maintain a minimum paid-in capital of ₩100 billion and regional banks to maintain a minimum paid-in capital of ₩25 billion.

In addition to minimum capital requirements, all banks including foreign bank branches in Korea are required to maintain a prescribed solvency position. A bank must also set aside as its legal reserve an amount equal to at least 10% of its net profits after tax each time it pays dividends on net profits earned until such time when the reserve equals the amount of its total paid-in capital.

Under the Banking Act, the capital of a bank is divided into two categories: Tier I and Tier II capital. Tier I capital (typically referred to as "**Core Capital**") consists of (i) the capital that can absorb losses incurred by a bank such as capital, capital surplus and earned surplus generated from the issuance of common shares (collectively, "**Common Stock Capital**"), and (ii) the capital that can absorb the losses of a bank after depletion of the Common Stock Capital such as capital and capital surplus generated from the issuance of equity securities satisfying the requirements designated by the FSS (collectively, "**Other Core Capital**"). Tier II capital (typically referred to as "**Supplementary Capital**") represents the capital which is equivalent to, but not included in, the Core Capital and can absorb losses incurred upon the liquidation of a bank such as capital and capital surplus generated from the issuance of equity securities satisfying the requirements designated by the FSS and allowance for bad debts set aside for loans classified as "normal" or "precautionary".

Under the Detailed Regulations on the Supervision of the Banking Business, equity securities must satisfy, among others, the following requirements in order to be recognized as Other Core Capital:

(i) equity securities shall have no maturity or maturity of not less than 30 years with conditions under which the bank may extend the maturity without changing the existing terms and conditions;

(ii) there is no condition to promote the bank to redeem equity securities such as a step-up provision;

(iii) equity securities shall constitute unsecured and subordinated obligations of the bank and rank lower than claims of holders of the Supplementary Capital;

(iv) the requirements for paying dividends shall be determined as of the issuance date and shall not be affected by the credit rating of the bank;

(v) equity securities shall not be redeemed within five years from the issuance date and the bank shall be able to determine in its sole discretion whether it redeems such securities even after five years from the issuance date; and

(vi) equity securities shall have a provision that requires such securities to be either written off or converted into common shares upon the occurrence of the events (the "**Trigger Events**") where the FSC makes a decision that a write-off or a conversion into common shares of such securities or a public sector injection of capital or equivalent support, without which the bank would have become non-viable, is necessary or the bank is designated as a "failing financial institution" under the Act on Structural Improvement of the Financial Industry of Korea or under the Depositor Protection Act, as applicable.

Under the Detailed Regulations on the Supervision of the Banking Business, equity securities must satisfy, among others, the following requirements in order to be recognized as Supplementary Capital:

(i) equity securities shall constitute unsecured and subordinated obligations of the bank and rank lower than all deposits and other senior liabilities of the bank;

(ii) the maturity shall not be less than five years from the issuance date, and equity securities shall not be redeemed within five years from the issuance date;

(iii) the holder of equity securities shall not have the right to require the bank, in its discretion, to redeem such securities prior to the maturity date;

(iv) there is no condition to promote the bank to redeem equity securities such as a step-up provision, and the bank shall be able to determine in its sole discretion whether to redeem such securities prior to the maturity date;

(v) the payment of dividends or interests shall not be determined in connection with the credit rating of the bank; and

(vi) equity securities shall have a provision that requires such securities to be either written off or converted into common shares upon occurrence of the Trigger Events.

All banks must meet standards regarding minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with the FSC requirements that have been formulated based on the Bank for International Settlement ("**BIS**") Standards. These standards were adopted and became effective in 1996. Under these regulations, all domestic banks and foreign bank branches were required to meet the minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8%. Furthermore, as Basel III was adopted and is being implemented in stages in Korea starting December 1, 2013, all banks in Korea are required to meet minimum ratios of common stock capital (less any capital deductions) and core capital (less any capital deductions) to risk-weighted assets as set out in the Regulation on the Supervision of the Banking Business. The required minimum ratio of common stock capital (less any capital deductions) to risk-weighted assets was 3.5% from December 1, 2013 to December 31, 2013, 4.0% starting

January 1, 2014, and will increase to 4.5% starting January 1, 2015. The required minimum ratio of core capital (less any capital deductions) to risk-weighted assets was 4.5% from December 1, 2013 to December 31, 2013, 5.5% starting January 1, 2014, and will increase to 6.0% starting January 1, 2015.

In addition, additional capital conservation buffer requirements will be implemented in stages from January 1, 2016 to January 1, 2019. Under such requirements, all banks in Korea are required to maintain a capital conservation buffer of 0.625% from January 1, 2016, which will be gradually increased to 1.25% on January 1, 2017, 1.875% on January 1, 2018 and 2.5% on January 1, 2019.

Under the Regulation on the Supervision of the Banking Business and the Detailed Regulations promulgated thereunder, Korean banks apply the following risk-weight ratios in respect of their home mortgage loans:

(1) for those banks adopting a standardized approach for calculating credit risk-weighted assets, the risk-weight ratio of 35% (only in the case where the loan is fully secured by a first ranking mortgage); and

(2) for those banks adopting an internal ratings-based approach for calculating credit risk-weighted assets, a risk-weight ratio calculated with reference to the probability of default, loss given default and exposure at default, each as defined in the Detailed Regulations on the Supervision of the Banking Business.

In Korea, Basel II, a convention entered into by the Basel committee in June 2004 for the purpose of improving risk management and increasing capital adequacy of banks, was implemented in January 2008. Pursuant to Basel II, operational risk, such as inadequate procedure, loss risk by employees, internal system, occurrence of unexpected event, as well as credit risk and market risk, is taken into account in calculating the risk-weighted assets, in addition to maintaining the capital adequacy ratio of 8% for banks. Under Basel II, the capital requirements for credit risk can be calculated by the internal rating based (IRB) approach or the standardized approach.

Under the standardized approach, a home mortgage loan fully secured by a first ranking mortgage over the residential property is risk-weighted at 35%.

Under the Regulation on the Supervision of the Banking Business, banks generally must maintain allowances for credit losses in respect of their outstanding loans and other credits (including confirmed guarantees and acceptances and trust account loans) in an aggregate amount covering not less than:

- 0.85% of normal credits (or 0.9% in the case of normal credits comprising loans to certain industries including construction, retail and wholesale sales, accommodations, restaurant, real estate and lease, 1.0% in the case of normal credits comprising loans to individuals and households, 2.5% in the case of normal credits comprising credit card loans and 1.1% in the case of normal credits comprising other credit card receivables);

- 7% of precautionary credits (or 10% in the case of precautionary credits comprising loans to individuals and households, 50% in the case of precautionary credits comprising credit card loans and 40% in the case of precautionary credits comprising other credit card receivables);

- 20% of substandard credits (or 10% in the case of substandard credits comprising assets for which the Bank has the right to receive payment in priority pursuant to the Corporate Restructuring Promotion Act of Korea or Paragraph 180, Subparagraph 2 of the Debtor Rehabilitation and Bankruptcy Act of Korea (the "**Priority Assets**"), 65% in the case of substandard credits comprising credit card loans and 60% in the case of substandard credits comprising other credit card receivables);

- 50% of doubtful credits (or 25% in the case of doubtful credits comprising Priority Assets, 55% in the case of doubtful credits comprising loans to individuals and households and 75% in the case of doubtful credits comprising credit card loans and other credit card receivables); and

- 100% of estimated loss credits (or 50% in the case of estimated loss credits comprising of Priority Assets).

Furthermore, under the Regulation on the Supervision of the Banking Business, banks must maintain allowances for credit losses in respect of their confirmed guarantees (including confirmed acceptances) and outstanding non-used credit lines in an aggregate amount calculated at the same rates applicable to normal, precautionary, substandard, doubtful and estimated loss credits comprising their outstanding loans and other credits as set forth above.

Liquidity

All banks are required to match the maturities of their assets and liabilities in accordance with the Banking Act in order to ensure adequate liquidity. Banks may not invest in excess of an amount exceeding 60% of their Tier I and Tier II capital (less any capital deductions) in stocks and other securities with a period remaining to maturity of over three years. However, this restriction does not apply to government bonds or to Monetary Stabilization Bonds issued by the Bank of Korea.

The FSC requires each Korean bank to maintain a Won liquidity coverage ratio (defined as Won high liquid assets divided by Won net amount of cash outflow due within one month) of not less than 100% and to make monthly reports to the FSS. The FSC also requires each Korean bank to (1) maintain a foreign-currency liquidity ratio due within three months (defined as foreign-currency liquid assets due within three months divided by foreign-currency liabilities due within three months) of not less than 85%, (2) maintain a ratio of foreign-currency liquid assets due within seven days (defined as foreign-currency liquid assets due within seven days less foreign-currency liabilities due within seven days, divided by total foreign-currency assets) of not less than negative 3% and (3) maintain a ratio of foreign-currency liquid assets due within a month (defined as foreign-currency liquid assets due within a month less foreign currency liabilities due within a month, divided by total foreign-currency assets) of not less than negative 10%. The FSC also requires each Korean bank to submit monthly reports with respect to its compliance with these ratios.

The Monetary Policy Committee is authorized to fix and alter minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratio is 7.0% of average balances for Won-denominated demand deposits outstanding, 0.0% of average balances for Won-denominated employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding and 2.0% of average balances for Won-denominated time and savings deposits, mutual installments, housing installments and certificates of deposit outstanding. For foreign currency deposit liabilities, a 2.0% minimum reserve ratio is applied to savings deposits outstanding and a 7.0% minimum reserve ratio is applied to demand deposits, while a 1.0% minimum reserve ratio is applied for offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

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 the Banking Business ("**RSBB**") upon 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 last couple of years. The RSBB, which was amended as of August 18, 2010 and December 26, 2014 and took effect on January 1, 2014 and January 1, 2015, respectively, 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 (excluding certain types of loan from Korea Development Bank, Korean government or Korea Federation of Banks) to Won-denominated deposits (excluding certificates of deposit) and the balance of the covered bonds under the Act on Issuance of Covered Bonds, the maturity of which is not less than five years (only in case when such financing from the issuance of covered bonds is used in Won currency and up to 1% of Won-denominated loan) not more than 1:1. The Bank's loan-to-deposit ratio as of December 31, 2014 was 98.0%.

Financial Exposure to Any Single Customer and Major Shareholders

Under the Banking Act, the sum of material credit exposures by a bank, namely, the total sum of its credits to single individuals, legal entities or persons sharing credit risk with such individuals or legal entities such as companies belonging to the same enterprise groups as defined under the Monopoly Regulation and Fair Trade Act that exceed 10% of the sum of Tier I and Tier II capital (less any capital deductions), must not exceed five times the sum of Tier I and Tier II capital (less any capital deductions), subject to certain exceptions. Subject to certain exceptions, no bank is permitted to extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and such other transactions which directly or indirectly create credit risk) in excess of 20% of the sum of Tier I and Tier II capital (less any capital deductions) to an individual or a legal entity, and no bank may grant credit in excess of 25% of the sum of Tier I and Tier II capital (less any capital deductions) to individuals, legal entities and companies that belong to the same enterprise group as defined in the Monopoly Regulations and Fair Trade Act.

Under the Banking Act, certain restrictions apply to extending credits to a major shareholder. The definition of a "major shareholder" is as follows:

- a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Banking Act) in excess of 10% (or in the case of regional banks, 15%) 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 as defined in the Presidential Decree of the Banking Act) more than 4% in the aggregate of the total issued and outstanding voting shares of a bank (other than a regional bank), where such shareholder is the largest shareholder or is able to actually control the major business affairs of the bank, for example, through appointment and dismissal of the chief executive officer or of the majority of the executives.

Under the Banking Act, banks are prohibited from extending credits in the amount greater than the lesser of (1) 25% of the sum of such bank's Tier I and Tier II capital (less any capital deductions) and (2) the relevant major shareholder's shareholding ratio multiplied by the sum of the bank's Tier I and Tier II capital (less any capital deductions) to a major shareholder (together with persons who have special relationship with such major shareholder as defined in the Presidential Decree of the Banking Act). Also, no bank is allowed to grant credit to its major shareholders in the aggregate in excess of 25% of its Tier I and Tier II capital (less any capital deductions).

When managing the credit risk of banks, among the methods for providing credit support by banks, a loan agreement, a purchase agreement for asset-backed commercial papers, purchase of subordinate beneficiary certificates, and assumption of liability by providing warranty against default under asset-backed securitization are examples of creating financial exposure to banks.

Interest Rates

Korean banks remain dependent on the acceptance of deposits as their primary source of funds. Currently, there are no legal controls on interest rates on bank loans in Korea except for the cap of 39% on interest rates under the Act on Lending Business.

Lending to Small- and Medium-sized Enterprises

When commercial banks (including the Bank) make Won-denominated loans to certain start-up, venture, innovative and other strategic small- and medium-sized enterprises specially designated by the Bank of Korea as "priority borrowers", the Bank of Korea generally provides the underlying funding to these banks at concessionary rates for up to 50% of all such loans made to the priority borrowers subject to a monthly-adjusted limit prescribed by the Bank of Korea (currently ₩5.9 trillion) provided that if such loans to priority borrowers made by all commercial banks exceed the prescribed limit for a given month, the concessionary funding for the following month will be allocated to each commercial bank in proportion to such bank's lending to priority borrowers two months prior to the time of such allocation, which has the effect that, if a particular bank lags other banks in making loans to priority borrowers, the amount of funding such bank can receive from the Bank of Korea at concessionary rates will be proportionately reduced.

Disclosure of Management Performance

For the purpose of enforcing mandatory disclosure of management performance so that the general public, especially depositors and stockholders, will be in a better position to monitor banks, the FSC requires commercial banks to disclose certain matters as follows:

- loans bearing no profit made to a single business group in an amount exceeding 10% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to such borrower is calculated pursuant to the criteria under the Detailed Regulations promulgated under the Regulation on the Supervision of the Banking Business) except where the loan exposure to a single business group is not more than ₩4 billion;

- occurrence of any financial event involving embezzlement, malfeasance or misappropriation of funds the amount of which exceeds 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) at the end of the previous month, unless the bank has lost or expects to lose not more than ₩1 billion as a result thereof, or the Governor of the FSS has made a public announcement regarding such an occurrence; and

- any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month except where the loss is not more than ₩1 billion.

Restrictions on Lending

According to the Banking Act, commercial banks are prohibited from making any of the following categories of loans:

- loans made directly or indirectly on the pledge of a bank's own shares;
- loans made directly or indirectly to enable a natural or a legal person to buy the bank's own shares; and
- loans made 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.

Recent 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 report its retail household loan balances and has proposed implementing further changes. Due to a rapid increase in the volume 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 a collateral of housing located nationwide, the loan-to-value ratio (the aggregate principal amount of loans secured by such collateral over the appraised value of the collateral) shall not exceed 60%;
- as to loans secured by collateral of housing (including apartments) located in areas of excessive investment or housing (excluding apartments) located in areas of high speculation, in each case, as designated by the government, (i) the loan-to-value ratio for loans with a maturity of not more than three years should not exceed 50% and (ii) the loan-to-value ratio for loans with a maturity of more than three years shall not exceed 60%;
- 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 more than ten years should not exceed 40%; and (ii) the loan-to-value ratio for loans with a maturity of more than ten years shall not exceed (a) 40%, if the price of such apartment is over ₩600 million, and (b) 60%, if the price of such apartment is ₩600 million or lower;
- 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 debt-to-income ratio (calculated as (i) the aggregate annual total payment amount of (x) the principal of and interest on loans secured by such apartment(s) and (y) the interest on other debts of the borrower over (ii) the borrower's annual income) of the borrower in respect of loans secured by apartment(s) located in areas of high speculation as designated by the government shall not exceed 40%;
- 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 debt-to-income ratio shall not exceed 40%;

- 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; and

- where a borrower has two or more loans secured by apartments located in areas of high speculation as designated by the government, the loan with the earliest maturity date in the event of the extension of maturity must be repaid first and the number of loans must be eventually reduced to one.

Notwithstanding foregoing, the FSC has provided administrative guidance to the effect that (i) the loan-to-value ratio should not exceed 70% in all areas (excluding areas of high speculation and excessive investment) and (ii) the debt-to-income ratio should not exceed 60% in Seoul, Incheon and the Gyeonggi province (excluding areas of high speculation and excessive investment), for any new loan on or after August. 1, 2014.

Restrictions on Investments in Property

A bank may possess real estate property only to the extent necessary for conducting its business; *provided that* the aggregate value of such real estate property must not exceed 60% of the sum of its Tier I and Tier II capital (less any capital deductions). Any property acquired by a bank (1) through the exercise of its rights as a secured party or (2) the acquisition of which is prohibited by the Banking Act must be disposed of within one year, subject to certain exceptions.

Restrictions on Shareholdings in Other Companies

Under the Banking Act, a bank may not own more than 15% of shares outstanding with voting rights of another company, except where, among other reasons:

- the company issuing such shares is engaged in a business that falls under the category of financial businesses set forth by the FSC (including companies which business purpose is to own equity interests in private equity funds); or

- the acquisition of shares by the bank is necessary for corporate restructuring of such company and is approved by the FSC.

In the above cases, a bank must satisfy either of the following requirements:

- the total investment in companies in which the bank owns more than 15% of the outstanding shares with voting rights does not exceed 15% of the sum of Tier I and Tier II capital (less any capital deductions); or

- the total investment in companies in which the bank owns more than 15% of the outstanding shares with voting rights does not exceed 30% 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 Banking Act provides that a bank using its bank accounts and its trust accounts is not permitted to acquire the shares issued by the Major Shareholder of such bank in excess of an amount equal to 1% of the sum of Tier I and Tier II capital (less any capital deductions).

Restrictions on Bank Ownership

Under the Banking Act, subject to certain exceptions, a single shareholder and persons who stand in a special relationship with such shareholder (as described in the Presidential Decree to the Banking Act) may acquire beneficial ownership of up to 10% of a national bank's total issued and outstanding shares with voting rights and up to 15% of a regional bank's total issued and outstanding shares with voting rights. The government, the Korea Deposit Insurance Corporation and financial holding companies qualifying under the Financial Holding Companies Act are not subject to such ceilings. However, non-financial business group companies — namely, (1) any same shareholder group with an aggregate net assets of all non-financial companies belonging to such group of not less than 25% of the aggregate net assets of all corporations that are members of such group; (2) any group with aggregate assets of all non-financial companies belonging to such group of not less than ₩2 trillion; (3) any mutual fund in which a same shareholder group, as described in items (1) and (2) above, owns more than 4% of the total shares issued and outstanding; (4) a private equity fund (under the FSCMA) where (i) the general partner of such private equity fund, (ii) the limited partner whose equity holding ratio in such private equity fund is 10% or more, or (iii) the limited partners, being member companies of a single group of companies that belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act, whose aggregate equity holding ratio in such private equity fund is 30% or more falls under either of item (1) to (3) above; or (5) a special purpose company of a private equity fund where a private equity fund, as described in item (4) above, owns 4% or more of the special purpose company's issued and outstanding shares or has actual control over the major business affairs of the special purpose company through, for example, appointment and dismissal of the officers — may not acquire beneficial ownership of shares of a national bank in excess of 4% of such bank's outstanding voting shares, and shall obtain the approval of the FSC in order to acquire beneficial ownership of shares of a national bank in excess of 4% of such bank's outstanding voting shares if through such acquisition, the non-financial business group companies become the largest shareholder of such bank or have actual control over the major business affairs of such bank through the methods set out in the Enforcement Decree of the Banking Act such as appointment and dismissal of the officers, provided that such non-financial business group companies may acquire beneficial ownership of:

- up to 10% of a national bank's outstanding voting shares with the approval of the FSC under the condition that such non-financial group companies will not exercise voting rights in respect of such shares in excess of the 4% limit; and

- in the event that a foreigner, as defined in the Foreign Investment Promotion Act, owns in excess of 9% of a national bank's outstanding voting shares, up to 10% of such bank's outstanding voting shares without the approval of the FSC, and in excess of 10%, 25% or 33% of such bank's outstanding voting shares, with the approval of the FSC, up to the number of shares owned by such foreigner.

In addition, any person (whether a Korean national or a foreigner), with the exception of non-financial business group companies described above, may also acquire in excess of 10% of a national bank's total voting shares issued and outstanding, *provided that* an approval from the FSC is obtained in instances where the total holding exceeds 10% (or 15% in the case of regional banks), 25% or 33% of the bank's total voting shares issued and outstanding.

Deposit Insurance System

The Depositor Protection Act provides, through a deposit insurance system, insurance for certain deposits of banks in Korea. Under the Depositor Protection Act, all banks governed by the Banking Act, including the Bank, are required to pay to the Korea Deposit Insurance Corporation an insurance premium on a quarterly basis at such rate as determined by the Presidential Decree to the Depositor Protection Act, which shall not exceed 0.5% of the bank's insurable deposits in any given year. The current insurance premium is 0.02% of insurable deposits for each quarter. If the Korea Deposit Insurance Corporation pays the insured amount, it will acquire the claims of the depositors within the payment amount. Under current rules, the Korea Deposit Insurance Corporation insures only up to a total of ₩50 million per an individual for deposits and interest in a single financial institution, regardless of when the deposits were made and the size of the deposits.

Trust Business

A bank that intends to enter into the trust business must obtain the approval of the FSC. Trust activities of banks are governed by the FSCMA. Banks engaged in the banking business and trust business are subject to certain legal and accounting procedures requirements, including the following:

- under the Banking Act, the FSCMA and the Trust Act, assets accepted in trust by a bank in Korea must be segregated from its other assets in the accounts of such bank; accordingly, banks engaged in the banking and trust businesses must maintain two separate accounts, the "banking accounts" and the "trust accounts", and two separate sets of records which provide details of their banking and trust businesses, respectively; and

- assets comprising the trust accounts are not available to depositors or other general creditors of such bank in the event the trustee is liquidated or is wound up.

In the event that a bank qualifies and operates as an asset management company, a trustee, a custodian or a general office administrator under the FSCMA, it is required to establish relevant operation and management systems to prevent potential conflicts of interest among the banking business, the asset management business, the trustee or custodian business and general office administration. These measures include:

- prohibitions against officers, directors and employees of one particular business operation from serving as an officer, director and employee in another business operation, except where an officer or a director (1) serving in two or more business operations with no significant conflict of interest in accordance with the Presidential Decree on the FSCMA or (2) serving in a trustee business or a custodian business and simultaneously serving in a general office administrator business in accordance with the FSCMA;

- prohibitions against the joint use or sharing of computer equipment or office equipment; and

- prohibitions against the sharing of information by and among officers, directors and employees engaged in the different business operations.

A bank which qualifies and operates as an asset management company may engage in the sale of beneficiary certificates of investment trusts which are managed by such bank. However, such bank is prohibited from engaging in the following activities:

- acting as trustee of an investment trust managed by such bank;

- purchasing with such bank's own funds beneficiary certificates of an investment trust managed by such bank;

- using in its sales activities of other collective investment securities information relating to the trust property of an investment trust managed by such bank;

- selling through a financial institution established under the Banking Act beneficiary certificates of an investment trust managed by such bank;

- establishing a short-term financial indirect investment vehicle; and

- establishing a mutual fund.

Laws and Regulations Governing Other Business Activities

To enter the foreign exchange business, a bank must register with the Minister of the Ministry of Strategy and Finance. The foreign exchange business is governed by the Foreign Exchange Transaction Law. To enter the securities business, a bank must obtain the approval of the FSC. The securities business is governed by regulations under the FSCMA. Pursuant to the above-mentioned laws, banks are permitted to engage in the foreign exchange business and the underwriting business for government and other public bonds.

Recently, regulatory authorities are encouraging financial institutions to lower the ATM usage fees in order to decrease the financial expense burden on consumers. Further, in light of the increasing household debt, regulatory authorities are encouraging financial institutions to gradually increase the proportion of the principal of retail loans that are subject to the fixed interest rates from the currently effective proportion of 10% of the principal amount to 15% and 30% by 2012 and 2016, respectively.

U.S. Banking Regulations

The Bank's operations in the United States are subject to a variety of regulatory regimes. The Bank maintains an uninsured branch in New York, which is licensed by the New York State Department of Financial Services ("**Department**") and registered with the banking authority of Korea. The Bank's New York branch is subject to regulation and examination by the Department under its licensing authority. In addition, the Board of Governors of the Federal Reserve System (the "**Federal Reserve**") exercises examination and regulatory authority over the Bank's U.S. branch. The Bank also owns a non-member state chartered bank, Shinhan Bank America, which is regulated by the Department, as its chartering authority, and by the Federal Deposit Insurance Corporation ("**FDIC**"), as its primary federal banking regulator and as the insurer of its deposits. The Bank's U.S. branch and U.S. bank subsidiary are subject to restrictions on their respective activities, as well as prudential restrictions, such as limits on extensions of credit to a single borrower, and restrictions on transactions with affiliates, among other things.

The Bank's U.S. Branch

The Department, as the licensing authority of the Bank's U.S. branch, has the authority, in certain circumstances, to take possession of the business and property of the Bank located in New York. Such circumstances generally include violations of law, unsafe business practices and insolvency. If the Department exercised this authority over the New York branch of the Bank, all assets of the Bank located in New York would generally be applied first to satisfy creditors of the New York branch. Any remaining assets would be applied to satisfy creditors of other U.S. offices of the Bank, after which any residual assets of the New York branch would be returned to the principal office of the Bank, and made available for application pursuant to any Korean insolvency proceeding.

In addition to the direct regulation of the Bank's U.S. branch by the Department and the Federal Reserve, because the Bank operates a U.S. branch and has a subsidiary bank in the U.S., the Bank's nonbanking activities in the United States are subject to regulation by the Federal Reserve pursuant to the International Banking Act of 1978, the Bank Holding Company Act of 1956 (the "**BHC Act**"), and other laws. Shinhan Financial Group has elected to be a "financial holding company" under the BHC Act. Financial holding companies may engage in a broader spectrum of activities than bank holding companies or foreign banking organizations that are not financial holding companies, including underwriting and dealing in securities. To maintain Shinhan Financial Group's financial holding company status, (i) the Bank and its U.S. subsidiary bank located in New York are required to be "well capitalized" and "well managed", (ii) the Bank's U.S. branch and its U.S. subsidiary bank located in New York are required to meet certain examination ratings, and (iii) the Bank's subsidiary bank in New York is required to maintain a rating of at least "satisfactory" under the Community Reinvestment Act of 1977 (the "**CRA**").

A major focus of U.S. governmental policy relating to financial institutions in recent years has been aimed at fighting money laundering and terrorist financing. Regulations applicable to the Bank and its subsidiaries impose obligations to maintain effective policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identities of clients. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing could have serious consequences for the firm, both in legal terms and in terms of the Bank's reputation.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**"), which was enacted on July 21, 2010 in response to the financial crisis, impacts the financial services industry by addressing, among other issues, systemic risk oversight, bank capital standards, the liquidation of failing systemically important institutions, OTC derivatives, the ability of banking entities, including non-U.S. banks with branches in the U.S., like the Bank, to engage in proprietary trading activities and invest in hedge funds and private equity (the so-called Volcker rule), consumer and investor protection, hedge fund registration, securitization, investment advisors, shareholder "say on pay," the role of credit-rating agencies, and more. The Dodd-Frank Act requires various federal banking and financial regulatory authorities to adopt a broad range of implementing rules and regulations. Such authorities have significant discretion in drafting the implementing rules and regulations and, consequently, the full impact of the Dodd-Frank Act may not be known for years.

The Dodd-Frank Act provides regulators with tools to impose greater capital, leverage and liquidity requirements and other prudential standards, particularly for financial institutions that pose significant systemic risk and bank holding companies with greater than $50 billion in assets. In imposing such heightened prudential standards on non-U.S. banks such as the Bank, the Federal Reserve Board is directed to take into account the principle of national treatment and equality of competitive opportunity, and the extent to which the foreign bank holding company is subject to comparable home country standards. In February 2014, the Federal Reserve Board issued final rules applying enhanced prudential standards to foreign banking organizations, or FBOs, like the Bank, with $50 billion or more in total global consolidated assets. The final rules represent significant changes to the way that the U.S. operations of FBOs are supervised by the Federal Reserve within the United States. In particular, the final rules:

- require an FBO with both $50 billion or more in total global consolidated assets and combined U.S. assets (excluding the total assets of each U.S. branch and agency) of $50 billion or more to establish a U.S. top-tier intermediate holding company ("**IHC**") over all U.S. bank and nonbank subsidiaries subject to the proposal;

- subject an FBO's IHC to the same capital adequacy standards, including minimum risk based capital and leverage requirements, as those applicable to U.S. bank holding companies;

- require an FBO with combined U.S. assets of $50 billion or more to have its U.S. operations satisfy certain liquidity risk management standards, conduct liquidity stress tests, and maintain a buffer of highly liquid assets over specified time horizons, and an FBO with combined U.S. assets of less than $50 billion would be required to conduct an internal liquidity stress test and report the results to the Federal Reserve Board on an annual basis; and

- subject the largest FBOs with the most significant U.S. operations (*i.e.*, those FBOs with $50 billion or more in total global consolidated assets and $50 billion or more in combined U.S. assets, excluding the assets of their U.S. branch and agency networks) to heightened compliance obligations with respect to capital plans, capital and leverage standards, capital stress testing, liquidity stress testing and risk management.

The final rules also include requirements relating to overall risk management and debt-to-equity limits for the U.S. operations of FBOs. Implementation of the final rules begins June 1, 2014 with the most significant requirements to be implemented beginning July 1, 2016. Rules imposing single counterparty credit limits and early remediation requirements on FBOs have yet to be finalized. The Bank is currently assessing the full impact of these enhanced prudential requirements on its business.

Shinhan Bank America

Shinhan Bank America, a state chartered bank that is located in New York and is not a member of the Federal Reserve, is subject to extensive regulation and examination by the Department, as its chartering authority, and by the FDIC, as the insurer of its deposits and as its primary federal banking regulator. The federal and state laws and regulations which are applicable to banks regulate, among other things, the activities in which they may engage and the locations at which they may engage in them, their investments, their reserves against deposits, the timing of the availability of deposited funds and transactions with affiliates, among other things. Shinhan Bank America must file reports with the Department and the FDIC concerning its activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions, such as establishing branches and mergers with, or acquisitions of, other depository institutions. The Department and the FDIC periodically examine the Bank to test Shinhan Bank America's safety and soundness and its compliance with various regulatory requirements. This comprehensive regulatory and supervisory framework restricts the activities in which a bank can engage and is intended primarily for the protection of the FDIC insurance fund and the bank's depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves. Any change in such regulations, whether by the Department, the FDIC or as a result of the enactment of legislation, could have a material adverse impact on Shinhan Bank America and its operations.

Capital Requirements. The FDIC imposes capital adequacy standards on state-chartered banks like Shinhan Bank America, are not members of the Federal Reserve.

In order to be considered "adequately capitalized", the FDIC's current capital regulations require a minimum 3.0% Tier I leverage capital requirement for the most highly-rated state-chartered, non-member banks, with an additional cushion of at least 100 basis points required for all other state-chartered, non-member banks, which effectively will increase the minimum Tier I leverage ratio for such other banks to 4.0%. Under the FDIC's regulation, the highest-rated banks are those that the FDIC determines are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings and, in general, which are considered a strong banking organization and are rated composite 1 under the Uniform Financial Institutions Rating System. Tier I or core capital is defined as the sum of common stockholders' equity (including retained earnings), non-cumulative perpetual preferred stock and related surplus, and minority interests in consolidated subsidiaries, minus all intangible assets other than certain qualifying supervisory goodwill and certain mortgage servicing rights.

The FDIC also requires that banks meet a risk-based capital standard. The current risk-based capital standard for banks requires, in order to be "adequately capitalized", the maintenance of a ratio of total capital (which is defined as Tier I capital and supplementary capital) to risk-weighted assets of 8.0% and Tier I capital to risk-weighted assets of 4%. In determining the amount of risk-weighted assets, all assets, plus certain off-balance sheet assets, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset or item. The components of Tier I capital are the same as for the leverage capital standard. The components of supplementary capital include certain perpetual preferred stock, certain mandatory convertible securities, certain subordinated debt and intermediate preferred stock and general allowances for loan and lease losses. Allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of core capital.

In order for the Bank's U.S. bank subsidiary to be classified as "well-capitalized", which is necessary in order for the Bank to maintain its financial holding company status, it must have a Tier I leverage ratio of at least 5%, a Tier I risk-based capital ratio of at least 6% and a total risk-based capital ratio of at least 10%. Furthermore, banks are generally encouraged to maintain even higher levels of capital during the current period of economic difficulty.

As of December 31, 2014, Shinhan Bank America exceeded all of the capital ratio standards for a well-capitalized bank with a Tier I leverage ratio of 13.41%, a Tier I risk-based capital ratio of 18.83% and a total risk-based capital ratio of 20.80%.

The current FDIC capital adequacy guidelines will be modified in accordance with "Basel III". In July 2013, the Federal Reserve, the FDIC and the Office of the Comptroller of the Currency issued final rules (the "**Final Rules**") that substantially revise the federal banking agencies' current capital rules and implement Basel III. The Final Rules, among other things, narrow the definition of capital, and increase capital requirements for specific exposures. They also include higher capital ratio requirements. In addition, consistent with the Dodd-Frank Act, they remove references to, or requirements of reliance on, credit ratings in the capital rules and replace them with alternative standards of creditworthiness. Shinhan Bank America's current capital ratios satisfy the requirements set forth in the Final Rules, effective January 1, 2015.

Activities and Investments of New York-Chartered Banks. Shinhan Bank America derives its lending, investment and other authority primarily from the applicable provisions of New York State Banking Law and the regulations of the Department, as well as FDIC regulations and other federal laws and regulations. See "— *Activities and Investments of FDIC-Insured State-Chartered Banks*" below. These New York laws and regulations authorize Shinhan Bank America to invest in real estate mortgages, consumer and commercial loans, certain types of debt securities, including certain corporate debt securities and obligations of federal, State and local governments and agencies, and certain other assets. A bank's aggregate lending powers are not subject to percentage of asset limitations, but, as discussed below, there are limits on the amount of credit exposure that a bank may have to a single borrower or group of related borrowers. A New York-chartered bank may also exercise trust powers upon approval of the Department. Shinhan Bank America does not have trust powers.

With certain limited exceptions, Shinhan Bank America may not make loans or extend credit for commercial, corporate or business purposes (including lease financing) to a single borrower, the aggregate amount of which would be in excess of 15% of Shinhan Bank America's net worth, on an unsecured basis, and 25% of the net worth if the excess is collateralized by readily marketable collateral or collateral otherwise having a value equal to the amount by which the loan exceeds 15% of Shinhan Bank America's net worth. In calculating the amount of outstanding loans or credit to a particular borrower for this purpose, Shinhan Bank America must include its credit exposure arising from derivative transactions with the borrower.

Activities and Investments of FDIC-Insured State-Chartered Banks. The activities and equity investments of FDIC-insured, state-chartered banks are generally limited to those that are permissible for national banks. Under regulations dealing with equity investments, an insured state bank generally may not directly or indirectly acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. An insured state bank may, among other things, (i) acquire or retain a majority interest in a subsidiary that is engaged in activities that are permissible for the bank itself to engage in, (ii) invest as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank's total assets, and (iii) acquire up to 10% of the voting stock of a company that solely provides or reinsures directors', trustees' and officers' liability insurance coverage or bankers' blanket bond group insurance coverage for insured depository institutions. In addition, an FDIC-insured state-chartered bank may not directly, or indirectly through a subsidiary, engage as "principal" in any activity that is not permissible for a national bank unless the FDIC has determined that such activities would pose no risk to the insurance fund of which it is a member and the bank is in compliance with applicable regulatory capital requirements.

Regulatory Enforcement Authority. Applicable banking laws include substantial enforcement powers available to federal banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

Under the New York State Banking Law, the Department may issue an order to a New York-chartered banking institution to appear and explain an apparent violation of law, to discontinue unauthorized or unsafe practices and to keep prescribed books and accounts. Upon a finding by the Department that any director, trustee or officer of any banking organization has violated any law, or has continued unauthorized or unsafe practices in conducting the business of the banking organization after having been notified by the Department to discontinue such practices, such director, trustee or officer may be removed from office by the Department after notice and an opportunity to be heard. The Department also may take possession of a banking organization under specified statutory criteria.

Prompt Corrective Action. Section 38 of the Federal Deposit Insurance Act ("**FDIA**") provides the federal banking regulators with broad power to take "prompt corrective action" to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized" or "critically undercapitalized". A bank is deemed to be (i) "well capitalized" if it has total risk-based capital ratio of 10.0% or more, has a Tier I risk-based capital ratio of 6.0% or more, has a Tier I leverage capital ratio of 5.0% or more and is not subject to specified requirements to meet and maintain a specific capital level for any capital measure, (ii) "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or more, a Tier I risk-based capital ratio of 4.0% or more and a Tier I leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of "well capitalized", (iii) "undercapitalized" if it has a total risk-based capital ratio that is less than 8.0%, a Tier I risk-based capital ratio that is less than 4.0% or a Tier I leverage capital ratio that is less than 4.0% (3.0% under certain circumstances), (iv) "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6.0%, a Tier I risk-based capital ratio that is less than 3.0% or a Tier I leverage capital ratio that is less than 3.0%, and (v) "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. The regulations also provide that a federal banking regulator may, after notice and an opportunity for a hearing, reclassify a "well capitalized" institution as "adequately capitalized" and may require an "adequately capitalized" institution or an "undercapitalized" institution to comply with supervisory actions as if it were in the next lower category if the institution is in an unsafe or unsound condition or engaging in an unsafe or unsound practice. The federal banking regulator may not, however, reclassify a "significantly undercapitalized" institution as "critically undercapitalized".

An institution generally must file a written capital restoration plan which meets specified requirements, as well as a performance guaranty by each company that controls the institution, with an appropriate federal banking regulator within 45 days of the date that the institution receives notice or is deemed to have notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized". Immediately upon becoming undercapitalized, an institution becomes subject to statutory provisions, which, among other things, set forth various mandatory and discretionary restrictions on the operations of such an institution.

FDIC Insurance. Shinhan Bank America's deposits are insured by the FDIC. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the FDIC.

In the past several years, there have been many failures and near-failures among financial institutions. The FDIC insurance fund reserve ratio, representing the ratio of the fund to the level of insured deposits, declined due to losses caused by bank failures and the FDIC then increased its deposit insurance premiums on remaining institutions in order to replenish the insurance fund. The FDIC insurance fund balance increased throughout 2010 and turned positive in 2011. The Dodd-Frank Act requires the FDIC to increase the ratio of the FDIC insurance fund to estimated total insured deposits to 1.35% by September 30, 2020. If bank failures in the future are more costly than the FDIC currently anticipates, then the FDIC will be required to continue to impose higher insurance premiums. Such an increase would increase the Bank's non-interest expense. Thus, despite the prudent steps Shinhan Bank America may take to avoid the mistakes made by other banks, its costs of operations may increase as a result of those mistakes by others.

As required by the Dodd-Frank Act, the FDIC revised its deposit insurance premium assessment rates in 2011. In general, the rates are applied to a bank's total assets less tangible capital, in contrast to the former rule which applied the assessment rate to a bank's amount of deposits. The FDIC believes that while the largest banks will face higher assessments under the new system than they would under the former system, most banks, including Shinhan Bank America, will pay a lower total assessment under the new system than they would have paid under the former system.

As a result of the Dodd-Frank Act, the increase in the standard FDIC insurance limit from $100,000 to $250,000 was made permanent. As the Dodd-Frank Act also removed the prohibition on banks paying interest on commercial demand deposits, commercial depositors currently must choose between earning interest on their demand deposits or having the benefit of unlimited deposit insurance coverage.

The FDIC may terminate the deposit insurance of any insured depository institution, including Shinhan Bank America, if it determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances that would result in termination of Shinhan Bank America's deposit insurance.

Brokered Deposits. Under federal law and applicable regulations, (i) a well-capitalized bank may solicit and accept, renew or roll over any brokered deposit without restriction, (ii) an adequately capitalized bank may not accept, renew or roll over any brokered deposit unless it has applied for and been granted a waiver of this prohibition by the FDIC and (iii) an undercapitalized bank may not (x) accept, renew or roll over any brokered deposit or (y) solicit deposits by offering an effective yield that exceeds by more than 75 basis points the prevailing effective yields on insured deposits of comparable maturity in such institution's normal market area or in the market area in which such deposits are being solicited. The term "undercapitalized insured depository institution" is defined to mean any insured depository institution that fails to meet the minimum regulatory capital requirement prescribed by its appropriate federal banking agency. The FDIC may, on a case-by-case basis and upon application by an adequately capitalized insured depository institution, waive the restriction on brokered deposits upon a finding that the acceptance of brokered deposits does not constitute an unsafe or unsound practice with respect to such institution. Shinhan Bank America had an aggregate amount of $5 million of brokered deposits outstanding at December 31, 2014.

Community Reinvestment and Consumer Protection Laws. In connection with its lending activities, Shinhan Bank America is subject to a variety of federal laws designed to protect borrowers and promote lending to various sectors of the economy and population. Included among these are the Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, Truth-in-Lending Act, Equal Credit Opportunity Act, Fair Credit Reporting Act and CRA.

The CRA requires FDIC insured banks to define the assessment areas that they serve, identify the credit needs of those assessment areas and take actions that respond to the credit needs of the community. The FDIC must conduct regular CRA examinations of Shinhan Bank America and assign it a CRA rating of "outstanding," "satisfactory", "needs improvement" or "unsatisfactory". Shinhan Bank America is also subject to provisions of the New York State Banking Law which impose similar obligations to serve the credit needs of its assessment areas. The Department and the FDIC each periodically assess a bank's compliance, and makes the assessment available to the public. Federal and New York State laws both require consideration of these ratings when reviewing a bank's application to engage in certain transactions, including mergers, asset purchases and the establishment of branch offices. A negative assessment may serve as a basis for the denial of any such application. Shinhan Bank America has received "satisfactory" ratings from both the Department and the FDIC.

The Dodd-Frank Act created a new federal Consumer Financial Protection Bureau ("**Bureau**") with broad authority to regulate and enforce consumer protection laws. The Bureau has the authority to adopt regulations under numerous existing federal consumer protection statutes. The Bureau may also decide that a particular consumer financial product or service, or the manner in which it is offered, is an unfair, deceptive, or abusive act or practice. If the Bureau so decides, it has the authority to outlaw such act or practice. The FDIC enforces the regulations of the Bureau with regard to Shinhan Bank America.

Limitations on Dividends. The payment of dividends by Shinhan Bank America is subject to various regulatory requirements. Under New York State Banking Law, a New York-chartered stock bank may declare and pay dividends out of its net profits, unless there is an impairment of capital, but approval of the Superintendent of Banks is required if the total of all dividends declared in a calendar year would exceed the total of its net profits for that year combined with its retained net profits of the preceding two years, subject to certain adjustments.

Assessments. Banking institutions are required to pay assessments to both the FDIC and the Department to fund the operations of those agencies. The assessments are based upon the amount of Shinhan Bank America's total assets. Shinhan Bank America must also pay an examination fee to the Department when it conducts an examination.

Transactions with Related Parties. Shinhan Bank America's authority to engage in transactions with related parties or "affiliates" (i.e., any entity that controls or is under common control with an institution) or to make loans to certain insiders is limited by Sections 23A and 23B of the Federal Reserve Act. Section 23A limits the aggregate amount of transactions with any individual affiliate to 10% of the capital and surplus of the institution and also limits the aggregate amount of transactions with all affiliates to 20% of the institution's capital and surplus. The term "affiliate" includes, for this purpose, the Bank and any company that it controls other than Shinhan Bank America and its subsidiaries.

Loans to affiliates must be secured by collateral with a value that depends on the nature of the collateral. The purchase of low quality assets from affiliates is generally prohibited. Loans and asset purchases with affiliates, must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with nonaffiliated companies. In the absence of comparable transactions, such transactions may only occur under terms and circumstances, including credit standards that in good faith would be offered to or would apply to nonaffiliated companies. Shinhan Bank America's authority to extend credit to executive officers, directors and 10% shareholders, as well as entities controlled by such persons, is currently governed by Regulation O of the Federal Reserve Board. Regulation O generally requires such loans to be made on terms substantially similar to those offered to unaffiliated individuals (except for preferential loans made in accordance with broad based employee benefit plans), places limits on the amount of loans Shinhan Bank America may make to such persons based, in part, on Shinhan Bank America's capital position, and requires certain approval procedures to be followed.

Standards for Safety and Soundness. FDIC regulations require that Shinhan Bank America adopt procedures and systems designed to foster safe and sound operations in the areas of internal controls, information systems, internal and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings and compensation, fees and benefits. Among other things, these regulations prohibit compensation and benefits and arrangements that are excessive or that could lead to a material financial loss. If Shinhan Bank America fails to meet any of these standards, it will be required to submit to the FDIC a plan specifying the steps that will be taken to cure the deficiency. If it fails to submit an acceptable plan or fails to implement the plan, the FDIC will require it to correct the deficiency and until corrected, may impose restrictions on it.

The FDIC has also adopted regulations that require Shinhan Bank America to adopt written loan policies and procedures that are consistent with safe and sound operation, are appropriate for its size, and must be reviewed by its Board of Directors annually. Shinhan Bank America has adopted such policies and procedures, the material provisions of which are discussed above as part of the discussion of the Bank's lending operations.

TAXATION

United States Federal Income Taxation

The following discussion is a summary of certain United States federal income tax consequences of the purchase, ownership and disposition of Notes as of the date hereof.

The discussion set forth below is applicable to United States Holders (as defined below) (i) who are residents of the United States for purposes of the current income tax treaty between the United States and Korea (the "**Treaty**"); (ii) whose Notes are not, for purposes of the Treaty, attributable to a permanent establishment in Korea; and (iii) who otherwise qualify for the full benefits of the Treaty.

Except where noted, this summary deals only with United States Holders that hold Notes as capital assets. Furthermore, this summary does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

- a dealer in securities or currencies;
- a financial institution;
- a regulated investment company;
- a real estate investment trust;
- a tax-exempt organization;
- an insurance company;
- a person holding the Notes as part of a hedging, integrated, conversion or constructive sale transaction or a straddle;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;
- a person liable for alternative minimum tax;
- a partnership or other pass-through entity for United States federal income tax purposes;
- a person whose "functional currency" is not the U.S. dollar; or
- a United States expatriate.

As used herein, a "**United States Holder**" means a beneficial owner of a Note that is for United States federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary is based upon provisions of the Internal Revenue Code of 1986, as amended (the "**Code**"), and final, temporary and proposed regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in United States federal income tax consequences different from those summarized below.

The discussion below assumes that all Notes issued pursuant to this offering circular will be classified for United States federal income tax purposes as the Bank's indebtedness and you should note that in the event of an alternative characterization, the tax consequences would differ, possibly materially, from those discussed below. The Bank will summarize any special United States federal tax considerations relevant to a particular issue of the Notes in the applicable Pricing Supplement.

In addition, the following discussion assumes that the Bank will not be acting through a branch other than its office in Korea. If the Bank acts through a branch in the United States with respect to a particular issuance of Notes, the United States federal income tax consequences of holding such Notes will be discussed in the applicable Pricing Supplement.

If a partnership (or other pass-through entity for United States federal income tax purposes) holds Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner in a partnership (or other pass-through entity for United States federal income tax purposes) holding Notes, you should consult your tax advisors.

This summary does not represent a detailed description of the United States federal income tax consequences to you in light of your particular circumstances and does not address the Medicare contribution tax on net investment income or the effects of any state, local or non-United States tax laws. **If you are considering the purchase of Notes, you should consult your own tax advisors concerning the particular United States federal income tax consequences to you of the ownership of the Notes, as well as the consequences to you arising under the laws of any other taxing jurisdiction.**

Payments of Interest

Except as set forth below, interest on a Note will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for tax purposes.

In addition to interest on the Notes (which includes any Korean tax withheld from the interest payments you receive), you will be required to include in income any additional amounts paid in respect of such Korean tax withheld. You may be entitled to deduct or credit this tax, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of your foreign taxes for a particular tax year). Korean taxes withheld in excess of the rate allowed by the Treaty will not be eligible for credit against your United States federal income tax liability. Interest income (including any additional amounts) on a Note generally will be considered foreign source income and, for purposes of the United States foreign tax credit, generally will be considered "passive category income." You will generally be denied a foreign tax credit for foreign taxes imposed with respect to the Notes where you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Original Issue Discount

If you own Notes issued with original issue discount ("**OID**", and such Notes, "**original issue discount Notes**"), such as a Zero Coupon Note, you will be subject to special tax accounting rules, as described in greater detail below. In that case, you should be aware that you generally must include OID in gross income as interest in advance of the receipt of cash attributable to that income. However, you generally will not be required to include separately in income cash payments received on the Notes, even if denominated as interest, to the extent those payments do not constitute "qualified stated interest," as defined below. Notice will be given in the applicable Pricing Supplement when the Bank determines that a particular Note will be issued with OID.

Additional rules applicable to Notes with OID that are denominated in or determined by reference to a currency other than the U.S. dollar ("**foreign currency Notes**") are described under "— *Foreign Currency Notes*" below.

A Note with an "issue price" that is less than its stated redemption price at maturity (the sum of all payments to be made on the Note other than "qualified stated interest") generally will be issued with OID if that difference is at least 0.25% of the stated redemption price at maturity multiplied by the number of complete years to maturity (or, in the case of an Installment Note, the weighted average maturity). The "**issue price**" of each Note in a particular offering will be the first price at which a substantial amount of that particular offering is sold to the public for money. The term "**qualified stated interest**" means stated interest that is unconditionally payable in cash or in property, other than debt instruments of the Bank, and meets all of the following conditions:

- it is payable at least once per year;
- it is payable over the entire term of the Note; and
- it is payable at a single fixed rate or, subject to certain conditions, based on one or more interest indices. The Bank will give you notice in the applicable Pricing Supplement when it determines that a particular Note will bear interest that is not qualified stated interest.

If you own a Note issued with de minimis OID, which is discount that is not OID because it is less than 0.25% of the stated redemption price at maturity multiplied by the number of complete years to maturity (or, in the case of an Installment Note, the weighted average maturity), you generally must include the de minimis OID in income at the time principal payments on the Notes are made in proportion to the amount paid. Any amount of de minimis OID that you have included in income will be treated as capital gain.

Certain of the Notes may contain provisions permitting them to be redeemed prior to their stated maturity date at the Bank's option and/or at your option. Original issue discount Notes containing those features may be subject to rules that differ from the general rules discussed herein. If you are considering the purchase of original issue discount Notes with those features, you should carefully examine the applicable Pricing Supplement and should consult your own tax advisors with respect to those features since the tax consequences to you with respect to OID will depend, in part, on the particular terms and features of the Notes.

If you own original issue discount Notes with a maturity upon issuance of more than one year, you generally must include OID in income (as ordinary income) in advance of the receipt of some or all of the related cash payments using the "constant yield method" described in the following paragraphs.

The amount of OID that you must include in income if you are the initial United States Holder of an original issue discount Note is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year or portion of the taxable year in which you held that Note ("**accrued OID**"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. The "accrual period" for an original issue discount Note may be of any length and may vary in length over the term of the Note, *provided that* each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period other than the final accrual period is an amount equal to the excess, if any, of:

- the Note's "adjusted issue price" at the beginning of the accrual period multiplied by its yield to maturity, determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period, over

- the aggregate of all qualified stated interest allocable to the accrual period.

OID allocable to a final accrual period is the difference between the amount payable at maturity, other than a payment of qualified stated interest, and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The "**adjusted issue price**" of a Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period, determined without regard to the amortization of any acquisition or bond premium, as described below, and reduced by any payments previously made on the Note other than qualified stated interest. Under these rules, you will have to include in income increasingly greater amounts of OID in successive accrual periods.

Floating Rate Notes are subject to special OID rules. In the case of an original issue discount Note that is a Floating Rate Note, both the "yield to maturity" and "qualified stated interest" will be determined solely for purposes of calculating the accrual of OID as though the Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the Note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the Note. Additional rules may apply if either:

- the interest on a Floating Rate Note is based on more than one interest index; or

- the principal amount of the Note is indexed in any manner.

The discussion above generally does not address notes providing for contingent payments. You should carefully examine the applicable Pricing Supplement regarding the United States federal income tax consequences of the holding and disposition of any Notes providing for contingent payments.

You may elect to treat all interest on any Note as OID and calculate the amount includible in gross income under the constant yield method described above. For purposes of this election, interest includes stated interest, acquisition discount, OID, de minimis OID, market discount, de minimis market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. You should consult with your own tax advisors about this election.

Korean withholding taxes may be imposed at times that differ from the times at which you are required to include interest or OID in income for United States federal income tax purposes and this disparity may limit the amount of foreign tax credit available.

Short-Term Notes

In the case of Notes having a term of one year or less ("**short-term notes**"), all payments, including all stated interest, will be included in the stated redemption price at maturity and will not be qualified stated interest. As a result, you will generally be taxed on the discount instead of stated interest. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a short-term Note, unless you elect to compute this discount using tax basis instead of issue price. In general, individuals and certain other cash method United States Holders of short-term Notes are not required to include accrued discount in their income currently unless they elect to do so, but may be required to include stated interest in income as the income is received. United States Holders that report income for United States federal income tax purposes on the accrual method and certain other United States Holders are required to accrue discount on short-term Notes (as ordinary income) on a straight-line basis, unless an election is made to accrue the discount according to a constant yield method based on daily compounding. If you are not required, and do not elect, to include discount in income currently, any gain you realize on the sale, exchange or retirement of a short-term Note will generally be ordinary income to you to the extent of the discount accrued by you through the date of sale, exchange or retirement. In addition, if you do not elect to currently include accrued discount in income you may be required to defer deductions for a portion of your interest expense with respect to any indebtedness attributable to the short-term Notes.

Market Discount

If you purchase a Note for an amount that is less than its stated redemption price at maturity (or, in the case of an original issue discount Note, its adjusted issue price), the amount of the difference will be treated as "market discount" for United States federal income tax purposes, unless that difference is less than a specified de minimis amount. Under the market discount rules, you will be required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a Note as ordinary income to the extent of the market discount that you have not previously included in income and are treated as having accrued on the Note at the time of the payment or disposition.

In addition, you may be required to defer, until the maturity of the Note or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness attributable to the Note. You may elect, on a Note-by-Note basis, to deduct the deferred interest expense in a tax year prior to the year of disposition. You should consult your own tax advisors before making this election.

Any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the Note, unless you elect to accrue on a constant interest method. You may elect to include market discount in income currently as it accrues, on either a ratable or constant interest method, in which case the rule described above regarding deferral of interest deductions will not apply. This election will apply to all debt instruments with market discount you acquire on or after the first day of the first taxable year for which the election is made. This election may not be revoked without the consent of the Internal Revenue Service (the "**IRS**").

Acquisition Premium, Amortizable Bond Premium

If you purchase an original issue discount Note for an amount that is greater than its adjusted issue price but equal to or less than the sum of all amounts payable on the Note after the purchase date other than payments of qualified stated interest, you will be considered to have purchased that Note at an "acquisition premium." Under the acquisition premium rules, the amount of OID that you must include in gross income with respect to the Note for any taxable year will be reduced by the portion of the acquisition premium properly allocable to that year.

If you purchase a Note (including an original issue discount Note) for an amount in excess of the sum of all amounts payable on the Note after the purchase date other than qualified stated interest, you will be considered to have purchased the Note at a "premium" and, if it is an original issue discount Note, you will not be required to include any OID in income. You generally may elect to amortize the premium over the remaining term of the Note on a constant yield method as an offset to interest when includible in income under your regular accounting method. Special rules limit the amortization of premium in the case of convertible debt instruments. If you do not elect to amortize bond premium, that premium will decrease the gain or increase the loss you would otherwise recognize on disposition of the Note. Any election to amortize the premium will apply to all notes (other than notes the interest on which is excludible from gross income for United States federal income tax purposes) held by you at the beginning of the first taxable year to which the election applies or thereafter acquired, and is irrevocable without the consent of the IRS.

Sale, Exchange, Redemption, Retirement and Other Disposition of Notes

Your adjusted tax basis in a Note will, in general, be your cost for that Note, increased by OID, market discount or any discount with respect to a short-term Note that you previously included in income, and reduced by any amortized premium and any cash payments on the Note other than qualified stated interest. Upon the sale, exchange, redemption, retirement or other disposition of a Note, you will recognize gain or loss equal to the difference between the amount you realize upon the sale, exchange, redemption, retirement or other disposition (less an amount equal to any accrued qualified stated interest, which will be taxable as interest income to the extent not previously included in income) and your adjusted tax basis in the Note. Except as described above with respect to certain short-term Notes or with respect to market discount, with respect to gain or loss attributable to changes in exchange rates as discussed below with respect to foreign currency Notes and with respect to contingent payment debt instruments which this summary generally does not discuss, that gain or loss will be capital gain or loss. Gain or loss realized by you on the sale, exchange, redemption, retirement or other disposition of a Note will generally be treated as United States source gain or loss. Consequently, you may not be able to claim a credit for any Korean tax imposed upon a disposition of a Note unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. Capital gains of individuals derived in respect of capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Foreign Currency Notes

Payments of Interest. If you receive interest payments made in a currency other than the U.S. dollar (a "**foreign currency**") and you use the cash basis method of accounting, you will be required to include in income the U.S. dollar value of the amount received, determined by translating the foreign currency received at the "spot rate" for such foreign currency on the date such payment is received regardless of whether the payment is in fact converted into U.S. dollars. You will not recognize exchange gain or loss with respect to the receipt of such payment.

If you use the accrual method of accounting, you may determine the amount of income recognized with respect to such interest in accordance with either of two methods. Under the first method, you will be required to include in income for each taxable year the U.S. dollar value of the interest that has accrued during such year, determined by translating such interest at the average rate of exchange for the period or periods during which such interest accrued. Under the second method, you may elect to translate interest income at the spot rate on:

- the last day of the accrual period,
- the last day of the taxable year if the accrual period straddles your taxable year, or
- the date the interest payment is received if such date is within five business days of the end of the accrual period.

Any election made under the second method will apply to all debt instruments held by you at the beginning of the first taxable year to which the election applies or thereafter acquired, and will be irrevocable without the consent of the IRS.

If you use the accrual method of accounting, upon receipt of an interest payment on a Note (including, upon the sale of a Note, the receipt of proceeds which include amounts attributable to accrued interest previously included in income), you will recognize ordinary gain or loss in an amount equal to the difference between the U.S. dollar value of such payment (determined by translating the foreign currency received at the spot rate for such foreign currency on the date such payment is received) and the U.S. dollar value of the interest income you previously included in income with respect to such payment.

Original Issue Discount. OID on a Note that is also a foreign currency Note will be determined for any accrual period in the applicable foreign currency and then translated into U.S. dollars, in the same manner as interest income accrued by a holder on the accrual basis, as described above. You will recognize exchange gain or loss when OID is paid (including, upon the sale of a Note, the receipt of proceeds that include amounts attributable to OID previously included in income) to the extent of the difference between the U.S. dollar value of such payment (determined by translating the foreign currency received at the spot rate for such foreign currency on the date such payment is received) and the U.S. dollar value of the accrued OID (determined in the same manner as for accrued interest). For these purposes, all receipts on a Note will be viewed:

- first, as the receipt of any stated interest payments called for under the terms of the Note,
- second, as receipts of previously accrued OID (to the extent thereof), with payments considered made for the earliest accrual periods first, and
- third, as the receipt of principal.

Market Discount and Bond Premium. The amount of market discount on foreign currency Notes includible in income will generally be determined by translating the market discount determined in the foreign currency into U.S. dollars at the spot rate on the date the foreign currency Note is retired or otherwise disposed of. If you have elected to accrue market discount currently, then the amount which accrues is determined in the foreign currency and then translated into U.S. dollars on the basis of the average exchange rate in effect during such accrual period. You will recognize exchange gain or loss with respect to market discount which is accrued currently using the approach applicable to the accrual of interest income as described above.

Bond premium on a foreign currency Note will be computed in the applicable foreign currency. If you have elected to amortize the premium, the amortizable bond premium will reduce interest income in the applicable foreign currency. At the time bond premium is amortized, exchange gain or loss, which is generally ordinary gain or loss, will be realized based on the difference between spot rates at such time and the time of acquisition of the foreign currency Note.

If you elect not to amortize bond premium, you must translate the bond premium computed in the foreign currency into U.S. dollars at the spot rate on the maturity date and such bond premium will constitute a capital loss which may be offset or eliminated by exchange gain.

Sale, Exchange, Redemption, Retirement and Other Disposition of Foreign Currency Notes. Upon the sale, exchange, redemption, retirement or other disposition of a foreign currency Note, you will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, redemption, retirement or other disposition (less an amount equal to any accrued and unpaid qualified stated interest, which will be treated as a payment of interest for United States federal income tax purposes to the extent not previously included in income) and your adjusted tax basis in the foreign currency Note. Your initial tax basis in a foreign currency Note generally will be your U.S. dollar cost. If you purchased a foreign currency Note with foreign currency, your cost generally will be the U.S. dollar value of the foreign currency amount paid for such foreign currency Note determined at the time of such purchase. If your foreign currency Note is sold, exchanged, redeemed, retired, or otherwise disposed of for an amount denominated in foreign currency, then your amount realized generally will be based on the spot rate of the foreign currency on the date of sale, exchange, redemption, retirement, or other disposition. If you are a cash method taxpayer and the foreign currency Notes are traded on an established securities market, foreign currency paid or received is translated into U.S. dollars at the spot rate on the settlement date of the purchase or sale. An accrual method taxpayer may elect the same treatment with respect to the purchase and sale of foreign currency Notes traded on an established securities market, *provided that* the election is applied consistently.

Except as described above with respect to "Short-Term Notes" and "Market Discount," and subject to the foreign currency rules discussed below, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange, redemption, retirement or other disposition, the foreign currency Note has been held for more than one year. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Gain or loss realized by you on the sale, exchange, redemption, retirement, or other disposition of a foreign currency Note would generally be treated as United States source gain or loss.

A portion of your gain or loss with respect to the principal amount of a foreign currency Note may be treated as exchange gain or loss. Exchange gain or loss will be treated as ordinary income or loss and generally will be United States source gain or loss. For these purposes, the principal amount of the foreign currency Note is your purchase price for the foreign currency Note calculated in the foreign currency on the date of purchase, and the amount of exchange gain or loss recognized is equal to the difference between (i) the U.S. dollar value of the principal amount determined on the date of the sale, exchange, redemption, retirement or other disposition of the foreign currency Note and (ii) the U.S. dollar value of the principal amount determined on the date you purchased the foreign currency Note (or, in each case, on the settlement date of such disposition or purchase, if the foreign currency Note is traded on an established securities market and you are a cash basis or electing accrual basis taxpayer, as described above). The amount of exchange gain or loss will be limited to the amount of overall gain or loss realized on the disposition of the foreign currency Note.

Exchange Gain or Loss with Respect to Foreign Currency. Your tax basis in the foreign currency received as interest on a foreign currency Note or on the sale, exchange, redemption, retirement, or other disposition of a foreign currency Note will be equal to the U.S. dollar value of the foreign currency, determined at the time the foreign currency is received. Any gain or loss recognized by you on a sale, exchange or other disposition of the foreign currency will be ordinary income or loss and generally will be United States source gain or loss.

Dual Currency Notes. If so specified in an applicable Pricing Supplement relating to a foreign currency Note, the Bank may have the option to make all payments of principal and interest scheduled after the exercise of such option in a currency other than the specified currency. Applicable United States Treasury regulations generally (i) apply the principles contained in the regulations governing contingent debt instruments to Dual Currency Notes in the "predominant currency" of the Dual Currency Notes and (ii) apply the rules discussed above with respect to foreign currency Notes with OID for the translation of interest and principal into U.S. dollars. If you are considering the purchase of Dual Currency Notes, you should carefully examine the applicable Pricing Supplement and should consult your own tax advisors regarding the United States federal income tax consequences of the holding and disposition of such Notes.

Reportable Transactions. Treasury regulations issued under the Code meant to require the reporting of certain tax shelter transactions could be interpreted to cover transactions generally not regarded as tax shelters, including certain foreign currency transactions. Under the Treasury regulations, certain transactions are required to be reported to the IRS, including, in certain circumstances, a sale, exchange, redemption, retirement or other disposition of a foreign currency Note or foreign currency received in respect of a foreign currency Note to the extent that such sale, exchange, redemption, retirement or other disposition results in a tax loss in excess of a threshold amount. If you are considering the purchase of a foreign currency Note, you should consult with your own tax advisors to determine the tax return obligations, if any, with respect to an investment in the Notes, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement). The IRS may impose penalties on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction.

Index Linked Notes

The tax treatment of a United States Holder of Index Linked Notes will depend on factors including the specific index or indices used to determine indexed payments on the Note and the amount and timing of any contingent payments of principal and interest. Persons considering the purchase of Index Linked Notes should carefully examine the applicable Pricing Supplement and should consult their own tax advisors regarding the United States federal income tax consequences of the holding and disposition of such Notes.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to certain payments of principal, interest (including OID) and premium paid on Notes and to the proceeds of sale of a Note paid to you (unless you are an exempt recipient). A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or a certification of exempt status, or if you fail to report in full dividend and interest income on any Note you own.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is timely furnished to the IRS.

Certain United States Holders are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by certain financial institutions), by attaching a complete IRS Form 8938 (Statement of Specified Foreign Financial Assets) with their tax return for each year in which they hold an interest in the Notes. You are urged to consult your own tax advisors regarding information reporting requirements relating to your ownership of the Notes.

Additional Withholding Requirements

In March 2010, the Hiring Incentives to Restore Employment Act enacted certain provisions of the Code commonly referred to as FATCA. Under the FATCA rules, a "foreign financial institution" (as specifically defined under FATCA) that enters into an agreement with the U.S. Treasury Department may be required to withhold 30% from certain "foreign passthru payments" made to holders that fail to comply with certain certification and/or information reporting requirements. The term "foreign passthru payment" has not yet been defined by the IRS but is intended to capture payments that are non-U.S. source but are attributable to a U.S.-source payment. Debt obligations issued prior to July 1, 2014 will generally not be subject to withholding tax under FATCA, and Treasury regulations extend this grandfather date for foreign passthru payments, such that obligations issued before the date which is six months after the publication of final regulations defining the term foreign passthru payment would be grandfathered and therefore not subject to the FATCA rules for foreign passthru payment withholding. In addition, Treasury regulations provide that a foreign financial institution would not be required to withhold on foreign passthru payments until the later of January 1, 2017, or the date of publication of final regulations defining the term foreign passthru payment. Prospective investors should consult their tax advisors regarding the application of the FATCA rules to an investment in the Notes.

Additional Tax Considerations

Persons considering the purchase of Notes should carefully examine the applicable Pricing Supplement and should consult their own tax advisors regarding any special United States federal income tax consequences not discussed herein that may be applicable to the holding and disposition of Notes offered under the Program.

Korean Taxation

Republic of Korea

The information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. Prospective investors who are in any doubt as to their tax position should consult with their own professional advisors.

The taxation of non-resident individuals and non-Korean corporations ("**Non-Residents**") depends on whether they have a "permanent establishment" (as defined under Korean law and applicable tax treaty) in Korea to which the relevant Korean source income is attributable or with which such income is effectively connected. Non-Residents without a permanent establishment in Korea are taxed in the manner described below. Non-Residents with permanent establishments in Korea are taxed in accordance with different rules.

Tax on Interest

Interest on the Notes paid to Non-Residents is exempt from income tax and corporation tax (whether payable by withholding or otherwise) pursuant to the Special Tax Treatment Control Law (the "**STTCL**"), so far as the Notes are "foreign currency denominated bonds" issued outside Korea 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 1st September, 1990 to the effect that "a notes issuance facility, commercial paper issued in U.S. dollars or Euros or a banker's acceptance" are not treated as the "foreign currency denominated bonds."

If the tax exemption under the STTCL referred to above were to cease to be in effect, the rate of income tax or corporation tax applicable to interest on the Notes, for a Non-Resident without a permanent establishment in Korea, would be 14% of income. In addition, a tax surcharge called a local income tax would be imposed at the rate of 10% of the income tax or corporation tax (raising the total tax rate to 15.4%). The tax is withheld by the payer or us.

The tax rates may be reduced by an applicable tax treaty, convention or agreement between Korea and the country of the recipient of the income. In order to obtain the benefit of a reduced rate available under applicable tax treaties, a Non-Resident holder must submit an application for entitlement to reduced tax rate to the party liable for the withholding before the receipt of the relevant interest payment (if there is no change in the contents of such application, it is not required to submit such application again within three years thereafter), together with a certificate of the Non-Resident holder's tax residence issued by a competent authority of the Non-Resident holder's resident country. An overseas investment vehicle (which is defined as an organization established in a foreign jurisdiction that manages funds collected through investment solicitation by way of acquiring, disposing, or otherwise investing in proprietary targets and then distributes the outcome of such management to investors, subject to certain exceptions) is also required to obtain the application for entitlement to reduced tax rate from the beneficial owners and submit a report of overseas investment vehicle to the party liable for the withholding, together with a schedule of beneficial owners of the income. The relevant tax treaties are discussed below.

The tax is withheld by the payer of the interest. As the duty to withhold the tax is required to be on the payer, Korean law does not entitle the person who has suffered the withholding of Korean tax to recover from the Government any part of the Korean tax withheld, even if he subsequently produces evidence that he was entitled to have his tax withheld at a lower rate, except in certain limited circumstances. Starting with refund claims made on or after January 1, 2009, however, a Non-Resident that was subject to withholding of Korean tax on interest is entitled to claim refund of over-withheld tax directly from the Korean tax authorities with satisfactory evidence within three years from the tenth day in the month following the month in which the payments of interest are made. On or after January 1, 2015, the period to claim refund of over-withheld tax was extended to five years.

Tax on Capital Gains

Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident without a permanent establishment in Korea from the sale of the Notes to other Non-Residents (other than to their permanent establishments in Korea). In addition, capital gains earned by Non-Residents with or without permanent establishments in Korea from the transfer taking place outside Korea of the Notes are currently exempt from taxation by virtue of STTCL, *provided that* the issuance of the Notes is deemed to be an overseas issuance under the STTCL.

If the exclusion or exemption from Korean taxation referred to above were to cease to be in effect, in the absence of an applicable tax treaty reducing or eliminating tax on capital gains, the applicable rate of tax would be the lower of 11% (including local income tax) of the gross realization proceeds or (subject to the production of satisfactory evidence of the acquisition cost and certain direct transaction costs of the relevant Note) 22% (including local income tax) of the realized gain (i.e., the excess of the gross realization proceeds over the acquisition cost and certain direct transaction costs) made. If such evidence shows that no gain (or a loss) was made on the sale, no Korean tax is payable. There is no provision under relevant Korean law to allow offsetting of gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of the notes issued by Korean companies. The purchaser or any other designated withholding agent of the Notes is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from tax under an applicable tax treaty or on the failure of the seller to produce satisfactory evidence of his acquisition cost and certain direct transaction costs in relation to the instruments being sold, the purchaser or such withholding agent must withhold an amount equal to 11% of the gross realization proceeds. Any amounts withheld by the purchaser or such withholding agent must be paid to the competent Korean tax office. The purchaser or withholding agent must pay any withholding tax no later than the tenth day of the month following the month in which the payment for the purchase of the relevant instruments occurred. Failure to transmit the withheld tax to the Korean tax authorities in time subjects the purchaser or such withholding agent to penalties under Korean tax laws. The Korean tax authorities may attempt to collect such tax from a Non-Resident who is liable for payment of any Korean tax on gains, as a purchaser or withholding agent who is obliged to withhold such tax, through proceedings against payments due to the Non-Resident from its Korean investments and the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

In addition, in order to obtain the benefit of a tax exemption available under applicable tax treaties, a Non-Resident holder should submit to the purchaser or the withholding agent an application for exemption, together with a certificate of the Non-Resident holder's tax residence issued by a competent authority of the Non-Resident holder's residence country. An overseas investment vehicle (subject to certain exceptions) is also required to obtain an application for tax exemption along with a certificate of tax residence from the beneficial owners and submit to the purchaser or the withholding agent a report of overseas investment vehicle thereafter, together with an application for tax exemption and a schedule of beneficial owners. The purchaser or the withholding agent is required to submit such application to its district tax office no later than the ninth day of the month following the month in which sales proceeds are paid. However, this requirement does not apply to exemptions under Korean tax law such as STTCL.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea and (b) all property located in Korea that passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the rate varies from 10% to 50% according to the value of the relevant property and the identity of the parties involved. At present, Korea has not entered into any tax treaties regarding its inheritance or gift taxes.

Under Korean inheritance and gift tax laws, bonds issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are owned, and, consequently, the Korean inheritance and gift taxes will be imposed on transfers of the Notes by inheritance or gift. Prospective purchasers should consult their personal tax advisors regarding the consequences of the imposition of the Korean inheritance or gift tax.

Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by the holders in connection with the issue of the Notes except for a nominal amount of stamp duty on certain documents executed in Korea which will be paid by us. No securities transaction tax will be imposed upon the transfer of the Notes.

Tax Treaties

At the date of this offering circular, Korea has tax treaties with, *inter alia*, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, The Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America, under which the rate of withholding tax on interest is reduced, generally to between 5% and 16.5% (including local income tax), and the tax on capital gains is often eliminated.

The special withholding tax system took effect July 1, 2006. Under the system, there is a special procedure to apply the Korea-Malaysia tax treaty on certain Korean source income. Payments made to the residents of Labuan, Malaysia will be subject to the default Korean withholding tax rates (generally 15.4% for interest and the lower of 11% of the gross realization proceeds or 22% of the gain made for capital gain (including local income tax)) rather than the reduced or exempted rate available under the Korea-Malaysia tax treaty. A Labuan taxpayer, however, will be given an opportunity to get a refund by proving that it is entitled to the tax treaty benefits as a beneficial owner of the income and a real resident of Labuan, Malaysia. A Labuan taxpayer may also file an application with the National Tax Service (the "**NTS**") for confirmation that it is entitled to the tax treaty benefits and obtain an advance confirmation from the NTS prior to receiving Korean source income.

Each Non-Resident Holder should inquire whether he is entitled to the benefit of a tax treaty with respect to any transaction involving the Notes. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the payer or us a certificate as to his residence. In the absence of sufficient proof, the payer or the Bank must withhold taxes in accordance with the above discussion.

Withholding and Gross Up

As mentioned above, interest on the Notes is exempt from any withholding or deduction on account of income tax or corporation tax pursuant to STTCL. However, in the event that the payer or the Bank is required by law to make any withholding or deduction for or on account of any Korean taxes (as more fully described in "*Terms and Conditions of the Notes — Taxation*") the Bank has agreed to pay (subject to the customary exceptions as set out in "*Terms and Conditions of the Notes — Taxation*") such additional amounts as may be necessary in order that the net amounts received by the holder of any Note after such withholding or deduction shall equal the respective amounts which would have been received by such holder in the absence of such withholding or deduction.

European Union Directive on Taxation of Savings Income

Under Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), each Member State of the European Union (the "**EU**") is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, that other Member State. However, for a transitional period, Austria will (unless during such period it elects otherwise) instead operate a withholding system in relation to such payments. Under such a withholding system, the beneficial owner of the interest payment must be allowed to elect that certain provision of information procedures should be applied instead of withholding. The current rate of withholding is 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange of information procedures relating to interest and other similar income.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted or agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within their respective jurisdictions to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those countries and territories in relation to payments made by a person in a Member State to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, one of those countries or territories.

A proposal for amendments to the Savings Directive has been published, including a number of suggested changes which, if implemented, would broaden the scope of the rules described above. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment under a Note were to be made by a person in a Member State or another country or territory 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 law implementing or complying with, or introduced in order to conform to, the Savings Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts under the terms of such Note as a result of the imposition of such withholding tax. The Bank is, however, required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Savings Directive or any such law.

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 broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes 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 Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

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. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

CERTAIN ERISA CONSIDERATIONS

The following is a summary of certain considerations associated with the purchase of the Notes by employee benefit plans that are subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or provisions under any other federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, "**Similar Laws**"), and entities whose underlying assets are considered to include "plan assets" of any such plan, account or arrangement (each, a "**Plan**").

General Fiduciary Matters

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (an "**ERISA Plan**") and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan.

In considering an investment in the Notes of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any Similar Law relating to a fiduciary's duties to the Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws.

Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons or entities who are "parties in interest," within the meaning of ERISA, or "disqualified persons," within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the ERISA Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code. The acquisition and/or holding of Notes by an ERISA Plan with respect to which the Bank or a Dealer is considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions, or "**PTCEs,**" that may apply to the acquisition and holding of the Notes. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide limited relief from the prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions, *provided that* neither the issuer of the securities nor any of its affiliates (directly or indirectly) have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any ERISA Plan involved in the transaction and provided further that the ERISA Plan pays no more than adequate consideration in connection with the transaction. There can be no assurance that all of the conditions of any such exemptions will be satisfied.

Because of the foregoing, the Notes should not be acquired or held by any person investing "**plan assets**" of any Plan, unless such acquisition and holding will not constitute a non-exempt prohibited transaction under ERISA and the Code or a similar violation of any applicable Similar Laws.

Representation

Accordingly, by acceptance of a Note or any beneficial interest therein, each purchaser and subsequent transferee of a Note or any beneficial interest therein will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire or hold the Note or any beneficial interest therein constitutes assets of any Plan or (ii) the acquisition and holding of the Note or any beneficial interest therein by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a similar violation under any applicable Similar Laws.

The foregoing discussion is general in nature and is not intended to be all inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering acquiring the Notes on behalf of, or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the acquisition and holding of the Notes.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream (together, the "**Clearing Systems**") currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Arranger, any Dealer nor any party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

Book-entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("**Participants**") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct Participant, either directly or indirectly ("**Indirect Participants**").

Under the rules, regulations and procedures creating and affecting DTC and its operations ("**Rules**"), DTC makes book-entry transfers of Registered Notes among direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system ("**DTC Notes**") as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the U.S. Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ("**Owners**") have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ("**Beneficial Owner**") is in turn to be recorded on the direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct Participants, by direct Participants to Indirect Participants, and by direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

Since DTC may only act on behalf of direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in respect of DTC Notes

The Bank may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of direct Participants) and the records of direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Bank 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 Bank also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Fiscal Agent and any custodian ("**Custodian**") with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Fiscal Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

CMU

Unless otherwise specified in the applicable Pricing Supplement, CMU Notes will initially be issued in registered form and represented by a global certificate (the "**CMU Global Note**") registered in the name of HKMA, in its capacity as operator of the CMU and shall be delivered to and held by a sub-custodian nominated by the HKMA as operator of the CMU, or the CMU operator. The CMU Global Note will be held for the account of CMU members who have accounts with the CMU operator, or the CMU participants. For persons seeking to hold a beneficial interest in the Notes through Euroclear or Clearstream, such persons will hold their interests through an account opened and held by Euroclear or Clearstream with the CMU operator. Interests in the CMU Global Note will only be shown on, and transfers of interests will be effected through, records maintained by the CMU operator.

Because the CMU operator can act only on behalf of the CMU participants, who in turn may act on behalf of persons who hold interests through them, or indirect participants, the ability of persons having interests in the CMU Global Note to pledge such interests to persons or entities that are not CMU participants, or otherwise take action in respect of such interests, may be affected by the lack of definitive notes.

While the CMU Global Note representing the Notes is held by or on behalf of the CMU operator, payments of interest or principal will be made to the persons for whose account a relevant interest in the CMU Global Note is credited as being held by the CMU operator at the relevant time, as notified to the Principal Paying Agent by the CMU operator in a relevant CMU instrument position report (as defined in the rules of the CMU) or in any other relevant notification by the CMU operator. So long as the Notes are represented by the CMU Global Note that is held by or on behalf of the CMU operator, such payment by the Issuer will discharge the Issuer's obligations in respect of that payment. Any payments by the CMU participants to indirect participants will be governed by arrangements agreed between the CMU participants and the indirect participants and will continue to depend on the inter-bank clearing system and traditional payment methods. Such payments will be the sole responsibility of such CMU participants.

Payments, transfers, exchanges and other matters relating to interests in the CMU Global Note may be subject to various policies and procedures adopted by the CMU operator from time to time. None of the Issuer, the Principal Paying Agent, the Registrar, the Paying Agents, the CMU Lodging Agent or any other Agent will have any responsibility or liability for any aspect of the CMU operator's records relating to, or for payments made on account of, interests in the CMU Global Note, or for maintaining, supervising or reviewing any records relating to such interests.

For so long as all of the Notes are represented by the CMU Global Note and such CMU Global Note is held on behalf of the CMU operator, notices to Noteholders may be given by delivery of the relevant notice to the persons shown in a CMU instrument position report issued by the CMU operator on the business day preceding the date of dispatch of such notice as holding interests in the CMU Global Note for communication to the CMU participants. Any such notice shall be deemed to have been given to the Noteholders on the second business day on which such notice is delivered to the persons shown in the relevant CMU instrument position report as aforesaid. Indirect participants will have to rely on the CMU participants (through whom they hold the Notes, in the form of interests in the global certificate) to deliver the notices to them, subject to the arrangements agreed between the indirect participants and the CMU participants.

The CMU operator is under no obligation to maintain or continue to operate the CMU and the CMU operator is under no obligation to perform or continue to perform the procedures described above. Accordingly, the CMU and such procedures may be discontinued or modified at any time. None of the Issuer, the Principal Paying Agent, the Registrar, the Paying Agents, the CMU Lodging Agent or any other Agent will have any responsibility for the performance by the CMU operator or the CMU participants of their respective obligations under the rules and procedures governing their operations.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in a program agreement dated March 5, 2010, as supplemented and amended from time to time (the "**Program Agreement**"), agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase or procure purchasers for Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Program Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Program and the issue of Notes under the Program and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may to the extent permitted by applicable laws and regulations engage in transactions that stabilize, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilize or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilizing or other transactions. Such transactions, if commenced, may be discontinued at any time. Stabilization activities are subject to certain prescribed time limits in certain jurisdictions.

Transfer Restrictions

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Registered Notes or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(i) that either: (a) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (b) it is an Institutional Accredited Investor, that, prior to its purchase of the Notes has delivered to the Registrar an IAI Investment Letter in the form as set forth below or (c) it is the beneficial owner of such Notes and (a) it is outside the United States and is not a U.S. person and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate;

(ii) that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. state securities laws and may not be offered, sold, pledged or otherwise transferred within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(iii) that, unless it holds an interest in a Regulation S Global Note 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 Notes or any beneficial interests in the Notes, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only (a) to the Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. state securities laws;

(iv) it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;

(v) that Notes initially offered in the United States to QIBs will be represented by one or more Restricted Global Notes, that Notes offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;

(vi) that the Notes, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A "**QUALIFIED INSTITUTIONAL BUYER**" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL "**ACCREDITED INVESTOR**" (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN "**INSTITUTIONAL ACCREDITED INVESTOR**"); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH NOTE OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) TO NON-U.S. PERSONS OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

THIS NOTE AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH NOTE SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS NOTE SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS NOTE AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

(vii) that the Notes offered in reliance on Rule 144A will be represented by the Restricted Note. Before any interest in the Restricted Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws;

(viii) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (a)(i) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. state securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS A PART.";

(ix) that the Notes offered in reliance on Regulation S will be represented by the Unrestricted Note. Prior to the expiration of the distribution compliance period, before any interest in the Restricted Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws; and

(x) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Notes in definitive form offered and sold in the United States in reliance upon the exemption from registration provided by Regulation D of the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Notes will be issued in definitive registered form, see "*Form of the Notes*".

The IAI Investment Letter will state, among other things, the following:

(i) that the Institutional Accredited Investor has received a copy of this and such other information as it deems necessary in order to make its investment decision;

(ii) that the Institutional Accredited Investor understands that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in this and the Notes (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act;

(iii) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;

(iv) that the Institutional Accredited Investor is an Institutional Accredited Investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;

(v) that the Institutional Accredited Investor is acquiring the Notes purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and

(vi) that, in the event that the Institutional Accredited Investor purchases Notes, it will acquire Notes having a minimum purchase price of at least US$500,000 (or the approximate equivalent in another Specified Currency).

No sale of Legended Notes in the United States to any one purchaser will be for less than US$200,000 (or its foreign currency equivalent) principal amount or, in the case of sales to Institutional Accredited Investors, US$500,000 (or its foreign currency equivalent) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least US$200,000 (or its foreign currency equivalent) or, in the case of sales to Institutional Accredited Investors, US$500,000 (or its foreign currency equivalent) principal amount of Registered Notes.

Selling Restrictions

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except (i) to QIBs in reliance on Rule 144A, (ii) to Institutional Accredited Investors, that, prior to their purchase of the Notes have furnished an IAI Investment Letter and (iii) in accordance with Regulation S under the Securities Act.

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

In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S ("**Regulation S Notes**") each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Program will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an applicable exemption from registration under the Securities Act.

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is US$200,000 (or the approximate equivalent thereof in any other currency).

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

By acceptance of a Note, each purchaser and subsequent transferee of a Note will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire or hold the Notes constitutes assets of any employee benefit plan subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), any plan, individual retirement account or other arrangement that is subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the "**Code**"), or provisions provisions under any other federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, "**Similar Laws**"), or an entity whose underlying assets are considered to include "plan assets" of any such plan, account or arrangement or (ii) the acquisition and holding of the Notes by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code, or a similar violation under any applicable Similar Laws.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the offering circular as completed by the final terms in relation thereto, to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that:

(a) in relation to any Notes 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 Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended) (the "**FIEA**"). Each Dealer has represented and agreed and each further Dealer appointed under the Program will be required to represent and agree that it has not offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Law (Law No. 228 of 1949, as amended)) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

This offering circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"). Each Dealer represents, warrants and agrees, and each further Dealer appointed under the Program will be required to represent, warrant and agree that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the offering circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (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 6 months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person (as defined in Section 275(2) of the SFA), or to any person arising from an offer referred to in Section 275(1A) or 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Hong Kong

Each Dealer has represented and agreed and each further Dealer appointed under the Program will be required to represent and agree that:

(a) it has not offered or sold, and will not offer or sell, in Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"), by means of any document, any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) other than (i) to "professional investors" as defined in the Securities and Futures Ordinance 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 Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance of Hong Kong and any rules made under that Ordinance.

People's Republic of China

Each Dealer has represented and agreed and each further Dealer appointed under the Program will be required to represent and agree that it has not offered or sold and will not offer or sell the Notes, directly or indirectly, in the PRC (for such purposes, not including Hong Kong, Macau or Taiwan), except as permitted by the securities laws of the PRC.

Germany

Each Dealer has represented and agreed that the Notes have not been and will not be offered, sold or publicly promoted or advertised in the Federal Republic of Germany other than in compliance with the German Securities Sale Prospectus Act (*Wertpaper-Verkaufsprospektgesetz*) of September 9, 1998, as amended, or any other laws applicable in the Federal Republic of Germany.

Korea

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that no Notes have been or will be offered, sold, delivered or transferred, directly or indirectly, in Korea or to, or for the account or benefit of, any Korean resident (as such term is defined in the Foreign Exchange Transaction Act of Korea) for a period of one year from the date of issuance of the Notes, except (i) in the case where, pursuant to Article 2-2-2, Paragraph 2, Item 3 of the Regulations on the Issuance of Securities and Public Disclosure of Korea, if the Notes are issued as straight bonds other than equity-linked bonds, such as convertible bonds, bonds with warrants and exchangeable bonds, the Notes may be sold, delivered or transferred between or among Korean Qualified Institutional Investors as specified in Article 2-2, Paragraph 2, Item 4 of the above-mentioned regulations, provided that all of the following requirements are satisfied: (1) the Notes shall be issued in a currency other than the Won and the principal and interest shall be paid in a currency other than the Won, (2) at least 80% of the amount issued shall be allocated to those other than Korean residents (which applies only to securities acquired from the Issuer or any underwriter at the time of issuance), (3) the Notes shall be those listed on a major overseas securities market specified by the governor of the FSS, those registered with or reported to a foreign financial investment supervisory agency of the country in which a major overseas market is established, or those for which any other procedure that may be deemed a public offering is completed, (4) measures shall be taken to state the condition that the Notes shall not be transferred to any Korean resident other than Korean Qualified Institutional Investors at the time of issuance or within one year from the date of issuance of the Notes on the face of such Notes (limited to cases where any physical instrument is issued), the underwriting agreement, subscription agreement or offering document and (5) the Issuer and the Dealer(s) (limited to cases where a Dealer is appointed) shall take measures under foregoing items (1) through (4) and the Issuer and the Dealer(s) shall severally or jointly preserve evidential documents in relation thereto; or (ii) as otherwise permitted by applicable Korean laws and regulations.

Each Dealer has undertaken and each further Dealer appointed under the Program will be required to undertake to ensure that any securities dealer to which it sells the Notes confirms that it is purchasing such Notes as principal and agrees with such Dealer that it will comply with the restrictions described above.

General

Each Dealer has agreed and each further Dealer appointed under the Program will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Memorandum and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any other Dealer shall have any responsibility therefor.

Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorization

The establishment of the Program and each issuance of any Notes thereunder have been duly authorized by the resolutions of the Board of Directors of the Issuer dated December 21, 2009. Each issue of Notes under the Program will be authorized by the Board of Directors of the Issuer at the time of issue or at a meeting held annually to approve the issue of Notes to be issued in the following fiscal year.

Listing of Notes on the SGX-ST

Approval in-principle has been received from the SGX-ST for the listing and quotation of any Notes that may be issued under the Program which are agreed, at or prior to the time of issue thereof, to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. For so long as a series of Notes is listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in another currency).

Documents Available

From the date hereof and so long as Notes are capable of being issued under the Program, copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

(i) the Articles of Incorporation (together with English translations) of the Issuer;

(ii) the auditors' report and the audited consolidated financial statements of the Issuer in respect of the financial years ended December 31, 2012, 2013 and 2014;

(iii) the most recently published audited consolidated and (if applicable) the most recently published interim financial statements of the Issuer;

(iv) the Program Agreement, the Agency Agreement and any supplements and amendments thereto, the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;

(v) a copy of this offering circular;

(vi) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (except that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this offering circular and any other documents incorporated herein or therein by reference; and

(vii) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream will be specified in the applicable Pricing Supplement. The Bank may also apply to have the Notes accepted for clearance through the CMU Service. The relevant CMU instrument number will be specified in the applicable Pricing Supplement. For persons seeking to hold a beneficial interest in the CMU Notes held in a global certificate through Euroclear or Clearstream, such persons will hold their interests through an account opened and held by Euroclear or Clearstream with HKMA as the CMU operator. In addition, the Issuer may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers (if any) for each Tranche of Registered Notes, together with the relevant ISIN and common code, will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

Independent Auditors

The consolidated financial statements of the Issuer as of and for the years ended December 31, 2012, 2013 and 2014 included in this offering circular, have been audited by KPMG Samjong Accounting Corp., independent auditors, as stated in their reports appearing herein. KPMG Samjong Accounting Corp.'s audit report on the consolidated financial statements as of and for the years ended December 31, 2014 and 2013 contains other matter paragraph which states that the consolidated financial statements as of and for the year ended December 31, 2013 were audited in accordance with the previous generally accepted auditing standards in the Republic of Korea. In addition, KPMG Samjong Accounting Corp.'s audit report on the consolidated financial statements as of and for the years ended December 31, 2013 and 2012 contains an emphasis of matter paragraph that states that the Issuer adopted Korean IFRS No. 1110 "Consolidated Financial Statements" and applied the amendment to Korean IFRS No. 1019 "Employee Benefits" and accordingly restated the accompanying consolidated statements of financial position as of December 31, 2012 and January 1, 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2012.

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Independent Auditors' Report

The Board of Directors and Stockholder
Shinhan Bank:

We have audited the accompanying consolidated financial statements of Shinhan Bank and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2014 and 2013 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other Matter

The accompanying consolidated statement of financial position of the Group as of December 31, 2013, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, were audited by us in accordance with the previous generally accepted auditing standards in the Republic of Korea.

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.

/s/ KPMG Samjong Accounting Corp.
Seoul, Korea
March 9, 2015

This report is effective as of March 9, 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 the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SHINHAN BANK AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of December 31, 2014 and 2013

(In millions of won)	Notes	December 31, 2014	December 31, 2013
Assets			
Cash and due from banks	4,7,10,40,41	₩ 15,860,077	12,429,963
Trading assets	4,8,41,43	8,316,341	7,519,765
Derivative assets	4,9,41,43	1,309,094	1,457,994
Loans	4,10,17,41,43	188,325,465	174,689,344
Available-for-sale financial assets	4,11,17,43	22,363,612	24,093,086
Held-to-maturity financial assets	4,11,17	8,012,117	7,433,620
Property and equipment	6,12,17	2,036,119	2,201,033
Intangible assets	6,13	180,267	225,845
Investments in associates	14	211,272	222,340
Investment properties	6,15	738,614	596,954
Current tax assets	37	7,033	5,224
Deferred tax assets	37	90,575	49,335
Other assets	4,10,16,41,44	8,190,271	7,107,495
Non-current assets held for sale		5,472	13,696
Total assets		₩255,646,329	238,045,694
Liabilities			
Financial liabilities designated at fair value through profit or loss	4,18	₩ 6,139	—
Deposits	4,19,41	189,639,872	175,020,432
Trading liabilities	4,20	428,936	398,596
Derivative liabilities	4,9,41,43	1,256,438	1,478,179
Borrowings	4,21	12,802,821	10,069,339
Debt securities issued	4,22	16,581,408	17,739,655
Liability for defined benefit obligations	23	245,975	67,438
Provisions	24,39,41	298,728	364,016
Current tax liabilities	37,41	170,699	148,285
Deferred tax liabilities	37	9,335	10,473
Other liabilities	4,25,41,43,44	13,729,078	12,213,200
Total liabilities		235,169,429	217,509,613
Equity			
Capital stock	26	7,928,078	7,928,078
Hybrid bonds	26	1,100,250	2,099,350
Capital surplus	26	403,164	403,164
Capital adjustments	26	(842)	25
Accumulated other comprehensive income	26,37	237,399	296,402
Retained earnings	26,27	10,805,574	9,806,344
Total equity attributable to equity holder of Shinhan Bank		20,473,623	20,533,363
Non-controlling interests	26	3,277	2,718
Total equity		20,476,900	20,536,081
Total liabilities and equity		₩255,646,329	238,045,694

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIARIES
Consolidated Statements of Comprehensive income
For the years ended December 31, 2014 and 2013

(In millions of won)	Notes	2014	2013
Interest income		₩ 8,513,316	9,087,373
Interest expense		(4,146,183)	(4,736,825)
Net interest income	4,6,28,41,43	4,367,133	4,350,548
Fees and commission income		971,484	945,103
Fees and commission expense		(168,541)	(196,203)
Net fees and commission income	4,6,29,41,43	802,943	748,900
Dividend income	30,43	93,478	65,642
Net trading loss	31	(39,804)	(43,242)
Net foreign currencies transactions gain		252,759	255,444
Gain on financial instruments designated at fair value through profit or loss	18	34	—
Net gain on sale of available-for-sale financial assets	11	427,992	485,833
Impairment loss on financial assets	4,10,32,41	(684,010)	(877,328)
General and administrative expenses	33,41	(2,918,011)	(2,692,882)
Net other operating expenses	6, 35,41	(505,118)	(572,943)
Operating income		1,797,396	1,719,972
Non-operating income (expense), net	6, 36	26,592	(14,407)
Equity in income of investments in associate	6,14	11,808	22,448
Profit before income tax		1,835,796	1,728,013
Income tax expense	6,37	(380,143)	(354,837)
Profit for the year	6,27	1,455,653	1,373,176
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss	4,26,37		
Foreign currency translation differences for foreign operations		4,926	(62,354)
Unrealized net change in fair value of available-for-sale financial assets		63,811	(304,687)
Equity in other comprehensive income of associates		4,297	(4,426)
		73,034	(371,467)
Items that will never be reclassified subsequently to profit or loss			
Defined benefit plan actuarial gain (loss)		(131,907)	13,197
Other comprehensive loss for the year, net of income tax		(58,873)	(358,270)
Total comprehensive income for the year		₩ 1,396,780	1,014,906

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIARIES
Consolidated Statements of Comprehensive income (Continued)
For the years ended December 31, 2014 and 2013

(In millions of won, except for earning per share)	Notes	2014	2013
Profit attributable to:	6		
Equity holder of Shinhan Bank		₩1,455,224	1,373,017
Non-controlling interests		429	159
Profit for the year		₩1,455,653	1,373,176
Total comprehensive income attributable to:			
Equity holder of Shinhan Bank		₩1,396,221	1,014,816
Non-controlling interests		559	90
Total comprehensive income for the year		₩1,396,780	1,014,906
Earnings per share:	38		
Basic and diluted earnings per share in won		₩ 857	782

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the year ended December 31, 2013

(In millions of won)

	Attributable to equity holder of Shinhan Bank								
	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Subtotal	Non-controlling interests	Total equity
Balance at January 1, 2013	₩7,928,078	2,329,760	403,164	2,011	654,603	9,016,617	20,334,233	2,628	20,336,861
Total comprehensive income (loss), net of income tax									
Profit for the year	—	—	—	—	—	1,373,017	1,373,017	159	1,373,176
Foreign currency translation differences for foreign operations	—	—	—	—	(62,285)	—	(62,285)	(69)	(62,354)
Unrealized net changes in fair values of available-for-sale financial assets	—	—	—	—	(304,687)	—	(304,687)	—	(304,687)
Equity in other comprehensive income of associates	—	—	—	—	(4,426)	—	(4,426)	—	(4,426)
Defined benefit plan actuarial gain	—	—	—	—	13,197	—	13,197	—	13,197
Total comprehensive income (loss) for the year	—	—	—	—	(358,201)	1,373,017	1,014,816	90	1,014,906
Transactions with owners, recognized directly in equity									
Annual dividends to equity holders	—	—	—	—	—	(450,000)	(450,000)	—	(450,000)
Dividend to hybrid bond holders	—	—	—	—	—	(133,290)	(133,290)	—	(133,290)
Issuance of hybrid bond	—	299,568	—	—	—	—	299,568	—	299,568
Redemption of hybrid bond	—	(529,978)	—	—	—	—	(529,978)	—	(529,978)
Share-based payment transactions	—	—	—	(1,986)	—	—	(1,986)	—	(1,986)
Total transactions with owners	—	(230,410)	—	(1,986)	—	(583,290)	(815,686)	—	(815,686)
Balance at December 31, 2013	₩7,928,078	2,099,350	403,164	25	296,402	9,806,344	20,533,363	2,718	20,536,081

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the year ended December 31, 2014

(In millions of won)

	Attributable to equity holder of Shinhan Bank								
	Capital stock	**Hybrid bonds**	**Capital surplus**	**Capital adjustments**	**Accumulated other comprehensive income**	**Retained earnings**	**Subtotal**	**Non-controlling interests**	**Total equity**
Balance at January 1, 2014	₩7,928,078	2,099,350	403,164	25	296,402	9,806,344	20,533,363	2,718	20,536,081
Total comprehensive income (loss), net of income tax									
Profit for the year	—	—	—	—	—	1,455,224	1,455,224	429	1,455,653
Foreign currency translation differences for foreign operations	—	—	—	—	4,796	—	4,796	130	4,926
Unrealized net changes in fair values of available-for-sale financial assets	—	—	—	—	63,811	—	63,811	—	63,811
Equity in other comprehensive income of associates	—	—	—	—	4,297	—	4,297	—	4,297
Defined benefit plan actuarial loss	—	—	—	—	(131,907)	—	(131,907)	—	(131,907)
Total comprehensive income (loss) for the year	—	—	—	—	(59,003)	1,455,224	1,396,221	559	1,396,780
Transactions with owners, recognized directly in equity									
Annual dividends to equity holders	—	—	—	—	—	(360,000)	(360,000)	—	(360,000)
Dividend to hybrid bond holders	—	—	—	—	—	(96,293)	(96,293)	—	(96,293)
Redemption of hybrid bonds	—	(999,100)	—	(900)	—	—	(1,000,000)	—	(1,000,000)
Share-based payment transactions	—	—	—	33	—	—	33	—	33
Other	—	—	—	—	—	299	299	—	299
Total transactions with owners	—	(999,100)	—	(867)	—	(455,994)	(1,455,961)	—	(1,455,961)
Balance at December 31, 2014	₩7,928,078	1,100,250	403,164	(842)	237,399	10,805,574	20,473,623	3,277	20,476,900

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2014 and 2013

(In millions of won)	**2014**	**2013**
Cash flows from operating activities		
Profit before income tax	₩ 1,835,796	1,728,013
Adjustments for:		
Net interest income	(4,367,133)	(4,350,548)
Dividend income	(93,478)	(65,642)
Gain on financial instruments designated at fair value through profit or loss	(34)	—
Non-cash trading loss, net	151,398	134,239
Non-cash foreign currencies transaction gain, net	(81,300)	(154,469)
Net gain on sales of available-for-sale financial assets	(427,992)	(485,833)
Net impairment loss on financial assets	463,724	673,744
Net impairment loss on other financial assets	220,286	203,584
Non-cash employee benefits	109,749	26,533
Depreciation and amortization	202,950	203,587
Non-cash other operating expenses (income), net	(31,542)	115,889
Share of profit of associates	(11,808)	(22,448)
Non-cash non-operating expenses, net	10,429	8,517
	(3,854,751)	(3,712,847)
Changes in assets and liabilities:		
Due from banks	(3,938,012)	(2,799,900)
Trading assets	(789,460)	385,659
Derivative assets	1,307,983	1,240,303
Loans	(14,294,992)	(6,779,357)
Other assets	(1,102,280)	509,146
Financial liabilities designated at fair value through profit or loss	6,171	—
Deposits	14,691,990	6,410,251
Trading liabilities	13,303	73,883
Derivative liabilities	(1,363,576)	(1,347,950)
Liability for defined benefit obligations	(97,292)	(93,894)
Provisions	(68,123)	(25,758)
Other liabilities	1,690,470	(2,784,970)
	(3,943,818)	(5,212,587)
Income tax paid	(384,490)	(384,841)
Interest received	8,583,274	9,180,011
Interest paid	(4,151,427)	(4,640,230)
Dividends received	129,712	67,491
Net cash used in operating activities	₩ (1,785,704)	(2,974,990)

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Continued)
For the years ended December 31, 2014 and 2013

(In millions of won)	2014	2013
Cash flows from investing activities		
Proceeds from sale of available-for-sale financial assets	₩ 21,812,915	22,893,258
Proceeds from redemption of held-to-maturity financial assets	2,478,775	2,212,075
Proceeds from sale of property and equipment	17,843	11,205
Proceeds from sale of intangible assets	3,253	2,131
Proceeds from sale of investments in associates	—	93
Proceeds from sale of non-current assets held for sale	3,243	2,185
Proceeds from sale of investment properties	—	1,685
Acquisitions of available-for-sale financial assets	(19,883,814)	(18,717,848)
Acquisitions of held-to-maturity financial assets	(3,046,469)	(469,268)
Acquisitions of property and equipment	(128,279)	(195,939)
Acquisitions of intangible assets	(18,078)	(78,471)
Acquisitions of investments in associates	—	(9,022)
Payment of guarantee deposits	(372,978)	(162,084)
Receipts of refund of guarantee deposits paid	433,103	161,164
Net cash provided by investing activities	1,299,514	5,651,164
Cash flows from financing activities		
Proceeds from borrowings	21,940,317	16,022,419
Repayments of borrowings	(19,232,423)	(16,659,772)
Proceeds from issuance of debt securities	4,789,496	5,305,202
Repayments of debt securities	(5,989,635)	(5,743,766)
Dividends paid	(459,901)	(582,876)
Proceeds from hybrid bonds	—	299,568
Redemption of hybrid bonds	(1,000,000)	(529,978)
Receipts of guarantee deposits for lease	10,045	12,942
Refund of guarantee deposits for lease	(28,973)	(17,277)
Net cash provided by (used in) financing activities	28,926	(1,893,538)
Effect of exchange rate fluctuations on cash and cash equivalents held	2,107	1,795
Net increase (decrease) in cash and cash equivalents	(455,157)	784,431
Cash and cash equivalents at January 1 (note 40)	4,991,361	4,206,930
Cash and cash equivalents at December 31 (note 40)	₩ 4,536,204	4,991,361

See accompanying notes to the consolidated financial statements.

1. Reporting entity

Information regarding Shinhan Bank (the "Bank"), the controlling company, and its subsidiaries included in consolidation (collectively the "Group") are summarized as follows:

(a) Controlling company

The Bank was established through the merger of Hansung Bank and Dongil Bank, which were established on February 19, 1897 and August 8, 1906, respectively, to engage in commercial banking and trust operations.

The Bank acquired Chungbuk Bank and Kangwon Bank in 1999, and the former Shinhan Bank in April 1, 2006, and subsequently changed its name to Shinhan Bank. As of December 31, 2014, the Bank has 1,585,615,506 outstanding common shares with par value of ₩7,928,078 million which Shinhan Financial Group Co., Ltd. ("Shinhan Financial Group") owns 100% of them. As of December 31, 2014, the Bank operates through 797 domestic branches, 103 depositary offices, 24 premises and 8 overseas branches.

(b) Subsidiaries included in consolidation

i) *Shinhan Asia Ltd.*

Shinhan Asia Limited ("Shinhan Asia") engages in merchant banking activities in Hong Kong. As of December 31, 2014, Shinhan Asia's capital stock amounted to US $100 million.

ii) *Shinhan Bank America*

Shinhan Bank America ("Shinhan America") was established on March 24, 2003 through the merger of Chohung Bank of New York and California Chohung Bank. As of December 31, 2014, Shinhan America's capital stock amounted to US $123 million.

iii) *Shinhan Bank Europe GmbH*

Shinhan Bank Europe GmbH ("Shinhan Europe") was established in 1994. As of December 31, 2014, Shinhan Europe's capital stock amounted to EUR 23 million.

iv) *Shinhan Khmer Bank*

Shinhan Khmer Bank ("Shinhan Khmer") was established on October 15, 2007. As of December 31, 2014, Shinhan Khmer's capital stock amounted to US $20 million.

v) *Shinhan Kazakhstan Bank*

Shinhan Kazakhstan Bank ("Shinhan Kazakhstan") was established on December 16, 2008. As of December 31, 2014, Shinhan Kazakhstan's capital stock amounted to KZT 10,029 million.

vi) *Shinhan Canada Bank*

Shinhan Canada Bank ("Shinhan Canada") was established on March 9, 2009. As of December 31, 2014, Shinhan Canada's capital stock amounted to CAD 50 million.

vii) *Shinhan Bank China Limited*

Shinhan Bank China Limited ("Shinhan China") was established on May 12, 2008. As of December 31, 2014, Shinhan China's capital stock amounted to CNY 2,000 million.

viii) *Shinhan Bank Japan*

Shinhan Bank Japan ("Shinhan Japan") was established on September 14, 2009. As of December 31, 2014, Shinhan Japan's capital stock amounted to JPY 15,000 million.

ix) *Shinhan Bank Vietnam*

Shinhan Bank Vietnam ("Shinhan Vietnam") was established on November 16, 2009 and merged with Shinhan Vina Bank on November 28, 2011. As of December 31, 2014, Shinhan Vietnam's capital stock amounted to VND 4,547,100 million.

Details of ownerships in subsidiaries as of December 31, 2014 and 2013 were as follows:

		Ownership (%)	
Investee	**Country**	**December 31, 2014**	**December 31, 2013**
Shinhan Asia	Hong Kong	99.9	99.9
Shinhan America	U.S.A	100.0	100.0
Shinhan Europe	Germany	100.0	100.0
Shinhan Khmer	Cambodia	90.0	90.0
Shinhan Kazakhstan	Kazakhstan	100.0	100.0
Shinhan Canada	Canada	100.0	100.0
Shinhan China	China	100.0	100.0
Shinhan Japan	Japan	100.0	100.0
Shinhan Vietnam	Vietnam	100.0	100.0

In addition, structured entities included in consolidation as of December 31, 2014 were as follows:

Structured entities	**Country**	**Fiscal year end**
SH 2007 NPL Investment Co., Ltd.	Korea	December
Shinwha-China Investment Co., Ltd.	Korea	December
MPC Yulchon Green 1st	Korea	December
AR Plus 2nd	Korea	December
MPC Yulchon 2nd	Korea	September
STAY 2nd	Korea	March
S Dream 5th Co., Ltd	Korea	December
AETAS DRIVE FIRST Co., Ltd	Korea	December
AR Plus 3rd	Korea	September
MPC Yulchon 1st	Korea	December
S-Nuri 1st L.L.C	Korea	December
S-Nuri 4th L.L.C	Korea	February
S-Nuri 9th L.L.C	Korea	December
AR Plus	Korea	October
Development Trust	Korea	December
Non-specified Money Trust	Korea	December
Old-age Living Pension Trust	Korea	December
New-Personal Pension Trust	Korea	December
Personal Pension Trust	Korea	December
Retirement Trust	Korea	December
New Old-age Living Pension Trust	Korea	December
Pension Trust	Korea	December
Household Money Trust	Korea	December
Installment Money Trust for Purpose	Korea	December
Corporation Money Trust	Korea	December
China Opportunity Private Special Asset Investment Fund 3rd	Korea	December
Shinhan BNPP Private Corporate 25th	Korea	January
Shinhan BNPP Private Corporate 18th	Korea	January

Structured entities	Country	Fiscal year end
LS Best Partner Private Investment Trust	Korea	May
Heungkuk Rainbow Private Securities Investment Trust T-41	Korea	August
Dongbu All Together Private Investment Trust Fund 9th	Korea	September
Hyundai Heritage Private Securities Investment Trust SH-3rd	Korea	September
Samsung Partner Private Securities No.6 [Trust]	Korea	September

The Group consolidates a structured entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to most significantly affect those returns through its power over the structured entity based on the terms in the agreement relating to the establishment of the structured entity. For consolidated structured entities, the Group recognizes non-controlling interests related to the structured entity as liabilities in the consolidated statement of financial position.

The Group provides ABCP purchase agreement amounting to ₩665,724 million to the structured entities described above.

i) Newly included subsidiaries for the year ended December 31, 2014

	Reason
S-Nuri 4th L.L.C	ABCP purchase agreement & asset management, etc.
S-Nuri 9th L.L.C	ABCP purchase agreement & asset management, etc.
AR Plus	ABCP purchase agreement & asset management, etc.
LS Best Partner Private Investment Trust	100% ownership of beneficiary certificate
Heungkuk Rainbow Private Securities Investment Trust T-41	100% ownership of beneficiary certificate
Dongbu All Together Private Investment Trust Fund 9th	100% ownership of beneficiary certificate
Hyundai Heritage Private Securities Investment Trust SH-3rd	100% ownership of beneficiary certificate
Samsung Partner Private Securities No.6 [Trust]	100% ownership of beneficiary certificate

ii) Excluded subsidiaries for the year ended December 31, 2014

	Reason
I-Clover Series L1	Termination of the ABCP purchase agreement
S Dream 7th Co., Ltd	Termination of the ABCP purchase agreement
Heungkuk Rainbow Private Securities Investment Trust T-19	Disposal of beneficiary certificate
Dongbu All Together Private Investment Trust Fund 5nd	Disposal of beneficiary certificate
KIM Private Basic Securities Investment Trust 4 (Fund)	Disposal of beneficiary certificate
Samsung Partner Private Securities No.2 [Trust]	Disposal of beneficiary certificate
Shinhan Mortgage 2nd ABS Specialty Co., Ltd.	Loss of control

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards (“K-IFRS”), as prescribed in *the Act on External Audits of Corporations in the Republic of Korea.*

(b) Approval of the consolidated financial statements

The consolidated financial statements were authorized for issue by the Board of Directors on February 3, 2015.

(c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statements of financial position:

- derivative financial instruments are measured at fair value

- financial instruments at fair value through profit or loss are measured at fair value

- available-for-sale financial assets are measured at fair value
- share-based payment arrangements are measured at fair value
- recognized financial instruments designated as hedged items in qualifying fair value hedge relationships and adjusted for changes in fair value attributable to the risk being hedged
- Liabilities for defined benefit plans are recognized as net of the total present value of defined benefit obligations less the fair value of plan assets.

(d) Functional and presentation currency

These consolidated financial statements are presented in Korean won, which is the Bank's functional currency and the currency of the primary economic environment in which the Group operates. Subsidiaries whose functional currency is not Korean won were as follows:

Functional currency	Subsidiary
USD	Shinhan Asia, Shinhan America, Shinhan Khmer
EUR	Shinhan Europe
KZT	Shinhan Kazakhstan
CAD	Shinhan Canada
CNY	Shinhan China
JPY	Shinhan Japan
VND	Shinhan Vietnam

(e) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the significant effect on the amount recognized in the consolidated financial statements is described in Note 5.

3. Significant accounting policies

Except as described below, the accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2013. The following changes in accounting policies are reflected in the Group's consolidated financial statements as of and for the year ended December 31, 2014.

(a) Changes in accounting policies

The Group has applied the following amendments to standards and interpretation, with a date of initial application of January 1, 2014.

i) *Offsetting Financial Assets and Financial Liabilities (Amendments to K-IFRS No.1032)*

The Group has adopted amendments to K-IFRS No.1032, *'Offsetting Financial Assets and Financial Liabilities'* since January 1, 2014. The amendments require that a financial assets and a financial liability are offset and the net amount is presented in the statement of financial position when an entity currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

According to the amendments, the right to set off should not be contingent on a future event, and legally enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy of the entity and all of the counterparties.

The entity intends to settle on a net basis, if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle.

The change had no significant impact on the measurements of the Group's assets and liabilities.

ii) K-IFRS No.2121, *'Levies'*

The Group has adopted K-IFRS No.2121, *'Levies'* since January 1, 2014. The interpretation confirms that an entity recognizes a liability for a levy when the triggering event specified in the legislation occurs. An entity does not recognize a liability at an earlier date, even if it has no realistic opportunity to avoid the triggering event. If a levy is only payable once a specified amount has been reached, then no liability is recognized until this 'minimum threshold' is reached. The same recognition principles apply in the interim financial statements as in the annual financial statements, even if this results in uneven charges over the course of the year.

The change had no significant impact on the measurements of the Group's assets and liabilities.

(b) Basis of consolidation

i) *Subsidiaries*

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for the same transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

ii) *Intra-group transactions eliminated on consolidation*

Intra-group balances, transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

iii) *Non-controlling interests*

Non-controlling interests in a subsidiary are accounted for separately from the parent's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interests holders, even when the allocation reduces the non-controlling interests balance below zero.

(c) Business combinations

i) *Business combinations*

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Each identifiable asset and liability is measured at its acquisition-date fair value except for below:

- Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors

- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized

- Deferred tax assets or liabilities are recognized and measured in accordance with K-IFRS No.1012, *'Income Taxes'*

- Employee benefit arrangements are recognized and measured in accordance with K-IFRS No.1019, *'Employee Benefits'*

- Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset

- Reacquired rights are measured in accordance with special provisions

- Liabilities or equity instruments related to share-based payment transactions are measured in accordance with the method in K-IFRS No.1102, *'Share-based Payment'*

- Non-current assets held for sale are measured at fair value less costs to sell in accordance with K-IFRS No.1105, *'Non-current Assets Held for Sale and Discontinued Operations'*

As of the acquisition date, non-controlling interests in the acquiree are measured as the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employee that is included in consideration transferred in the business combination shall be measured in accordance with the method described above rather than at fair value.

Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No.1032, *'Financial Instruments: Presentation'* and K-IFRS No.1039, *'Financial Instruments: Recognition and Measurement'*.

ii) *Goodwill*

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus

- the recognized amount of any non-controlling interests in the acquiree; plus

- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less

- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, bargain purchase gain is recognized immediately in profit or loss.

When the Group additionally acquires non-controlling interest, the group does not recognize goodwill since the transaction is regarded as equity transaction.

As part of its transition to K-IFRS, the Group elected to restate only those business combinations which occurred on or after January 1, 2010 in accordance with K-IFRS. In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP.

(d) Investments in associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity or when another entity is classified as a subsidiary by the Banking act since the Group holds more than 15% of the voting power of another entity.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The investment in an associate and a joint venture is initially recognized at cost, and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate and the joint venture after the date of acquisition. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate or a joint venture uses accounting policies different from those of the Group for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has to make payments on behalf of the investee for further losses.

(e) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The segment reporting to a chief executive officer includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly general expenses and income tax assets and liabilities. The Group considers the CEO as the chief operating decision maker.

(f) Foreign currencies

i) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedging instrument of the net investment in a foreign operation or a qualifying cash flow hedge, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

ii) *Foreign operations*

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation and are translated using the exchange rate at the reporting date.

On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

iii) *Net investment in a foreign operation.*

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognized in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Equity instruments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date. However, the Group's account overdraft is included in borrowings.

(h) Non-derivative financial assets

Financial assets are classified into financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity financial assets. Financial assets are recognized when the Group becomes a party to the contractual provisions of the instrument. In addition, a regular way purchase or sale (a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation of convention in the market place concerned) is recognized on the trade date are recognized on the trade date.

A financial asset is measured initially at its fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition of the financial asset.

i) *Financial assets at fair value through profit or loss*

A financial asset is classified as at fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

ii) *Held-to-maturity financial assets*

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, is classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

iii) *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

iv) *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives those are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

v) *Derecognition of financial assets*

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

vi) *Offsetting*

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to set off the recognized amounts, and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(i) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

i) *Loans*

The Group first assesses whether objective evidence of impairment exists individually for loans that are individually significant, 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. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables 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 (i.e., the effective interest rate computed at initial recognition).

If the interest rate of loans is a floating rate, the discount rate used to evaluate impairment is the current effective interest rate defined in the agreement. The present value of estimated future cash flows of secured financial assets is calculated by including cash flows from collateral after deducting costs to acquire and sell the collateral, regardless of probability of realization of such collateral.

In assessing collective impairment, the Group classifies loans, based on credit risk assessment or a credit rating assessment process that takes into account asset type, industry, regional location, collateral type, delinquency and other relative factors.

Future cash flows of loans subject to collective impairment assessment are estimated by using statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of losses incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the impairment losses are likely to be greater or less than suggested by historical modelling. In adjusting the future cash flows by historical modelling, the result has to be in line with changes and trends of observable data (e.g., impairment losses of collective assets and unemployment rates, asset prices, commodity prices, payment status and other variables representing the size of impairment losses). Methodologies and assumptions used to estimate future cash flow are reviewed on a regular basis in order to reduce discrepancy between estimated impairment losses and actual loss.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans. When a subsequent event causes the amount of impairment losses to decrease, and the decrease can be related objectively to an event occurring after the impairment is recognized, the decrease in impairment losses is reversed through profit or loss of the period.

ii) *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 that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. 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 is recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

iii) *Held-to-maturity financial assets*

An impairment loss in respect of held-to-maturity financial assets measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate and is recognized in profit or loss. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(j) Derivative financial instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

i) *Hedge Accounting*

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

ii) *Fair value hedges*

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

iii) *Cash flow hedges*

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity. The amount recognized in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the consolidated statements of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in the hedging reserve in equity remains there until the forecasted transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognized in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognized. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss. In other cases the amount recognized in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

iv) *Hedge of net investment*

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the accumulated other comprehensive income is transferred to profit or loss as part of the profit or loss on disposal in accordance with K-IFRS No.1021, *'The Effects of Changes in Foreign Exchange Rates'*.

v) *Separable embedded derivatives*

Embedded derivatives are separated from the host contract and accounted for separately only if the economic characteristics and risks of the host contract and the embedded derivative are not closely related; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

vi) *Other derivative financial instruments*

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

(k) Property and equipment

Property and equipment are initially measured at cost and after initial recognition. The cost of property and equipment includes expenditures arising directly from the construction or acquisition of the asset, 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.

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

Certain land and buildings are measured at fair value at the date of transition to K-IFRS, which is deemed cost, in accordance with K-IFRS No.1101, *'First-time Adoption'*. Dividend from relevant revaluation surplus is prohibited in accordance with the resolution of the board of directors.

The Group recognizes in the carrying amount of an item of property and equipment the cost of replacing part of property and equipment when that cost is incurred if it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Land is not depreciated. Other property and equipment are depreciated on a straight-line basis over the estimated useful lives, which most closely reflect the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives for the current and comparative periods were as follows:

Descriptions	**Useful lives**
Buildings	40 years
Other properties	4~5 years

The gain or loss arising from the derecognition of an item of property and equipment, which is included in profit or loss, is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Depreciation methods, useful lives and residual values are reassessed at each fiscal year-end and any adjustment is accounted for as a change in accounting estimate.

(l) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

Descriptions	**Useful lives**
Software and capitalized development cost	5 years
Other intangible assets	5 years or contract periods, whichever the shorter

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

(m) Investment properties

Investment property is property held either to earn rental income or for capital appreciation or both. An investment property is initially recognized at cost including any directly attributable expenditure. Subsequent to initial recognition, the asset is measured at cost less accumulated depreciation and accumulated impairment losses, if any.

The depreciation method and the estimated useful lives for the current and comparative periods were as follows:

Descriptions	Depreciation method	Useful lives
Buildings ………………………………………………………	Straight-line	40 years

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as changes in accounting estimates.

(n) Leases

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

i) *Finance leases*

At the commencement of the lease term, the Group recognizes as finance assets and finance liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs 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 lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee 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 Group reviews to determine whether the leased asset may be impaired.

ii) *Operating leases*

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the period of the lease.

(o) Non-current assets held for sale

Assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No.1036, *'Impairment of Assets'*.

An asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

(p) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, deferred tax assets and Non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU 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 or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(q) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

i) *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

ii) *Other financial liabilities*

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(r) Equity capital

i) *Capital stock*

Capital stock is classified as equity. Incremental costs directly attributable to the transaction of stock are recognized as a deduction from equity, net of any tax effects.

ii) *Hybrid bonds*

The Group classifies an issued financial instrument, or its component parts, as a financial liability or an equity instrument depending on the substance of the contractual arrangement of such financial instrument. Hybrid bonds where the Group has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation are classified as an equity instrument and presented in equity.

iii) *Non-controlling interests*

Non-controlling interests, which represent the equity in a subsidiary not attributable, directly or indirectly, to a parent's ownership interests, consist of the amount of those non-controlling interests at the date of the original combination calculated in accordance with K-IFRS No.1103, *'Business Combinations'* and the non-controlling interests share of changes in equity since the date of the combination.

(s) Employee benefits

i) *Short-term employee benefits*

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

ii) *Other long-term employee benefits*

The Group's net obligation in respect of other long-term employee benefits that are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

iii) *Retirement benefits: defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes service cost and net interest on the net defined benefit liability (asset) in profit or loss and remeasurements of the net defined benefit liability (asset) in other comprehensive income.

iv) *Termination benefits*

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

(t) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

The Group has granted share-based payment based on Shinhan Financial Group's share to the employees. In accordance with a repayment arrangement with Shinhan Financial Group, the Group is required to pay Shinhan Financial Group for the provision of the share-based payments. The Group recognizes the costs as expenses and accrued expenses in liabilities for the service period. When vesting conditions are not satisfied because of death, retirement or dismissal of employees during the specified service period, no amount is recognized for goods or services received on a cumulative basis. Share-based payment arrangements in which the Group has no obligation to settle the share-based payment transaction are accounted for as equity-settled share-based payment transactions, regardless of the repayment arrangement with Shinhan Financial Group.

(u) Provisions

Provisions are recognized when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

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 provision is reversed.

Provision shall be used only for expenditures for which the provision is originally recognized.

(v) Financial guarantee contract

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee contract. The financial guarantee liability is subsequently measured at the higher of the amount of the best estimate of the expenditure required to settle the present obligation at the end of reporting period; and the amount initially recognized less, cumulative amortization recognized on a straight-line basis over the guarantee period. Financial guarantee liabilities are included within other liabilities.

(w) Financial income and expense

i) *Interest income and expense*

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or 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, and all other premiums or discounts. When it is not possible to estimate reliably the cash flows or the expected life of a financial instrument, the Group uses the contractual cash flows over the full contractual term of the financial instrument.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

ii) *Fees and commission*

The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument.

ⓐ Fees that are an integral part of the effective interest rate of a financial instrument.

Such fees are generally treated as an adjustment to the effective interest rate. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, preparing and processing documents, closing the transaction and the origination fees received on issuing financial liabilities. However, when the financial instrument is measured at fair value with the change in fair value recognized in profit or loss, the fees are recognized as revenue when the instrument is initially recognized.

ⓑ Fees earned as services are provided

Fees and commission income, including investment management fees, sales commission, and account servicing fees, are recognized as the related services are provided. If it is unlikely that a specific lending arrangement will be entered into and the loan commitment is outside the scope of K-IFRS No.1039, *'Financial Instruments: Recognition and Measurement'* the commitment fee is recognized as revenue on a time proportion basis over the commitment period.

ⓒ Fees that are earned on the execution of a significant act

The fees that are earned on the execution of a significant act including commission on the allotment of shares or other securities to a client, placement fee for arranging a loan between a borrower and an investor and sales commission, are recognized as revenue when the significant act has been completed.

iii) *Dividends*

Dividend income is recognized when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

(x) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Shinhan Financial Group, the parent company, files its national income tax return with the Korean tax authorities under the consolidated corporate tax system, which allows it to make national income tax payments based on the consolidated profits or losses of the Shinhan Financial Group and its wholly owned domestic subsidiaries including the Group. Deferred taxes are measured based on the future tax benefits expected to be realized in consideration of the expected profits or losses of eligible companies in accordance with the consolidated corporate tax system. Consolidated corporate tax amounts, once determined, are allocated to each of the subsidiaries and are used as a basis for the income taxes to be recorded in their stand-alone financial statements.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(y) Accounting for trust accounts

The Group accounts for trust accounts separately from its group accounts under the Financial Investment Services and Capital Markets Act and thus the trust accounts are not included in the accompanying consolidated financial statements. Borrowings from trust accounts are included in other liabilities. Trust fees and commissions in relation to the service provided to trust accounts by the Group are recognized as fees and commissions income.

(z) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholder of the Bank by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(aa) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Bank for annual periods beginning after January 1, 2014, and the Bank has not early adopted them.

Management is in the process of evaluating the impact of the amendments on the Group's consolidated financial statements, if any.

i) K-IFRS No.1108, *'Operating segments'*

The amendment requires the disclosure of judgements made by management in applying the aggregation criteria. The disclosures include a brief description of the operating segments that have been aggregated and the economic indicators that have been assessed in determining whether the operating segments share the similar economic characteristics. In addition, this amendment clarifies that a reconciliation of the total of the reportable segments' assets to the entity's total assets is required only when the information is regularly provided to the entity's chief operating decision maker. The amendment is effective for annual periods beginning on or after July 1, 2014.

ii) K-IFRS No.1102, *'Share-based payment'*

The amendment clarifies the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment is effective for annual periods beginning on or after July 1, 2014.

iii) K-IFRS No.1103, *'Business combinations'*

The amendment clarifies the classification and measurement of contingent consideration in a business combination. When a contingent consideration is a financial instrument, its classification as a liability or equity shall be determined in accordance with K-IFRS No.1032 and the contingent consideration that is classified as an asset or a liability shall be subsequently measured at fair value of which the changes recognised in profit or loss. In addition, this amendments clarifies that the standard does not apply to the accounting for all types of joint arrangements. The amendment is effective for annual periods beginning on or after July 1, 2014.

iv) K-IFRS No.1113, *'Fair Value Measurement'*

The amendment allows entities to measure short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, given the discount is immaterial. In addition, this amendment clarifies that the portfolio exception can be applies to contracts in the scope of K-IFRS No.1039 even though the contracts do not meet the definition of a financial asset or financial liability. The amendment is effective for annual periods beginning on or after July 1, 2014.

v) K-IFRS No.1024, *'Related Party Disclosures'*

The definition of a 'related party' is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity. The reporting entity is required to separately disclose the expense amount recognised for the key management personnel services. The amendment is effective for annual periods beginning on or after July 1, 2014

vi) K-IFRS No.1019, *'Employee benefits'*

The amendments introduce a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. A company is permitted (but not required) to recognise those contributions as a reduction of the service cost in the period in which the related service is rendered. Service-linked contributions from employees or third parties should be reflected in determining the net current service cost and the defined benefit obligation, and should be attributed to the periods of service using the same method as used for calculating the gross benefits or on a straight line basis. The amendment is effective for annual periods beginning on or after July 1, 2014.

vii) K-IFRS No.1111, *'Joint Arrangements'*

The amendment requires the business combination accounting to be applied to an acquisition of interests in a joint operation that constitutes a business. In addition, when business combination accounting applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control, the additional interest acquired shall be measured at fair value but the previously held interests in the joint operation shall not be re-measured. The amendment is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

4. Financial risk management

4-1. Credit risk

Credit risk is the risk of financial loss of the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from due from banks, the lending process related to loans, investment activities in debt securities and off balance sheet items including loan commitments, etc. Credit risk management is critical to the Group's business activities; thus, the Group carefully manages the credit risk exposure.

(a) Credit risk management

Major policies of the credit risk management are determined by the Credit Policy Committee, which is the Group's executive decision-making body for credit risk management. The Credit Policy Committee is led by the Group's Deputy President and Head of Risk Management Group. The Credit Policy Committee also consists of chief officers from eight different business units. The Credit Review Committee performs credit review evaluations and operates separately from the Credit Policy Committee.

Each business unit is required to implement the Group's risk management policies and procedures. Risk Management Department reviews compliance of business units with agreed exposure limits established by the Credit Policy Committee, including those for selected industries, country risk and product types.

The Group established the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to the business unit credit officer. Larger facilities require approval by the Credit Committee. The Group assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and review of facilities are subject to the same review process.

The Group is responsible for limiting concentrations of exposures to counterparties, geographies and industries, and by issuers, credit rating band, market liquidity and country.

The Group develops and maintains the risk grading system in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining credit approvals, credit renewals, credit pricing, credit limits, or where impairment provisions may be required against specific credit exposures for existing loans.

Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolio, including those subject to central approval. In addition to periodic loan reviews by credit officers, the Group also utilizes an automated monitoring tool which conducts searches for companies with high probability of default. Regular reports on the credit quality of local portfolios are provided to the Credit Administration Department who may require appropriate corrective action to be taken.

(b) ***Maximum exposure to credit risk***

The Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Due from banks and loans(*1,2):		
Banks	₩ 9,330,401	10,319,637
Retail:		
Mortgage lending	43,071,985	40,970,300
Other	44,568,901	39,014,553
	87,640,886	79,984,853
Government	11,950,221	9,109,552
Corporate:		
Large companies	31,325,767	29,652,111
Small and medium enterprises	57,472,842	50,992,108
Special finance	3,967,248	4,431,802
Other	1,075	849
	92,766,932	85,076,870
Card	25,999	39,278
	201,714,439	184,530,190
Trading assets:		
Debt securities	7,079,455	6,473,993
Gold deposits	224,556	76,337
	7,304,011	6,550,330
Derivative assets	1,309,094	1,457,994
Available-for-sale financial assets:		
Debt securities	20,033,298	21,232,753
Held-to-maturity financial assets:		
Debt securities	8,012,117	7,433,620
Other financial assets(*1,3)	8,019,552	6,901,231
Off balance sheet items:		
Financial guarantee contracts	3,069,507	2,392,517
Loan commitments and other liabilities for credit	73,608,486	74,158,883
	76,677,993	76,551,400
	₩323,070,504	304,657,518

(*1) The maximum exposure amounts for due from banks and loans and other financial assets are measured as the amount net of allowances.

(*2) Due from banks and loans were classified as similar credit risk group to be with consistent calculating capital adequacy ratio under New Basel Capital Accord (Basel III).

(*3) Other financial assets comprise accounts receivable, accrued income, guarantee deposits, domestic exchange settlements receivables, suspense receivables, etc.

(c) *Information related to impairment for due from banks and loans*

i) Due from banks and loans as of December 31, 2014 and 2013 were as follows:

	December 31, 2014					
	Banks	Retail	Government	Corporate	Card	Total
Neither past due nor impaired	₩9,362,122	87,295,416	11,958,001	92,695,348	25,979	201,336,866
Past due but not impaired	—	365,020	—	225,192	352	590,564
Impaired	—	252,282	—	1,138,077	16	1,390,375
	9,362,122	87,912,718	11,958,001	94,058,617	26,347	203,317,805
Less: allowance	(31,721)	(271,832)	(7,780)	(1,291,685)	(348)	(1,603,366)
	₩9,330,401	87,640,886	11,950,221	92,766,932	25,999	201,714,439

	December 31, 2013					
	Banks	Retail	Government	Corporate	Card	Total
Neither past due nor impaired	₩10,334,664	79,583,362	9,114,647	84,586,205	39,375	183,658,253
Past due but not impaired	—	403,415	—	420,481	146	824,042
Impaired	—	239,333	—	1,428,225	10	1,667,568
	10,334,664	80,226,110	9,114,647	86,434,911	39,531	186,149,863
Less: allowance	(15,027)	(241,257)	(5,095)	(1,358,041)	(253)	(1,619,673)
	₩10,319,637	79,984,853	9,109,552	85,076,870	39,278	184,530,190

ii) Credit quality of due from banks and loans that were neither past due nor impaired as of December 31, 2014 and 2013 were as follows:

	December 31, 2014					
	Banks	Retail	Government	Corporate	Card	Total
Grade 1(*1)	₩9,362,122	82,665,781	11,958,001	57,544,883	20,136	161,550,923
Grade 2(*1)	—	4,629,635	—	35,150,465	5,843	39,785,943
	9,362,122	87,295,416	11,958,001	92,695,348	25,979	201,336,866
Less: allowance	(31,721)	(145,141)	(7,780)	(792,986)	(348)	(977,976)
	₩9,330,401	87,150,275	11,950,221	91,902,362	25,631	200,358,890
Mitigation of credit risk due to collateral(*2)	₩ 134	59,713,527	—	47,914,214	38	107,627,913

	December 31, 2013					
	Banks	Retail	Government	Corporate	Card	Total
Grade 1(*1)	₩10,334,664	75,124,722	9,114,647	50,969,742	34,972	145,578,747
Grade 2(*1)	—	4,458,640	—	33,616,463	4,403	38,079,506
	10,334,664	79,583,362	9,114,647	84,586,205	39,375	183,658,253
Less: allowance	(15,027)	(125,270)	(5,095)	(657,195)	(235)	(802,822)
	₩10,319,637	79,458,092	9,109,552	83,929,010	39,140	182,855,431
Mitigation of credit risk due to collateral(*2)	₩ 152	54,809,672	—	45,415,301	15	100,225,140

(*1) Credit quality of due from banks and loans were classified based on the internal credit rating as follows:

Type of Borrower	Grade 1	Grade 2
Banks and governments	OECD sovereign credit rating of 6 or above (as applied to the nationality of the banks and governments)	OECD sovereign credit rating of below 6 (as applied to the nationality of the banks and governments)
Retail	Pool of retail loans with probability of default of less than 2.25%	Pool of retail loans with probability of default of 2.25% or more
Corporations	Internal credit rating of BBB+ or above	Internal credit rating of below BBB+
Credit cards	For individual card holders, score of 7 or higher in Shinhan Card's internal behavior scoring system For corporate cardholders, same as corporate loans	For individual card holders, score of below 7 in Shinhan Card's internal behavior scoring system For corporate cardholders, same as corporate loans

(*2) The Group holds collateral against due from banks and loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of quantification of the extent to which collateral mitigate credit risk are based on the fair value of collateral.

iii) Aging analysis of due from banks and loans, that were past due but not impaired as of December 31, 2014 and 2013 were as follows:

	December 31, 2014			
	Retail	Corporate	Card	Total
Within 30 days	₩272,720	120,143	164	393,027
30~60 days	59,296	21,797	38	81,131
60~90 days	26,023	44,603	23	70,649
More than 90 days	6,981	38,649	127	45,757
	365,020	225,192	352	590,564
Less: allowance	(29,398)	(31,144)	—	(60,542)
	₩335,622	194,048	352	530,022
Mitigation of credit risk due to collateral	₩284,210	81,729	—	365,939

	December 31, 2013			
	Retail	Corporate	Card	Total
Within 30 days	₩334,011	358,690	93	692,794
30~60 days	40,599	31,674	20	72,293
60~90 days	26,313	14,207	18	40,538
More than 90 days	2,492	15,910	15	18,417
	403,415	420,481	146	824,042
Less: allowance	(22,076)	(23,357)	(10)	(45,443)
	₩381,339	397,124	136	778,599
Mitigation of credit risk due to collateral	₩320,855	266,354	—	587,209

iv) Mitigation of credit risk due to the collateral of impaired due from banks and loans as of December 31, 2014 and 2013 were as follows:

	December 31, 2014			
	Retail	Corporate	Card	Total
Impaired	₩252,282	1,138,077	16	1,390,375
Less: allowance	(97,293)	(467,555)	—	(564,848)
	₩154,989	670,522	16	825,527
Mitigation of credit risk due to collateral	₩128,406	398,646	—	527,052

	December 31, 2013			
	Retail	Corporate	Card	Total
Impaired	₩239,333	1,428,225	10	1,667,568
Less: allowance	(93,911)	(677,489)	(8)	(771,408)
	₩145,422	750,736	2	896,160
Mitigation of credit risk due to collateral	₩ 97,277	492,777	—	590,054

(d) Credit rating

i) Credit rating of debt securities as of December 31, 2014 and 2013 were as follows:

	December 31, 2014			
	Trading assets	Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA	₩1,539,833	12,978,467	7,025,246	21,543,546
AA- to AA+	1,662,905	2,634,819	753,221	5,050,945
A- to A+	2,866,086	2,247,214	131,292	5,244,592
BBB- to BBB+	569,706	1,095,902	—	1,665,608
Lower than BBB-	240,642	441,338	33,306	715,286
Unrated	200,283	635,558	69,052	904,893
	₩7,079,455	20,033,298	8,012,117	35,124,870

	December 31, 2013			
	Trading assets	Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA	₩1,640,089	13,729,157	6,376,540	21,745,786
AA- to AA+	1,585,343	3,799,023	791,398	6,175,764
A- to A+	2,272,927	1,719,726	109,147	4,101,800
BBB- to BBB+	435,735	894,125	—	1,329,860
Lower than BBB-	264,861	418,568	23,305	706,734
Unrated	275,038	672,154	133,230	1,080,422
	₩6,473,993	21,232,753	7,433,620	35,140,366

ii) The credit qualities of securities debt securities according to the credit ratings by external rating agencies were as follows:

	KIS(*1)	KR(*2)	S&P	Fitch	Moody's
AAA	—	—	AAA	AAA	Aaa
AA- to AA+	AAA	AAA	AA- to AA+	AA- to AA+	Aa3 to Aa1
A- to A+	AA- to AA+	AA- to AA+	A- to A+	A- to A+	A3 to A1
BBB- to BBB+	BBB- to A	BBB- to A	BBB- to BBB+	BBB- to BBB+	Baa3 to Baa1
Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than Baa3
Unrated	Unrated	Unrated	Unrated	Unrated	Unrated

(*1) KIS: Korea Investors Service

(*2) KR: Korea Ratings

iii) Credit status of debt securities as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Neither past due nor impaired	₩35,124,870	35,140,366
Impaired	—	—
	₩35,124,870	35,140,366

(e) ***Assets acquired through foreclosures amounting to ₩2,585 million, ₩6,074 million were classified as Non-current assets held for sale as of December 31, 2014 and 2013, respectively.***

(f) ***Concentration by geographic location***

An analysis of concentration by geographic location for financial assets including due from banks and loans, net of allowance, as of December 31, 2014 and 2013 were as follows:

	December 31, 2014						
	Korea	U.S.A	Japan	Vietnam	China	Other	Total
Due from banks and loans:							
Banks	₩ 3,045,693	906,217	367,693	345,781	2,589,456	2,075,561	9,330,401
Retail	86,216,060	263,905	784,022	56,376	44,733	275,790	87,640,886
Government	11,076,342	115,845	73,475	80,516	540,175	63,868	11,950,221
Corporate	83,114,294	1,328,807	1,480,465	1,292,578	2,664,495	2,886,293	92,766,932
Card	16,531	1,132	—	8,322	3	11	25,999
	183,468,920	2,615,906	2,705,655	1,783,573	5,838,862	5,301,523	201,714,439
Trading assets	7,069,987	—	—	—	9,468	224,556	7,304,011
Available-for-sale financial assets	19,235,556	179,092	37,005	416,632	29,669	135,344	20,033,298
Held-to-maturity financial assets	7,878,556	22,257	23,137	22,031	54,860	11,276	8,012,117
	₩217,653,019	2,817,255	2,765,797	2,222,236	5,932,859	5,672,699	237,063,865

	December 31, 2013						
	Korea	U.S.A	Japan	Vietnam	China	Other	Total
Due from banks and loans:							
Banks	₩ 3,508,804	1,182,001	203,537	99,266	2,975,472	2,350,557	10,319,637
Retail	79,247,913	230,170	226,804	30,824	23,551	225,591	79,984,853
Government	8,637,464	222,567	141,928	39,176	936	67,481	9,109,552
Corporate	76,987,699	1,269,030	1,640,359	935,088	1,892,132	2,352,562	85,076,870
Card	35,724	1,276	4	2,268	—	6	39,278
	168,417,604	2,905,044	2,212,632	1,106,622	4,892,091	4,996,197	184,530,190
Trading assets	6,473,993	—	—	—	—	76,337	6,550,330
Available-for-sale financial assets	20,417,269	299,227	—	373,060	5,106	138,091	21,232,753
Held-to-maturity financial assets	7,294,783	1,133	50,408	10,450	63,991	12,855	7,433,620
	₩202,603,649	3,205,404	2,263,040	1,490,132	4,961,188	5,223,480	219,746,893

(g) Concentration by industry sector

An analysis of concentration by industry sector for financial assets including due from banks and loans, net of allowance, as of December 31, 2014 and 2013 were as follows:

	December 31, 2014						
	Finance and insurance	**Manufacturing**	**Retail and wholesale**	**Real estate and service**	**Others**	**Retail customers**	**Total**
Due from banks and loans:							
Banks	₩ 7,409,760	2,246	—	187,727	1,730,668	—	9,330,401
Retail	—	—	—	—	—	87,640,886	87,640,886
Government	11,198,476	—	—	—	751,745	—	11,950,221
Corporate	2,231,685	35,173,585	12,923,930	16,296,477	26,141,255	—	92,766,932
Card	—	—	—	—	—	25,999	25,999
	20,839,921	35,175,831	12,923,930	16,484,204	28,623,668	87,666,885	201,714,439
Trading assets	4,035,691	421,339	410,638	644,759	1,791,584	—	7,304,011
Available-for-sale financial assets	14,477,248	829,423	102,049	624,394	4,000,184	—	20,033,298
Held-to-maturity financial assets	1,915,165	49,915	—	92,226	5,954,811	—	8,012,117
	₩41,268,025	36,476,508	13,436,617	17,845,583	40,370,247	87,666,885	237,063,865

	December 31, 2013						
	Finance and insurance	**Manufacturing**	**Retail and wholesale**	**Real estate and service**	**Others**	**Retail customers**	**Total**
Due from banks and loans:							
Banks	₩ 8,232,502	—	—	114,037	1,973,098	—	10,319,637
Retail	—	—	—	—	—	79,984,853	79,984,853
Government	8,910,132	—	—	—	199,420	—	9,109,552
Corporate	1,904,015	31,347,060	12,047,979	14,538,327	25,239,489	—	85,076,870
Card	—	—	—	—	—	39,278	39,278
	19,046,649	31,347,060	12,047,979	14,652,364	27,412,007	80,024,131	184,530,190
Trading assets	3,612,013	603,954	228,176	536,200	1,569,987	—	6,550,330
Available-for-sale financial assets	15,267,484	755,954	110,571	644,268	4,454,476	—	21,232,753
Held-to-maturity financial assets	2,140,945	26,448	—	168,702	5,097,525	—	7,433,620
	₩40,067,091	32,733,416	12,386,726	16,001,534	38,533,995	80,024,131	219,746,893

4-2. Market risk

Market risk is the risk that changes in market price such as interest rates, equity prices, foreign exchange rates, etc, will affect the Group's income. Trading position is exposed to the risk such as interest rates, equity prices, foreign exchange rates, etc, and non-trading position is mainly exposed to interest rates. The Group separates and manages its exposure to market risk between trading and non-trading position.

Overall authority for market risk is vested in the Group's Asset & Liability Management Committee ("ALM Committee"). The Risk Management Department is responsible for the development of detailed risk management policies which are subject to review and approval by the ALM Committee and for the day-to-day review of their implementation. The ALM Committee also sets Value at Risk (VaR) limit, damage limit, sensitivity limit, investment limits, position limits, and stress damage limits of each department and desk. The Risk Management Department monitors operation departments and reports regularly to the ALM Committee and the Risk Management Committee.

Before launching a new product from each business unit, the Group is required to perform an objective analysis of the risk evaluation and examination of fair value measurement method from the Risk Management Department or Fair Value Evaluation Committee. The Derivative and Structured Product Risk Review Committee reviews the related risk exposure and investment limit.

(a) Market risk management of trading positions

Trading position includes securities, foreign exchange position, and derivatives which are traded for profits.

Trading data of foreign exchange, stocks, bonds and derivatives from trading positions are tracked and daily risk limits are systematically monitored based on the Group's risk management parameters. Statistical analysis that complements the above risk management process and stress testing is performed regularly in order to manage the impact and loss of rapid economic changes. These risk management processes enable the Group to manage the scale of potential losses within a certain range when a crisis occurs.

i) *Measurement method on market risk arising from trading position*

The principal tool used to measure and control market risk exposure within the Group's trading position is VaR. The VaR of a trading position is the estimated loss that will arise on the portfolio over a specified period of time (ten days holding period) from an adverse market movement with a specified probability (confidence level). The Group measures market risk based on 99% confidence level by using the VaR model based on historical simulation.

VaR is a commonly used market risk management technique. However, VaR estimates possible losses over a certain period at a particular confidence level using the historical market movement data. The use of historical market movement data as a basis for determining the possible range of future outcome may not always cover all possible scenarios, especially those of an exceptional nature. VaR models assume that a holding period of generally one to ten days is sufficient prior to liquidating the underlying positions, but this may not be the case for certain highly illiquid assets or in situations in which there is severe general market illiquidity.

The Group directly applies the historical changes in interest rates, equity prices, and foreign exchange rates to current position. The actual outputs are regularly monitored by testing the effectiveness of assumptions, measurements and parameter. The application of this method does not prevent loss from larger market movement that exceeds the acceptable parameter.

VaR limit related to the operation of trading and non-trading portfolio is determined by management annually. VaR is measured at least daily. The quality of VaR model is monitored consistently by examining the VaR results related to trading book.

ii) *VaR of trading position*

An analysis of trading position VaR for the years ended December 31, 2014 and 2013 were as follows:

	2014			
	Average	**Maximum**	**Minimum**	**Year end**
Interest rate risk	₩ 17,302	25,863	8,721	13,414
Equity risk	4,333	7,362	2,493	3,442
Foreign currency risk(*)	43,872	54,355	34,928	49,372
Volatility risk	161	259	66	66
Covariance	(18,668)	(32,344)	(5,246)	(13,268)
	₩ 47,000	55,495	40,962	53,026

	2013			
	Average	Maximum	Minimum	Year end
Interest rate risk	₩ 21,604	28,670	14,413	25,136
Equity risk	5,677	13,250	2,737	7,341
Foreign currency risk(*)	45,176	50,933	41,554	43,993
Volatility risk	278	350	198	208
Covariance	(25,837)	(40,931)	(18,457)	(27,001)
	₩ 46,898	52,272	40,445	49,677

(*) The Group measured foreign currency risk arising from trading position and non-trading position.

(b) Market risk management of non-trading positions

The most critical market risk that arises from non-trading position is the interest rate risk. Accordingly, the Group measures and manages market risk for non-trading position by taking into account effects of interest rate changes on both its net asset value and income. Interest rate risk is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALM Committee is the monitoring body for compliance with these limits including establishing policies and setting the limits and is assisted by the Risk Management Department in its day-to-day monitoring activities.

i) *Measurement method on market risk arising from non-trading position*

The Group measures and manages interest rate risk by using various analyses such as interest rate gap, duration gap, and NII (Net Interest Income) simulation of each scenario through the ALM system (OFSA). The Group also monitors interest rate VaR, earnings at risk ("EaR"), and gap rate of interest rate by setting the limits on a monthly basis.

The Group measures interest rate VaR by using standard modified duration and interest rate volatility, and interest rate EaR by using impact period by maturity period and interest rate volatility based on a standard methodology provided by Bank for International Settlements ("BIS").

ii) *Interest rate VaR and EaR for non-trading positions*

Interest rate VaR and EaR for non-trading positions which were measured by the standard methodology provided by BIS as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31,2013
Interest rate VaR	₩695,044	415,700
Interest rate EaR	313,619	356,453

(c) Foreign exchange risk

The Group manages foreign currency risk based on general positions which includes all spot and future foreign currency positions, etc. The ALM Committee oversees the Group's foreign exchange exposure for both trading and non-trading activities by establishing limits for the net foreign currencies open position. The Group's foreign exchange position is centralized at the FX & Derivatives Department. Dealers in the FX & Derivatives Department manage the Group's overall position within the set limits through spot trading, forward contracts, currency options, futures and swaps and foreign exchange swaps. The Group's foreign exchange transactions are mainly conducted in the U.S. dollar (USD), Japanese yen (JPY), euro (EUR) and Chinese yuan (CNY). Other foreign currencies are narrowly traded.

Foreign currency denominated assets and liabilities as of December 31, 2014 and 2013 were as follows:

	December 31, 2014					
	USD	JPY	EUR	CNY	Other	Total
Assets						
Cash and due from banks	₩ 1,554,830	796,296	96,725	1,687,069	677,811	4,812,731
Trading assets	—	—	—	—	224,556	224,556
Derivative assets	126,925	100	5,205	1,418	158	133,806
Loans	14,237,836	4,218,682	929,165	2,304,384	2,345,771	24,035,838
Available-for-sale financial assets	879,538	41,160	4,143	—	536,891	1,461,732
Held-to-maturity financial assets	73	180,191	—	51,180	38,326	269,770
Other financial assets	1,796,229	213,903	33,864	279,412	116,841	2,440,249
	18,595,431	5,450,332	1,069,102	4,323,463	3,940,354	33,378,682
Liabilities						
Deposits	7,314,969	4,548,496	344,351	3,004,043	2,322,394	17,534,253
Trading liabilities	—	—	—	—	428,936	428,936
Derivative liabilities	68,522	72,628	366	916	77	142,509
Borrowings	5,225,495	261,139	511,723	387,367	261,128	6,646,852
Debt securities issued	3,069,650	585,209	—	—	389,648	4,044,507
Other financial liabilities	1,908,888	129,655	103,272	436,379	182,812	2,761,006
	17,587,524	5,597,127	959,712	3,828,705	3,584,995	31,558,063
Net assets (liabilities)	1,007,907	(146,795)	109,390	494,758	355,359	1,820,619
Off-balance						
Derivative exposures	(418,456)	136,614	(41,958)	(117,920)	136,402	(305,318)
Net position	₩ 589,451	(10,181)	67,432	376,838	491,761	1,515,301

	December 31, 2013					
	USD	JPY	EUR	CNY	Other	Total
Assets						
Cash and due from banks	₩ 2,188,833	1,233,478	85,314	1,460,395	436,166	5,404,186
Trading assets	—	—	—	—	76,337	76,337
Derivative assets	188,330	34	7,864	397	1,871	198,496
Loans	11,393,740	4,075,431	1,088,485	1,777,469	2,045,999	20,381,124
Available-for-sale financial assets	855,333	6,399	13,508	5,106	522,868	1,403,214
Held-to-maturity financial assets	1,133	294,027	—	63,991	28,251	387,402
Other financial assets	1,305,838	348,469	105,359	43,322	112,102	1,915,090
	15,933,207	5,957,838	1,300,530	3,350,680	3,223,594	29,765,849
Liabilities						
Deposits	6,428,513	5,279,307	312,076	2,492,749	1,811,457	16,324,102
Trading liabilities	—	—	—	—	398,596	398,596
Derivative liabilities	130,605	46,114	—	2,901	1,862	181,482
Borrowings	4,072,632	420,004	505,242	228,988	221,460	5,448,326
Debt securities issued	2,534,654	653,029	—	104,292	507,813	3,799,788
Other financial liabilities	1,108,073	309,024	374,696	170,065	318,366	2,280,224
	14,274,477	6,707,478	1,192,014	2,998,995	3,259,554	28,432,518
Net assets (liabilities)	1,658,730	(749,640)	108,516	351,685	(35,960)	1,333,331
Off-balance						
Derivative exposures	(958,171)	756,302	(113,311)	52,451	301,954	39,225
Net position	₩ 700,559	6,662	(4,795)	404,136	265,994	1,372,556

4-3. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The ALM Committee is responsible for establishing policies and setting the limits related to liquidity risk management. The Risk Management Department evaluates and manages the Group's overall liquidity risk and monitors compliance of all operating subsidiaries and foreign branches with limits on a daily basis.

The Group applies the following basic principles for liquidity risk management:

- raise funding in sufficient amounts at the optimal time and reasonable costs;
- maintain risk at appropriate levels and preemptively manage them through a prescribed risk limit system and an early warning signal detection system;
- secure stable sources of revenue and minimize actual losses by implementing an effective asset-liability management system based on diversified sources of funding with varying maturities;
- monitor and manage daily and intra-daily liquidity positions and risk exposures as to timely payment and settlement of financial obligations due under both normal and crisis situations;
- conduct periodic contingency analysis in anticipation of any potential liquidity crisis and establish and implement emergency plans in case of a crisis actually happening; and
- consider liquidity-related costs, benefits and risks in determining the price of products and services, employee performance evaluations and approval of launching new products and services.

The Group manages its liquidity risk within the limits set on won and foreign currency by using various analysis methods such as liquidity gap, real liquidity gap and loan-deposit ratio through the ALM system and various indices including risk limits, early warning index, and monitoring index.

The following table presents the Group's cash flows of financial assets and financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. Since the effect of the discount is not important for the balance with the maturities of less than 12 months, the amount is the same as the book value.

(a) Contractual maturities for financial instruments

Contractual maturities for financial assets and financial liabilities as of December 31, 2014 and 2013 were as follows:

	December 31, 2014						
	Less than 1 month	**1~3 months**	**3~6 months**	**6 months~ 1 year**	**1~5 years**	**More than 5 years**	**Total**
Assets							
Cash and due from banks	₩ 14,403,576	751,768	414,544	309,024	35,555	—	15,914,467
Trading assets	8,316,341	—	—	—	—	—	8,316,341
Derivative assets	1,299,123	264,459	85,066	120,408	255,611	50,797	2,075,464
Loans	19,077,637	23,946,375	30,703,857	46,783,276	45,082,527	46,401,285	211,994,957
Available-for-sale financial assets	21,518,374	—	—	—	—	845,238	22,363,612
Held-to-maturity financial assets	126,238	545,926	267,173	975,791	6,163,264	1,079,096	9,157,488
Other financial assets	4,791,485	—	—	—	3,345,138	—	8,136,623
	₩ 69,532,774	25,508,528	31,470,640	48,188,499	54,882,095	48,376,416	277,958,952
Liabilities							
Financial liabilities designated at fair value through profit or loss	₩ —	—	—	—	6,478	—	6,478
Deposits	90,600,157	22,009,320	27,033,455	41,581,709	11,221,657	3,652,814	196,099,112
Trading liabilities	428,936	—	—	—	—	—	428,936
Derivative liabilities	1,230,421	24,644	27,272	56,291	350,109	433,058	2,121,795
Borrowings	4,322,011	1,842,747	1,717,968	1,497,262	3,102,363	548,389	13,030,740
Debt securities issued	344,793	1,445,809	2,195,326	3,898,623	8,396,824	2,173,506	18,454,881
Other financial liabilities	13,523,535	—	—	—	120,006	—	13,643,541
	₩110,449,853	25,322,520	30,974,021	47,033,885	23,197,437	6,807,767	243,785,483

	December 31, 2013						
	Less than 1 month	**1~3 months**	**3~6 months**	**6 months~ 1 year**	**1~5 years**	**More than 5 years**	**Total**
Assets							
Cash and due from banks	₩11,042,109	588,946	489,874	323,294	20,361	—	12,464,584
Trading assets	7,519,765	—	—	—	—	—	7,519,765
Derivative assets	1,423,032	308,026	60,241	123,365	666,459	736,877	3,318,000
Loans	19,695,885	22,601,117	27,932,644	42,576,196	43,359,022	42,459,631	198,624,495
Available-for-sale financial assets	22,569,081	—	—	—	—	1,524,005	24,093,086
Held-to-maturity financial assets	152,963	840,028	185,153	1,650,112	5,406,412	258,459	8,493,127
Other financial assets	3,337,429	—	—	—	3,688,710	—	7,026,139
	₩65,740,264	24,338,117	28,667,912	44,672,967	53,140,964	44,978,972	261,539,196
Liabilities							
Deposits	₩79,794,983	20,255,842	25,316,676	42,643,541	10,509,105	2,864,199	181,384,346
Trading liabilities	398,596	—	—	—	—	—	398,596
Derivative liabilities	1,269,690	46,717	42,157	64,830	379,475	416,179	2,219,048
Borrowings	2,683,168	1,418,140	1,675,192	1,349,509	2,696,970	496,252	10,319,231
Debt securities issued	591,117	1,533,444	1,768,509	2,587,669	9,524,727	4,642,638	20,648,104
Other financial liabilities	11,935,298	—	—	—	138,934	—	12,074,232
	₩96,672,852	23,254,143	28,802,534	46,645,549	23,249,211	8,419,268	227,043,557

(*1) These amounts include cash flows of principal and interest on financial assets and financial liabilities.

(*2) The undiscounted cash flows were classified based on the earliest dates for obligation repayment. Trading assets and available-for-sale financial assets except for assets restricted for sale for certain periods were included in the less than 1month *(b) Contractual maturities for off balance sheet items*

Financial guarantees such as financial guarantee contracts, loan commitments and others provided by the Group are classified based on the earliest date at which the Group should fulfill the obligation under the guarantee when the counterparty requests for the payment.

Off balance items as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Financial guarantee contracts	₩ 3,069,507	2,392,517
Loan commitments and others	73,608,486	74,158,883
	₩76,677,993	76,551,400

4-4. Measurement of fair value

The fair value which the Group primarily uses for measurement of financial instruments are the published price quotations in an active market which are based on the market prices or the dealer price quotations of financial instruments traded in an active market where available, which is the best evidence of fair value.

If the market for a financial instrument is not active, fair value is established either by using a valuation technique or independent third-party valuation service. The Group uses diverse valuation techniques under reasonable assumptions which are based on the inputs observable in markets at the end of each reporting period.

Valuation techniques include using the recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. For example, the fair value for interest swaps is the present value of estimated future cash flows, and fair value for foreign exchange forwards contracts is measured by using the published forward exchange rate at the end of each reporting period.

The Group classifies and discloses fair value of the financial instruments into the following three-level hierarchy:

(i) Level 1: Financial instruments measured at quoted prices from active markets are classified as level 1.

(ii) Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as level 2.

(iii) Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as level 3.

(a) Financial instruments measured at fair value

i) The table below analyzes financial instruments measured at the fair value as of December 31, 2014 and 2013 by the level in the fair value hierarchy into which the fair value measurement is categorized:

	December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Trading assets:				
Debt securities	₩ 428,351	6,651,104	—	7,079,455
Equity securities	61,281	951,049	—	1,012,330
Gold deposits	224,556	—	—	224,556
Derivative assets:				
Trading	—	1,174,220	17,673	1,191,893
Hedging	—	55,930	61,271	117,201
Available-for-sale financial assets:				
Debt securities	6,789,894	13,243,404	—	20,033,298
Equity securities	1,083,754	166,579	1,079,981	2,330,314
	₩8,587,836	22,242,286	1,158,925	31,989,047
Financial liabilities				
Financial liabilities designated at fair value through profit or loss:				
Deposits	₩ —	—	6,139	6,139
Trading liabilities:				
Gold deposits	428,936	—	—	428,936
Derivative liabilities:				
Trading	—	1,199,547	5,668	1,205,215
Hedging	—	22,460	28,763	51,223
	₩ 428,936	1,222,007	40,570	1,691,513

	December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Trading assets:				
Debt securities	₩ 384,481	6,089,512	—	6,473,993
Equity securities	58,761	910,674	—	969,435
Gold deposits	76,337	—	—	76,337
Derivative assets:				
Trading	10	1,279,799	25,973	1,305,782
Hedging	—	100,615	51,597	152,212
Available-for-sale financial assets:				
Debt securities	6,716,965	14,515,788	—	21,232,753
Equity securities	1,661,792	103,697	1,094,844	2,860,333
	₩8,898,346	23,000,085	1,172,414	33,070,845
Liabilities				
Trading liabilities:				
Gold deposits	₩ 398,596	—	—	398,596
Derivative liabilities:				
Trading	—	1,220,070	22,581	1,242,651
Hedging	—	44,183	191,345	235,528
	₩ 398,596	1,264,253	213,926	1,876,775

ii) There was no transfer between level 1 and level 2 for the years ended December 31, 2014 and 2013.

iii) Changes in level 3 of the fair value hierarchy

Changes in level 3 of the fair value hierarchy for the years ended December 31, 2014 and 2013 were as follows:

	2014			
	Available-for-sale financial assets	**Net derivative instruments**	**Financial liabilities designated at fair value through profit or loss**	**Total**
Beginning balance	₩1,094,844	(136,356)	—	958,488
Total gain or loss:				
Recognized in profit or loss(*1)	(115,451)	166,918	32	51,499
Recognized in other comprehensive income	112,403	—	—	112,403
Purchases	168,797	368	(6,623)	162,542
Settlements	(204,177)	13,635	452	(190,090)
Transfers out of level 3(*2)	(3,457)	(52)	—	(3,509)
Transfers into level 3(*2)	27,022	—	—	27,022
Ending balance	₩1,079,981	44,513	(6,139)	1,118,355

	2013			
	Available-for-sale financial assets	**Net derivative instruments**	**Financial liabilities designated at fair value through profit or loss**	**Total**
Beginning balance	₩1,353,163	21,182	—	1,374,345
Total gain or loss:				
Recognized in profit or loss(*1)	(65,150)	(153,246)	—	(218,396)
Recognized in other comprehensive income	67,072	—	—	67,072
Purchases	115,563	(1,729)	—	113,834
Settlements	(215,177)	(2,563)	—	(217,740)
Transfers out of level 3(*2)	(319,077)	—	—	(319,077)
Transfers into level 3(*2)	158,450	—	—	158,450
Ending balance	₩1,094,844	(136,356)	—	958,488

(*1) Gains or losses among the changes in level 3 of the fair value hierarchy and gains or losses related to financial instruments that the Bank held as of December 31, 2014 and 2013 are presented in the statement of comprehensive income as follows:

	2014		2013	
	Gains or losses recognized in profit or loss	**Gains or losses recognized in profit or loss for financial instrument held at the end of the year**	**Gains or losses recognized in profit or loss**	**Gains or losses recognized in profit or loss for financial instrument held at the end of the year**
Net trading income	₩ 11,712	11,712	1,916	1,916
Gain on financial instruments designated at fair value through profit or loss	32	32	—	—
Net gain on sale of available-for-sale financial assets	24,625	—	45,868	—
Impairment loss on financial assets	(140,076)	(140,003)	(111,018)	(109,998)
Net other operating expenses	155,206	155,206	(155,162)	(155,162)
	₩ 51,499	26,947	(218,396)	(263,244)

(*2) These financial instruments were transferred into or out of level 3 as the availability of observable market data has changed. The Bank recognized transfers between levels of the fair value hierarchy as of the end of the reporting period during which the event or the change in circumstances that caused the transfer has occurred.

iv) Valuation techniques and inputs used in measuring fair value of financial instruments

ⓐ Valuation techniques and inputs used in measuring fair value of financial instruments classified as level 2 as of December 31, 2014 and 2013 were as follows:

	December 31, 2014			
	Type of financial instruments	**Book value**	**Valuation techniques**	**Inputs**
Financial assets				
Trading assets	Debt securities	₩ 6,651,104	Discounted cash flow	Discount rate
	Equity securities	951,049	Net asset value	Price of underlying assets
		7,602,153		
Derivative assets	Trading	1,174,220	Option model	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
	Hedging	55,930	Discounted cash flow	
		1,230,150		
Available-for-sale financial assets	Debt securities	13,243,404	Discounted cash flow	Discount rate
	Equity securities	166,579	Net asset value	Price of underlying assets
		13,409,983		
		₩22,242,286		
Financial liabilities				
Derivative liabilities	Trading	₩ 1,199,547	Option model	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
	Hedging	22,460	Discounted cash flow	
		₩ 1,222,007		

	December 31, 2013			
	Type of financial instruments	Book value	Valuation techniques	Inputs
Financial assets				
Trading assets	Debt securities	₩ 6,089,512	Discounted cash flow	Discount rate
	Equity securities	910,674	Net asset value	Price of underlying assets
		7,000,186		
Derivative assets	Trading	1,279,799	Option model	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
	Hedging	100,615	Discounted cash flow	
		1,380,414		
Available-for-sale financial assets	Debt securities	14,515,788	Discounted cash flow	Discount rate
	Equity securities	103,697	Net asset value	Price of underlying assets
		14,619,485		
		₩23,000,085		
Financial liabilities				
Derivative liabilities	Trading	₩ 1,220,070	Option model	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
	Hedging	44,183	Discounted cash flow	
		₩ 1,264,253		

ⓑ Information about valuation techniques and significant unobservable inputs in measuring financial instruments categorized as level 3 as of December 31, 2014 and 2013 were as follows:

	December 31, 2014				
	Valuation technique	**Type of financial instrument**	**Book value**	**Significant unobservable input**	**Range of estimates for unobservable input**
Financial assets					
Derivative assets	Option model(*)	Equity and foreign exchange related	₩ 13,819	The volatility of the underlying asset	4.79%~32.73%
				Correlations	(0.06%)
	Option model(*)	Interest rates related	65,125	The volatility of the underlying asset	0.16%~0.64%
				Regression coefficient	0.00%~3.02%
				Correlations	12.16%~41.70%
Available-for-sale financial assets	Discounted cash flow	Equity securities	1,079,981	Discount rate	2.29%~17.84%
				Growth rate	0.00%~2.50%
			₩1,158,925		
Financial liabilities					
Financial liabilities designated at fair value through profit or loss	Option model(*)	Equity related	₩ 6,139	The volatility of the underlying asset	22.08%~28.19%
				Correlations	34.00%
Derivative liabilities	Option model(*)	Equity and foreign exchange related	1,854	The volatility of the underlying asset	6.48%~35.57%
				Correlations	(0.06%)~0.23%
	Option model(*)	Interest rates related	32,577	The volatility of the underlying asset	0.16%~0.64%
				Regression coefficient	0.00%~3.02%
				Correlations	12.16%~41.70%
			₩ 40,570		

	December 31, 2013				
	Valuation technique	Type of financial instrument	Book value	Significant unobservable input	Range of estimates for unobservable input
Financial assets					
Derivative assets	Option model(*)	Equity and foreign exchange related	₩ 9,495	The volatility of the underlying asset	5.63%~24.61%
				Correlations	(34.85%)~(39.25%)
	Option model(*)	Interest rates related	68,075	The volatility of the underlying asset	0.44%~0.45%
				Regression coefficient	0.02%~2.05%
				Correlations	61.19%
Available-for-sale financial assets	Discounted cash flow	Equity securities	1,094,844	Discount rate	2.86%~26.61%
				Growth rate	0.00%
			₩1,172,414		
Financial liabilities					
Derivative liabilities	Option model(*)	Equity and foreign exchange related	₩ 802	The volatility of the underlying asset	5.63%~24.61%
				Correlations	(34.85%)~(39.25%)
	Option model(*)	Interest rates related	213,124	The volatility of the underlying asset	0.22%~0.51%
				Regression coefficient	0.00%~5.12%
				Correlations	27.02%~94.6%
			₩ 213,926		

(*) Option model that the Bank uses in derivative valuation includes Black-Scholes model, Hull-White model, Monte Carlo simulation, etc.

v) Sensitivity to changes in unobservable inputs.

For level 3 fair value measurement, changing one or more of the unobservable inputs used to reasonably possible alternative assumptions would have the following effect on profit or loss, or other comprehensive income as of December 31, 2014 and 2013 were as follows:

December 31, 2014		Profit for the year		Other comprehensive income	
Type of financial instrument		Favorable change	Unfavorable change	Favorable change	Unfavorable change
Derivative assets(*1)	Equity and foreign exchange related	₩ 430	(329)	—	—
	Interest rates related	7,129	(12,929)	—	—
Available-for-sale financial assets(*2)	Equity securities	—	—	157,385	(37,118)
		₩7,559	(13,258)	157,385	(37,118)
Financial liabilities designated at fair value through profit or loss(*1)	Equity related	₩ 5	(5)	—	—
Derivative liabilities(*1)	Equity and foreign exchange related	97	(113)		
	Interest rates related	6,853	(6,275)	—	—
		₩6,955	(6,393)	—	—

December 31, 2013

Type of financial instrument		Profit for the year: Favorable change	Profit for the year: Unfavorable change	Other comprehensive income: Favorable change	Other comprehensive income: Unfavorable change
Derivative assets(*1)	Equity and foreign exchange related	₩ 165	(44)	—	—
	Interest rates related	1,721	(1,848)	—	—
Available-for-sale financial assets(*2)	Equity securities	—	—	125,037	(42,633)
		₩ 1,886	(1,892)	125,037	(42,633)
Derivative liabilities(*1)	Equity related	₩ 44	(165)	—	—
	Interest rates related	15,062	(14,377)	—	—
		₩15,106	(14,542)	—	—

(*1) Based on 10% of increase or decrease in volatility of underlying assets or correlation

(*2) Based on changes in growth rate (0%~1%) and discount rate (-1%~1%)

(b) The financial instruments measured at amortized cost

i) The method of measuring the fair value of financial instruments measured at amortized cost is as follows:

Type	Measurement methods of fair value
Cash and due from banks	The book value and the fair value for cash are identical and most of deposits are floating interest rate deposits or next day deposits of a short-term instrument. Therefore, the book value for deposits approximates fair value.
Loans	The fair value of loans is measured by discounting the expected cash flows at the market interest rate, credit risk, etc.
Held-to-maturity financial assets	The fair value of held-to-maturity financial assets is determined by applying the lesser of two quoted bond prices provided by two bond pricing agencies as of the latest trading date.
Deposits and borrowings	The book amount and the fair value for demand deposits, cash management account deposits and call money as short-term instruments are identical. The fair value of others is measured by discounting the contractual cash flows at the market interest rate that takes into account the residual risk.
Debt securities issued	The fair value of deposits and borrowings is based on the published price quotations in an active market. In case there is no observable market price, it is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.

ii) The book value and the fair value of financial instruments measured at amortized cost as of December 31, 2014 and 2013 were as follows:

	December 31, 2014				
	Book value				
	Balance	Unamortized balance	Allowance	Total	Fair value
Assets					
Cash and due from banks:					
Cash and cash equivalent	₩ 2,471,103	—	—	2,471,103	2,471,103
Due from banks	13,412,669	—	(23,695)	13,388,974	13,388,974
Loans:					
Household loans	80,221,735	235,085	(209,684)	80,247,136	81,035,996
Corporate loans	102,638,114	31,773	(1,347,043)	101,322,844	102,401,952
Public and other loans	2,092,730	1,361	(11,073)	2,083,018	2,095,248
Loans to bank	4,657,991	—	(11,524)	4,646,467	4,667,059
Card receivables	26,347	—	(347)	26,000	26,000
Held-to-maturity financial assets:					
Government bonds	5,149,408	—	—	5,149,408	5,392,674
Financial institutions bonds	501,452	—	—	501,452	506,475
Corporate bonds and others	2,361,257	—	—	2,361,257	2,417,634
Other financial assets	8,136,623	(54,894)	(62,177)	8,019,552	8,074,498
	₩221,669,429	213,325	(1,665,543)	220,217,211	222,477,613
Liabilities					
Deposits:					
Demand deposits	₩ 68,342,432	—	—	68,342,432	68,342,432
Time deposits	114,192,938	—	—	114,192,938	114,517,158
Negotiable certificates of deposits	2,145,645	—	—	2,145,645	2,153,581
Note discount deposits	3,241,082	—	—	3,241,082	3,240,906
CMA(*)	1,682,610	—	—	1,682,610	1,682,610
Others	35,165	—	—	35,165	35,173
Borrowings:					
Call money	1,782,736	—	—	1,782,736	1,782,736
Bill sold	31,059	—	—	31,059	30,934
Bonds sold under repurchase agreements	376,709	—	—	376,709	376,709
Borrowings	10,536,642	(1,504)	—	10,535,138	10,578,970
Due to Bank of Korea in foreign currency	77,179	—	—	77,179	77,179
Debt securities issued:					
Debt securities issued in won	12,576,406	(26,825)	—	12,549,581	12,856,874
Debt securities issued in foreign currency	4,044,507	(12,680)	—	4,031,827	4,140,691
Other financial liabilities	13,675,982	(2,296)	—	13,673,686	13,648,516
	₩232,741,092	(43,305)	—	232,697,787	233,464,469

	December 31, 2013				
	Book value				
	Balance	Unamortized balance	Allowance	Total	Fair value
Assets					
Cash and due from banks:					
Cash and cash equivalent	₩ 2,589,117	—	—	2,589,117	2,589,117
Due from banks	9,852,490	—	(11,644)	9,840,846	9,840,846
Loans:					
Household loans	73,031,842	189,106	(193,242)	73,027,706	72,909,139
Corporate loans	94,415,522	62,406	(1,399,472)	93,078,456	94,132,989
Public and other loans	2,479,154	1,778	(10,304)	2,470,628	2,484,788
Loans to bank	6,078,034	—	(4,758)	6,073,276	6,081,699
Card receivables	39,531	—	(253)	39,278	39,531
Held-to-maturity financial assets:					
Government bonds	4,259,467	—	—	4,259,467	4,447,334
Financial institutions bonds	653,277	—	—	653,277	659,748
Corporate bonds and others	2,520,876	—	—	2,520,876	2,561,070
Other financial assets	7,025,813	(66,156)	(58,426)	6,901,231	6,950,939
	₩202,945,123	187,134	(1,678,099)	201,454,158	202,697,200
Liabilities					
Deposits:					
Demand deposits	₩ 58,506,868	—	—	58,506,868	58,506,868
Time deposits	110,265,529	—	—	110,265,529	110,218,994
Negotiable certificates of deposits	1,781,684	—	—	1,781,684	1,805,452
Note discount deposits	3,132,185	—	—	3,132,185	3,131,971
CMA(*)	1,291,588	—	—	1,291,588	1,291,588
Others	42,578	—	—	42,578	42,587
Borrowings:					
Call money	318,360	—	—	318,360	318,360
Bill sold	28,631	—	—	28,631	28,524
Bonds sold under repurchase agreements	344,632	—	—	344,632	344,632
Borrowings	9,285,395	(1,994)	—	9,283,401	9,291,803
Due to Bank of Korea in foreign currency	94,315	—	—	94,315	94,315
Debt securities issued:					
Debt securities issued in won	13,992,700	(37,752)	—	13,954,948	14,072,870
Debt securities issued in foreign currency	3,799,788	(15,081)	—	3,784,707	3,858,418
Other financial liabilities	12,100,640	(2,642)	—	12,097,998	12,068,342
	₩214,984,893	(57,469)	—	214,927,424	215,074,724

(*) CMA: Cash management account deposits

iii) The fair value hierarchy of financial instruments which are not measured at fair value in the consolidated statement of financial position as of December 31, 2014 and 2013 were as follows:

	December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and due from banks:				
Cash and cash equivalent	₩2,471,103	—	—	2,471,103
Due from banks	—	13,388,974	—	13,388,974
Loans:				
Household loans	—	—	81,035,996	81,035,996
Corporate loans	—	—	102,401,952	102,401,952
Public and other loans	—	—	2,095,248	2,095,248
Loans to bank	—	2,959,108	1,707,951	4,667,059
Card receivables	—	—	26,000	26,000
Held-to-maturity financial assets:				
Government bonds	2,329,136	3,063,538	—	5,392,674
Financial institutions bonds	120,885	385,590	—	506,475
Corporate bonds and others	—	2,417,634	—	2,417,634
Other financial assets	—	5,841,425	2,233,073	8,074,498
	₩4,921,124	28,056,269	189,500,220	222,477,613
Liabilities				
Deposits:				
Demand deposits	₩ —	68,342,432	—	68,342,432
Time deposits	—	—	114,517,158	114,517,158
Negotiable certificates of deposits	—	—	2,153,581	2,153,581
Note discount deposits	—	—	3,240,906	3,240,906
CMA(*)	—	1,682,610	—	1,682,610
Others	—	—	35,173	35,173
Borrowings:				
Call money	—	1,782,736	—	1,782,736
Bill sold	—	—	30,934	30,934
Bonds sold under repurchase agreements	—	—	376,709	376,709
Borrowings	—	—	10,578,970	10,578,970
Due to Bank of Korea in foreign currency	—	—	77,179	77,179
Debt securities issued:				
Debt securities issued in won	—	10,186,912	2,669,962	12,856,874
Debt securities issued in foreign currency	—	4,140,691	—	4,140,691
Other financial liabilities	—	5,189,080	8,459,436	13,648,516
	₩ —	91,324,461	142,140,008	233,464,469

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and due from banks:				
Cash and cash equivalent	₩2,589,117	—	—	2,589,117
Due from banks	—	9,840,846	—	9,840,846
Loans:				
Household loans	—	—	72,909,139	72,909,139
Corporate loans	—	—	94,132,989	94,132,989
Public and other loans	—	—	2,484,788	2,484,788
Loans to bank	—	4,843,106	1,238,593	6,081,699
Card receivables	—	—	39,531	39,531
Held-to-maturity financial assets:				
Government bonds	2,382,547	2,064,787	—	4,447,334
Financial institutions bonds	100,166	559,582	—	659,748
Corporate bonds and others	—	2,561,070	—	2,561,070
Other financial assets	—	4,571,823	2,379,116	6,950,939
	₩5,071,830	24,441,214	173,184,156	202,697,200
Liabilities				
Deposits:				
Demand deposits	₩ —	58,506,868	—	58,506,868
Time deposits	—	—	110,218,994	110,218,994
Negotiable certificates of deposits	—	—	1,805,452	1,805,452
Note discount deposits	—	—	3,131,971	3,131,971
CMA(*)	—	1,291,588	—	1,291,588
Others	—	—	42,587	42,587
Borrowings:				
Call money	—	318,360	—	318,360
Bill sold	—	—	28,524	28,524
Bonds sold under repurchase agreements	—	—	344,632	344,632
Borrowings	—	—	9,291,803	9,291,803
Due to Bank of Korea in foreign currency	—	—	94,315	94,315
Debt securities issued:				
Debt securities issued in won	—	12,144,888	1,927,982	14,072,870
Debt securities issued in foreign currency	—	3,858,418	—	3,858,418
Other financial liabilities	—	3,159,821	8,908,521	12,068,342
	₩ —	79,279,943	135,794,781	215,074,724

(*) CMA: Cash management account deposits

iv) For financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed, valuation techniques and inputs used in measuring fair value of financial instruments classified as level 2 or level 3 as of December 31, 2014 and 2013 were as follows.

	December 31, 2014			
Level	**Type**	**Fair value(*)**	**Valuation technique**	**Inputs**
Level 2	Held-to-maturity financial assets	₩ 5,866,762	Discounted cash flow	Discount rate
Level 3	Loans	187,267,147		Discount rate, Credit spread, Prepayment rate
	Other financial assets	2,233,073		Discount rate
		₩195,366,982		
Level 2	Debt securities issued	₩ 14,327,603	Discounted cash flow	Discount rate
Level 3	Deposits	119,395,308		Discount rate
	Borrowing	5,995,820		Discount rate
	Debt securities issued	2,669,962		Discount rate, Regression coefficient, Correlation coefficient
	Other financial liabilities	8,459,436		Discount rate
		₩150,848,129		

	December 31, 2013			
Level	**Type**	**Fair value(*)**	**Valuation technique**	**Inputs**
Level 2	Held-to-maturity financial assets	₩ 5,185,439	Discounted cash flow	Discount rate
Level 3	Loans	170,805,040		Discount rate, Credit spread, Prepayment rate
	Other financial assets	2,379,116		Discount rate
		₩178,369,595		
Level 2	Debt securities issued	₩ 16,003,306	Discounted cash flow	Discount rate
Level 3	Deposits	114,674,453		Discount rate
	Borrowing	5,638,607		Discount rate
	Debt securities issued	1,927,982		Discount rate, Regression coefficient, Correlation coefficient
	Other financial liabilities	8,908,521		Discount rate
		₩147,152,869		

(*) Valuation techniques and inputs are not disclosed when the carrying amount is a reasonable approximation of fair value

(c) Deferred day one gain or loss for the year ended December 31, 2014 was as follows:

Beginning balance	Deferred	Amortization	Ending balance
₩ —	6	(5)	1

(*) There was no deferred day one gain or loss for the year ended December 31, 2013.

(d) Classification by category of financial instruments

Financial assets and liabilities were measured at fair value or amortized cost. The financial instruments measured at fair value or amortized costs were measured in accordance with the Group's valuation methodologies, which were described in Note 3.

The carrying amounts of each category of financial instruments as of December 31, 2014 and 2013 were as follows:

	December 31, 2014					
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Derivatives held for hedging	Total
Assets						
Due from banks	₩ —	—	—	13,388,974	—	13,388,974
Trading assets	8,316,341	—	—	—	—	8,316,341
Derivatives	1,191,894	—	—	—	117,200	1,309,094
Loans	—	—	—	188,325,465	—	188,325,465
Available-for-sale financial assets	—	22,363,612	—	—	—	22,363,612
Held-to-maturity financial assets	—	—	8,012,117	—	—	8,012,117
Other financial assets	—	—	—	8,019,552	—	8,019,552
	₩9,508,235	22,363,612	8,012,117	209,733,991	117,200	249,735,155

	December 31, 2014				
	Trading liabilities	Financial liabilities designated at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivatives held for hedging	Total
Liabilities					
Deposits	₩ —	—	189,639,872	—	189,639,872
Trading liabilities	428,936	—	—	—	428,936
Financial liabilities designated at fair value through profit or loss	—	6,139	—	—	6,139
Derivatives	1,205,215	—	—	51,223	1,256,438
Borrowings	—	—	12,802,821	—	12,802,821
Debt securities issued	—	—	16,581,408	—	16,581,408
Other financial liabilities	—	—	13,673,686	—	13,673,686
	₩1,634,151	6,139	232,697,787	51,223	234,389,300

	December 31, 2013					
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Derivatives held for hedging	Total
Assets						
Due from banks	₩ —	—	—	9,840,846	—	9,840,846
Trading assets	7,519,765	—	—	—	—	7,519,765
Derivatives	1,305,782	—	—	—	152,212	1,457,994
Loans	—	—	—	174,689,344	—	174,689,344
Available-for-sale financial assets	—	24,093,086	—	—	—	24,093,086
Held-to-maturity financial assets	—	—	7,433,620	—	—	7,433,620
Other financial assets	—	—	—	6,901,231	—	6,901,231
	₩8,825,547	24,093,086	7,433,620	191,431,421	152,212	231,935,886

	December 31, 2013			
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivatives held for hedging	Total
Liabilities				
Deposits	₩ —	175,020,432	—	175,020,432
Trading liabilities	398,596	—	—	398,596
Derivatives	1,242,651	—	235,528	1,478,179
Borrowings	—	10,069,339	—	10,069,339
Debt securities issued	—	17,739,655	—	17,739,655
Other financial liabilities	—	12,097,998	—	12,097,998
	₩1,641,247	214,927,424	235,528	216,804,199

(e) Financial instruments income and costs by category for the years ended December 31, 2014 and 2013 were as follows:

	2014					
	Interest income (expense)	Fees and commission income (expense)	Impairment loss	Others	Total	Other comprehensive income
Financial assets at fair value through profit or loss	₩ 205,994	4,408	—	(33,618)	176,784	—
Available-for-sale financial assets	596,681	—	(220,286)	510,834	887,229	84,183
Held-to-maturity financial assets	333,114	—	—	—	333,114	—
Loans and receivables	7,377,527	143,279	(463,724)	26,356	7,083,438	—
Trading liabilities	—	(10)	—	—	(10)	—
Financial liabilities designated at fair value through profit or loss	—	—	—	34	34	—
Financial liabilities measured at amortized cost	(4,146,183)	(8)	—	(153,772)	(4,299,963)	20,754
Net derivatives held for hedging	—	—	—	166,812	166,812	(5,133)
	₩ 4,367,133	147,669	(684,010)	516,646	4,347,438	99,804

	2013					
	Interest income (expense)	Fees and commission income (expense)	Impairment loss	Others	Total	Other comprehensive income (loss)
Financial assets at fair value through profit or loss	₩ 214,490	5,799	—	(41,508)	178,781	—
Available-for-sale financial assets	756,983	—	(203,584)	122,287	675,686	(401,960)
Held-to-maturity financial assets	380,286	—	—	—	380,286	—
Loans and receivables	7,735,614	130,857	(673,744)	56,080	7,248,807	—
Trading liabilities	—	(88)	—	—	(88)	—
Financial liabilities measured at amortized cost	(4,736,825)	(5)	—	264,695	(4,472,135)	70,933
Net derivatives held for hedging	—	—	—	(263,206)	(263,206)	98
	₩ 4,350,548	136,563	(877,328)	138,348	3,748,131	(330,929)

4-5. Capital risk management

Capital regulations applicable to banks were adopted in 1988, which focused primarily on capital adequacy and asset soundness as a measure of risk. Building upon the initial Basel Capital Accord of 1988, capital regulations were developed to reflect additional risks as well. For the purpose of improving risk management and increasing capital adequacy of banks, capital adequacy standards based on the new Basel Capital Accord (Basel III) was implemented by the Financial Services Commission regulations beginning in December 2013. Under these regulations, all domestic banks including the Group were required to maintain a capital adequacy ratio of 8% and report whether the Group meet the capital adequacy ratio to the Financial Services Commission.

Under the Banking Act, the capital of a bank is divided into two categories.

(a) Tier 1 capital (Common equity Tier 1 capital + Additional Tier 1 capital)

① Common equity Tier 1 capital: Common equity Tier 1 capital consists of capital stock, capital surplus, retained earnings (excluding regulatory reserve for loan loss), accumulated other comprehensive income and other disclosed reserves, and non-controlling interests that meet certain criteria.

② Additional Tier 1 capital: Additional Tier 1 capital consists of equity instrument that meet certain criteria for perpetual nature of the equity instrument, any related capital surplus, instruments issued by consolidated subsidiaries of the Group and held by third parties that meet certain criteria.

(b) Tier 2 capital (Supplementary capital)

Tier 2 capital consists of instruments that meet certain criteria for loss absorption in case of liquidation, any related capital surplus, and instruments issued by consolidated subsidiaries of the Group and held by third parties that meet certain criteria.

The capital adequacy ratio of the Group is calculated by ratios of Tier 1 and Tier 2 capital (less any capital deductions) to risk-weighted assets. Pursuant to Basel III, operational risk, such as inadequate procedures, loss risk by employees, internal systems, occurrence of unexpected events, as well as credit risk and market risk, is taken into account in calculating the risk-weighted assets.

The Group evaluates and manages the capital adequacy ratio pursuant to internally developed standards. It means that the Group assesses whether the level on ratio of available capital to economic capital is sufficient, or not. Economic capital is totalled taking into account in type of the risk (credit, market, operation, interest rate, liquidity and concentration).

Details of capital categories and the capital adequacy ratio of the Group as of December 31, 2014 and 2013 were as follows:

Category	December 31, 2014	December 31, 2013
Capital:		
Common equity Tier 1 capital	₩ 16,999,542	16,130,379
Additional Tier 1 capital	1,102,256	1,891,004
Tier 1 capital	18,101,798	18,021,383
Tier 2 capital	2,845,616	3,035,709
	₩ 20,947,414	21,057,092
Total risk-weighted assets	₩135,714,810	129,276,682
Capital adequacy ratio:		
Common equity	12.53%	12.48%
Tier 1 capital adequacy ratio	13.34%	13.94%
Tier 2 capital adequacy ratio	2.10%	2.35%
Total capital ratio	15.43%	16.29%

The Group maintains the total capital ratio of 8% or above, Tier 1 capital ratio of 5.5% or above, and common equity capital ratio of 4.0% or above as described in the above table.

4-6. The transaction as a transfer of financial instrument

(a) Transfers financial assets that were not derecognized

i) Bonds sold under repurchase agreements as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Transferred asset:		
Available-for-sale financial assets	₩130,333	131,504
Held-to-maturity financial assets	375,396	262,225
	₩505,729	393,729
Associated liabilities:		
Bonds sold under repurchase agreements	₩376,709	331,511

ii) Securities loaned as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013	Lender
Government bonds	₩345,020	100,149	Korea Securities Finance Corp., Mitsui Sumitomo and others.
Financial institutions bonds	140,239	—	Korea Securities Finance Corp.
	₩485,259	100,149	

(b) Qualify for derecognition and continuing involvement in financial assets

There are no financial assets that meets the conditions of the derecognition and in which the Group has continuing involvement as of December 31, 2014 and 2013.

4-7. Offsetting financial assets and financial liabilities

Details of financial assets and financial liabilities subject to offsetting, enforceable master netting agreements and similar agreements as of December 31, 2014 and 2013 were as follows:

	December 31, 2014					
	Gross amounts of recognized financial assets and liabilities	Gross amounts of recognized financial assets and liabilities set off in the statement of financial position	Net amounts of financial assets and liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Financial assets						
Derivative assets(*1)	₩ 1,307,295	—	1,307,295	4,628,608	21,696	724,582
Other financial assets(*1)	4,067,591	—	4,067,591			
Bonds sold under repurchase agreements related collateral of securities(*2)	505,729	—	505,729	376,709	—	129,020
Bonds purchased under resale agreement (Loans)(*2)	2,372,983	—	2,372,983	2,372,983	—	—
Securities lent(*2)	485,259	—	485,259	485,259	—	—
Domestic exchange settlements receivables(*3)	24,467,356	22,400,331	2,067,025	—	—	2,067,025
Receivables from disposal of securities, etc(*4)	4,649	316	4,333	4,333	—	—
	₩33,210,862	22,400,647	10,810,215	7,867,892	21,696	2,920,627
Financial liabilities						
Derivative liabilities(*1)	₩ 1,174,494	—	1,174,494	4,597,194	—	310,620
Other financial liabilities(*1)	3,733,320	—	3,733,320			
Bonds sold under repurchase agreements (Borrowings)(*2)	376,709	—	376,709	376,709	—	—
Domestic exchange settlement payables(*3)	23,830,425	22,400,331	1,430,094	1,430,094	—	—
Payable from purchase of securities, etc(*4)	552	316	236	236	—	—
	₩29,115,500	22,400,647	6,714,853	6,404,233	—	310,620

	December 31, 2013					
	Gross amounts of recognized financial assets and liabilities	Gross amounts of recognized financial assets and liabilities set off in the statement of financial position	Net amounts of financial assets and liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Financial assets						
Derivative assets(*1)	₩ 1,456,041	—	1,456,041			
Other financial assets(*1)	2,470,797	—	2,470,797	2,961,044	22,425	943,369
Bonds sold under repurchase agreements related collateral of securities(*2)	393,729	—	393,729	331,511	—	62,218
Bonds purchased under resale agreement (Loans)(*2)	2,729,539	—	2,729,539	2,729,539	—	—
Securities lent(*2)	100,149	—	100,149	100,149	—	—
Domestic exchange settlements receivables(*3)	23,272,502	20,939,147	2,333,355	—	—	2,333,355
Receivables from disposal of securities(*4)	164	164	—	—	—	—
	₩30,422,921	20,939,311	9,483,610	6,122,243	22,425	3,338,942
Financial liabilities						
Derivative liabilities(*1)	₩ 1,410,753	—	1,410,753			
Other financial liabilities(*1)	2,130,442	—	2,130,442	2,974,169	—	567,026
Bonds sold under repurchase agreements (Borrowings)(*2)	331,511	—	331,511	331,511	—	—
Domestic exchange settlement payables(*3)	21,811,694	20,939,147	872,547	872,547	—	—
Payables from purchase of securities(*4)	9,161	164	8,997	—	—	8,997
	₩25,693,561	20,939,311	4,754,250	4,178,227	—	576,023

(*1) The Group has certain derivative transactions subject to the ISDA (International Derivatives Swaps and Dealers Association) agreement. According to the ISDA agreement, when credit events (e.g. default) of counterparties occur, all derivative agreements are terminated and set off.

(*2) Resale and repurchase agreement, securities borrowing and lending agreement are also similar to ISDA agreement with respect to enforceable netting agreements.

(*3) The Group has legally enforceable right to set off and settles financial assets and liabilities on a net basis. Therefore, domestic exchanges settlement receivables (payables) are recorded on a net basis in the consolidated statements of financial position.

(*4) Receivables and payables related to settlement of purchase and disposition of enlisted securities are offset and the net amount is presented in the consolidated statement of financial position because the Group currently has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis. The effect of offsetting due to the establishment of 'central counterparty(CCP) system' is included in the amount as of December 31, 2014.

5. Significant estimates and judgments

The preparation of consolidated financial statements requires the application of certain critical estimates and judgments relative to the future. Management's estimated outcomes may differ from actual outcomes. The change in an accounting estimate is recognized prospectively in profit or loss in the period of the change, if the change affects that period only, or the period of the change and future periods, if the change affects both.

(a) Income taxes

The Group is subject to tax laws from various countries. In the normal course of business, there are various types of transactions and different accounting methods that may add uncertainties to the decision of the final income taxes. The Group has recognized current and deferred taxes that reflect tax consequences based on the best estimates in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. However, actual income taxes in the future may not be identical to the recognized deferred tax assets and liabilities, and this difference can affect current and deferred tax at the period when the final tax effect is determined.

(b) Fair value of financial instruments

The fair values of financial instruments which are not actively traded in the market are determined by using valuation techniques. The Group determines valuation techniques and assumptions based on significant market conditions at the end of each reporting period. Diverse valuation techniques are used to determine the fair value of financial instruments, from generic valuation techniques to internally developed valuation models that incorporate various types of assumptions and variables.

(c) Allowances for loan losses, guarantees and unused loan commitments

The Group determines and recognizes allowances for losses on loans through impairment testing and recognizes a provision for guarantees and unused loan commitments. The accuracy of provisions of credit losses is determined by the methodology and assumptions used for expected cash flows for individually assessed allowances and collectively assessed allowances for groups of loans, guarantees and unused loan commitments.

(d) Defined benefit obligation

The present value of a defined benefit obligation that is measured by actuarial valuation methods uses various assumptions which can change according to various elements. 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. Other significant assumptions related to defined benefit obligations are based on current market situations.

(e) Impairment of available-for-sale equity investments

When there is a significant or prolonged decline in the fair value of an investment in an equity instrument below its original cost, there is objective evidence that available-for-sale equity investments are impaired. Accordingly, the Group considers the decline in the fair value of more than 30% against the original cost as "significant decline" and the status when the market price for marketable equity less than the carrying amounts of instruments for a six consecutive months as a "prolonged decline".

6. Operating segments

(a) The general descriptions of the Group's operating segments as of December 31, 2014 and 2013 were as follows:

The Group has 4 reportable segments which are strategic business units. Each of these segments is providing different services and managed separately.

Description	Area of business
Retail banking	Loans to or deposits from individual customers, wealth management customers, and institutions such as hospitals, airports and schools.
Corporate banking and treasury	Loans to or deposits from corporations, including small or medium sized companies and businesses related to investment banking. Treasury management, trading of securities and derivatives, investment portfolio management and other related businesses.
International group	Supervision of overseas subsidiaries and branch operations and other international businesses.
Other	Administration of bank operations and Merchant Banking Account.

(b) The following table provides information of financial performance of each operating segment for the years ended December 31, 2014 and 2013.

	2014					
	Retail	**Corporate and treasury**	**International group**	**Other**	**Consolidation adjustments**	**Total**
Net interest income	₩ 2,322,133	891,375	303,760	844,375	5,490	4,367,133
Net fees and commission income (expense)	559,987	258,368	54,670	(58,202)	(11,880)	802,943
Net other income (expense)	(2,332,246)	261,178	(226,501)	(1,060,616)	(14,495)	(3,372,680)
Operating income	549,874	1,410,921	131,929	(274,443)	(20,885)	1,797,396
Non-operating income (expenses), net	3,424	8,764	(1,529)	56,650	(40,717)	26,592
Share of profit of associates	—	—	—	—	11,808	11,808
Profit before income tax	553,298	1,419,685	130,400	(217,793)	(49,794)	1,835,796
Income tax expense	(112,752)	(288,840)	(32,398)	40,660	13,187	(380,143)
Profit for the year	₩ 440,546	1,130,845	98,002	(177,133)	(36,607)	1,455,653
Attributable to:						
Equity holder of the Bank	₩ 440,546	1,130,845	98,002	(177,133)	(37,036)	1,455,224
Non-controlling interests	—	—	—	—	429	429
	₩ 440,546	1,130,845	98,002	(177,133)	(36,607)	1,455,653

	2013					
	Retail	**Corporate and treasury**	**International group**	**Other**	**Consolidation adjustments**	**Total**
Net interest income	₩ 2,263,135	936,884	272,513	865,486	12,530	4,350,548
Net fees and commission income (expense)	548,278	232,673	49,547	(83,585)	1,987	748,900
Net other expense	(2,376,509)	(181,966)	(199,254)	(553,045)	(68,702)	(3,379,476)
Operating income	434,904	987,591	122,806	228,856	(54,185)	1,719,972
Non-operating income (expenses), net	6,837	5,053	(3,266)	(17,913)	(5,118)	(14,407)
Share of profit of associates	—	—	—	—	22,448	22,448
Profit before income tax	441,741	992,644	119,540	210,943	(36,855)	1,728,013
Income tax expense	(97,740)	(198,408)	(23,893)	(42,163)	7,367	(354,837)
Profit for the year	₩ 344,001	794,236	95,647	168,780	(29,488)	1,373,176
Attributable to:						
Equity holder of the Bank	₩ 344,001	794,236	95,647	168,780	(29,647)	1,373,017
Non-controlling interests	—	—	—	—	159	159
	₩ 344,001	794,236	95,647	168,780	(29,488)	1,373,176

(c) The following table provides information of net interest income of each operating segment from external consumers and net interest income (expenses) between operating segments for the years ended December 31, 2014 and 2013.

	2014					
	Retail	Corporate and treasury	International group	Other	Consolidation adjustments	Total
Net interest income of each operating segment from external consumers	₩2,460,147	1,345,604	307,124	254,258	—	4,367,133
Net interest income (expenses) between operating segments	(138,014)	(454,229)	(3,364)	590,117	5,490	—

	2013					
	Retail	Corporate and treasury	International group	Other	Consolidation adjustments	Total
Net interest income of each operating segment from external consumers	₩2,129,226	1,604,645	295,584	321,093	—	4,350,548
Net interest income (expenses) between operating segments	133,909	(667,761)	(23,071)	544,393	12,530	—

(d) Financial information of geographical area

i) The following table provides information of operating income from external consumers by geographical area for the years ended December 31, 2014 and 2013.

	Operating revenue		Operating expense		Operating income	
	2014	2013	2014	2013	2014	2013
Domestic	₩13,160,486	14,701,712	11,529,609	13,101,685	1,630,877	1,600,027
Overseas	827,161	753,137	660,642	633,192	166,519	119,945
	₩13,987,647	15,454,849	12,190,251	13,734,877	1,797,396	1,719,972

ii) The following table provides information of non-current assets by geographical area as of December 31, 2014 and 2013.

	December 31, 2014	December 31, 2013
Domestic	₩2,900,648	2,964,970
Overseas	54,352	58,862
	₩2,955,000	3,023,832

(*) Non-current assets as of December 31, 2014 and 2013 include property and equipment, intangible assets and investment properties.

7. Cash and due from banks

(a) Cash and due from banks as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Cash	₩ 2,471,103	2,589,117
Deposits in won:		
Reserve deposits	5,668,726	3,161,035
Others	3,303,910	1,688,503
	8,972,636	4,849,538
Deposits in foreign currency:		
Deposits	2,532,297	2,710,857
Time deposits	1,899,087	1,888,172
Others	8,649	403,923
	4,440,033	5,002,952
Allowance for impairment	(23,695)	(11,644)
	₩15,860,077	12,429,963

(b) Restricted due from banks as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Deposits in won:		
Reserve deposits	₩5,668,726	3,161,035
Others	3,040,514	1,610,611
	8,709,240	4,771,646
Deposits in foreign currency:		
Deposits	476,512	745,730
Time deposits	18,686	11,608
Others	1,230	3,100
	496,428	760,438
	₩9,205,668	5,532,084

8. Trading assets

Trading assets as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Debt securities:		
Government	₩ 336,669	256,077
Financial institutions	1,429,183	1,595,176
Corporate bonds	1,212,945	1,040,152
Bills bought	2,893,390	2,539,322
CMA	1,197,304	1,043,266
Other	9,964	—
	7,079,455	6,473,993
Equity securities:		
Stocks	53,880	58,761
Beneficiary certificates	958,450	910,674
	1,012,330	969,435
Other:		
Gold deposits	224,556	76,337
	₩8,316,341	7,519,765

9. **Derivatives**

(a) The notional amounts of derivatives as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Foreign currency related		
Over the counter:		
Currency forwards	₩ 30,713,560	27,784,868
Currency swaps	14,267,372	14,293,641
Currency options	737,258	120,281
	45,718,190	42,198,790
Exchange traded:		
Currency futures	87,936	—
	45,806,126	42,198,790
Interest rates related		
Over the counter:		
Interest rate swaps	46,015,652	67,212,192
Interest rate options	1,846,000	3,146,156
	47,861,652	70,358,348
Exchange traded:		
Interest rate futures	—	203,906
Interest rate swaps(*)	3,664,800	—
	3,664,800	203,906
	51,526,452	70,562,254
Equity related		
Over the counter:		
Equity swaps	6,338	—
Equity options	719,064	1,103,702
	725,402	1,103,702
Exchange traded:		
Equity futures	6,466	11,821
Equity options	—	2,675
	6,466	14,496
	731,868	1,118,198
Commodity related		
Over the counter:		
Commodity swaps and forwards	167,448	399,814
Commodity options	—	6,054
	167,448	405,868
Hedge		
Fair value hedge:		
Interest rate swaps	8,046,680	8,451,250
Net investment hedge:		
Currency forwards	219,840	105,530
	8,266,520	8,556,780
	₩106,498,414	122,841,890

(*) The notional amount of derivatives which is settled in the 'Central Counter Party (CCP)' system.

(b) Fair values of derivative instruments as of December 31, 2014 and 2013 were as follows:

	December 31, 2014		December 31, 2013	
	Assets	Liabilities	Assets	Liabilities
Foreign currency related				
Over the counter:				
Currency forwards	₩ 440,343	479,945	411,267	494,113
Currency swaps	248,298	270,522	428,257	351,547
Currency options	3,819	5,048	1,721	1,504
	692,460	755,515	841,245	847,164
Interest rates related				
Over the counter:				
Interest rate swaps	481,385	422,738	440,518	357,062
Interest rate options	9,395	16,615	12,824	16,932
	490,780	439,353	453,342	373,994
Equity related				
Over the counter:				
Equity swaps	—	35	—	—
Equity options	6,787	8,212	11,185	11,113
	6,787	8,247	11,185	11,113
Exchange traded:				
Equity options	—	—	10	—
	6,787	8,247	11,195	11,113
Commodity related				
Over the counter:				
Commodity swaps and forwards	1,866	2,100	—	10,380
Hedge				
Fair value hedge:				
Interest rate swaps	116,854	47,616	152,212	235,387
Net investment hedge:				
Currency forwards	347	3,607	—	141
	117,201	51,223	152,212	235,528
	₩1,309,094	1,256,438	1,457,994	1,478,179

(c) Net gain (loss) on valuation of derivatives for the years ended December 31, 2014 and 2013 were as follows:

	2014		2013	
	Gain	**Loss**	**Gain**	**Loss**
Foreign currency				
Over the counter:				
Currency forwards	₩ 404,872	441,668	326,769	453,822
Currency swaps	213,101	280,395	233,965	248,272
Currency options	3,821	3,259	1,357	855
	621,794	725,322	562,091	702,949
Interest rates				
Over the counter:				
Interest rate swaps	314,967	348,946	250,983	290,400
Interest rate options	5,368	6,788	6,856	3,313
	320,335	355,734	257,839	293,713
Equity				
Over the counter:				
Equity swaps	—	25	—	—
Equity options	4,129	5,308	8,222	13,557
	4,129	5,333	8,222	13,557
Commodity				
Over the counter:				
Commodity swaps and forwards	1,866	2,100	—	10,380
Commodity options	—	—	103	90
	1,866	2,100	103	10,470
Hedge				
Fair value hedge:				
Interest rate swaps	210,564	59,630	25,699	279,400
Net investment hedge:				
Currency forwards	1,873	—	—	239
	212,437	59,630	25,699	279,639
	₩1,160,561	1,148,119	853,954	1,300,328

(d) Gain or loss on fair value hedges for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Hedged items	₩(158,222)	257,544
Hedging instruments	166,812	(263,204)
	₩ 8,590	(5,660)

(e) Hedge of net investment in foreign operations

For some of net investments in foreign operations, the hedge accounting is applied. The gain or loss on the hedging instruments which is reflected to overseas operations translation for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Borrowings in foreign currency	₩ (2,066)	65,567
Debt securities issued in foreign currency	22,820	5,366
Currency swaps	(5,133)	98
	₩15,621	71,031

10. Loans

(a) Details of loans as of December 31, 2014 and 2013 were as follows

	December 31, 2014	December 31, 2013
Household loans	₩ 80,221,735	73,031,842
Corporate loans	102,638,114	94,415,522
Public and other	2,092,730	2,479,154
Loans to banks	4,657,991	6,078,034
Card receivables	26,347	39,531
	189,636,917	176,044,083
Deferred loan origination costs and fees	268,219	253,290
	189,905,136	176,297,373
Allowance for impairment	(1,579,671)	(1,608,029)
	₩188,325,465	174,689,344

(b) Changes in the allowance for impairment for the years ended December 31, 2014 and 2013 were as follows:

	2014					
	Due from banks	Loans			Other assets	Total
		Household	Corporate	Other		
Beginning balance	₩11,644	193,242	1,399,472	15,315	58,426	1,678,099
Provision for (reversal of) allowance	12,051	146,527	297,917	(2,924)	10,153	463,724
Write-offs	—	(141,364)	(381,759)	(206)	(6,476)	(529,805)
Effect of discounting	—	—	(34,702)	—	—	(34,702)
Allowance related to loans transferred	—	(5,181)	(28,179)	(4)	—	(33,364)
Recoveries	—	16,460	158,694	10,763	344	186,261
Others(*)	—	—	(64,400)	—	(270)	(64,670)
Ending balance	₩23,695	209,684	1,347,043	22,944	62,177	1,665,543

	2013					
	Due from banks	Loans: Household	Loans: Corporate	Loans: Other	Other assets	Total
Beginning balance	₩ 4,455	267,176	1,468,188	25,168	61,944	1,826,931
Provision for (reversal of) allowance	7,189	136,515	536,185	(9,853)	3,708	673,744
Write-offs	—	(182,012)	(582,502)	—	(735)	(765,249)
Effect of discounting	—	—	(45,023)	—	—	(45,023)
Allowance related to loans transferred	—	(53,731)	(63,255)	—	—	(116,986)
Recoveries	—	25,294	127,668	—	132	153,094
Others(*)	—	—	(41,789)	—	(6,623)	(48,412)
Ending balance	₩11,644	193,242	1,399,472	15,315	58,426	1,678,099

(*) Other changes were due to debt restructuring, debt-equity swap, foreign exchange rate, etc.

(c) Changes in deferred loan origination costs for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Beginning balance	₩ 253,290	235,483
Loan originations	201,114	180,698
Amortization	(186,185)	(162,891)
Ending balance	₩ 268,219	253,290

11. Available-for-sale financial assets and held-to-maturity financial assets

(a) Details of available-for-sale financial assets and held-to-maturity financial assets as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Available-for-sale financial assets:		
Debt securities:		
Government bonds	₩ 2,843,952	2,828,023
Financial institutions bonds	9,907,702	10,983,739
Corporate bonds and others	7,251,975	7,420,991
Others	29,669	—
	20,033,298	21,232,753
Equity securities(*):		
Stocks	1,459,978	2,156,523
Equity investments	396,677	385,708
Beneficiary certificates	385,344	192,767
Others	88,315	125,335
	2,330,314	2,860,333
	₩22,363,612	24,093,086
Held-to-maturity financial assets:		
Debt securities:		
Government bonds	₩ 5,149,408	4,259,467
Financial institutions bonds	501,452	653,277
Corporate bonds and others	2,361,257	2,520,876
	₩ 8,012,117	7,433,620

(*) Equity securities with no quoted market prices in active markets and of which the fair value cannot be measured reliably are recorded at cost of ₩28,281 million, ₩27,606 million as of December 31, 2014 and 2013, respectively.

(b) Gain or loss on sale of available-for-sale financial assets for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Gain on sale of available-for-sale financial assets	₩447,496	551,362
Loss on sale of available-for-sale financial assets	(19,504)	(65,529)
	₩427,992	485,833

12. Property and equipment

(a) Details of property and equipment as of December 31, 2014 and 2013 were as follows:

	December 31, 2014		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩1,155,856	—	1,155,856
Buildings	789,246	(137,775)	651,471
Others	1,358,267	(1,129,475)	228,792
	₩3,303,369	(1,267,250)	2,036,119

	December 31, 2013			
	Acquisition cost	Accumulated depreciation	Accumulated impairment	Book value
Land	₩1,262,137	—	—	1,262,137
Buildings	806,523	(110,996)	—	695,527
Others	1,417,580	(1,174,126)	(85)	243,369
	₩3,486,240	(1,285,122)	(85)	2,201,033

(b) Changes in property and equipment for the years ended December 31, 2014 and 2013 were as follows:

	2014			
	Land	Buildings	Others	Total
Beginning balance	₩1,262,137	695,527	243,369	2,201,033
Acquisitions(*1,2)	57	26,605	109,568	136,230
Disposals and write-off(*1,3)	(48)	(2,553)	(21,493)	(24,094)
Depreciation	—	(30,605)	(102,000)	(132,605)
Amounts transferred from (to) investment properties	(109,199)	(38,615)	—	(147,814)
Amounts transferred to Non-current assets held for sale	2,890	306	—	3,196
Effects of foreign currency movements	19	806	(652)	173
Ending balance	₩1,155,856	651,471	228,792	2,036,119

(*1) ₩4,054 million transferred from construction-in progress was included.

(*2) ₩3,897 million of provision for the asset retirement related to newly acquired assets was included.

(*3) ₩1,520 million of loss on write-off was included.

	2013			
	Land	Buildings	Others	Total
Beginning balance	₩1,267,928	646,712	300,408	2,215,048
Acquisitions(*1,2)	368	144,434	184,753	329,555
Disposals and write-off(*3,4)	(2,672)	(2,127)	(138,923)	(143,722)
Impairment	—	—	(85)	(85)
Depreciation	—	(30,047)	(106,883)	(136,930)
Amounts transferred from (to) investment properties	456	(59,827)	—	(59,371)
Amounts transferred to Non-current assets held for sale	(3,752)	(2,526)	—	(6,278)
Effects of foreign currency movements	(191)	(1,092)	4,099	2,816
Ending balance	₩1,262,137	695,527	243,369	2,201,033

(*1) ₩131,541 million transferred from construction-in progress was included.

(*2) ₩2,075 million of provision for the asset retirement related to newly acquired assets was included.

(*3) ₩489 million of loss on write-off was included.

(*4) ₩132,758 million transferred from construction-in progress and intangible assets was included.

(c) Insured assets and liability insurance as of December 31, 2014 were as follows:

Type of insurance	Insured assets	Amount covered	Insurance company
Comprehensive insurance for financial institutions	Cash	₩ 20,000	Samsung Fire & Marine Insurance Co., Ltd., etc.
Property insurance	Buildings & properties for business purpose	1,096,689	Samsung Fire & Marine Insurance Co., Ltd., etc.
Theft insurance	Cash & securities	55,000	Samsung Fire & Marine Insurance Co., Ltd., etc
Compensation liability insurance for officers	—	50,000	Samsung Fire & Marine Insurance Co., Ltd., etc.
Compensation liability insurance for gas accident	—	500	Meritz Fire & Marine Insurance Co., Ltd., etc.
		₩1,222,189	

(*) Besides the insurances listed above, the Group also maintained automobile liability insurance, medical insurance for employees, and casualty insurance protecting property and employees.

13. Intangible assets

(a) Changes in intangible assets for the years ended December 31, 2014 and 2013 were as follows:

	2014				
	Software	Development cost	Memberships	Other	Total
Beginning balance	₩ 45,714	22,922	47,363	109,846	225,845
Acquisitions	12,185	1,430	3,936	9,977	27,528
Disposals and write-off	—	—	(2,861)	—	(2,861)
Impairment(*)	—	—	(547)	—	(547)
Amortization	(16,073)	(10,980)	—	(43,292)	(70,345)
Effects of foreign currency movements	622	—	23	2	647
Ending balance	₩ 42,448	13,372	47,914	76,533	180,267

(*) Memberships are intangible assets with indefinite useful lives, which consist of golf and resort memberships. The Group recognizes an impairment loss when the carrying amount is less than the quoted price in the relevant markets.

	2013				
	Software	Development cost	Memberships	Others	Total
Beginning balance	₩ 41,087	38,071	45,585	55,820	180,563
Acquisitions(*1)	21,164	222	4,875	89,687	115,948
Disposals and write-off(*2)	(600)	—	(1,417)	(8)	(2,025)
Impairment(*3)	—	—	(1,648)	—	(1,648)
Amortization	(15,629)	(15,371)	—	(35,657)	(66,657)
Effects of foreign currency movements	(308)	—	(32)	4	(336)
Ending balance	₩ 45,714	22,922	47,363	109,846	225,845

(*1) ₩1,217 million transferred from construction-in-progress was included

(*2) ₩2 million of loss on write-off was included.

(*3) Memberships are intangible assets with indefinite useful lives, which consist of golf and resort memberships. The Group recognizes an impairment loss when the carrying amount is less than the quoted price in the relevant markets.

14. Investments in associates

(a) Investments in associates as of December 31, 2014 and 2013 were as follows:

Investees	Country	Reporting date	Ownership (%) December 31, 2014	Ownership (%) December 31, 2013
Aju Capital Co., Ltd.(*1,2,5)	Korea	September 30	12.85	12.85
Cardif Life Insurance(*1,3)	Korea	September 30	14.99	14.99
UAMCO., Ltd.	Korea	December 31	17.50	17.50
Pohang TechnoPark 2PFV(*2)	Korea	December 31	14.90	14.90
Daewontos Co., Ltd.(*1,4)	Korea	September 30	36.33	36.33
Inhee Co., Ltd.(*1,4)	Korea	September 30	15.36	15.36
DAEGY Electrical Construction., Ltd.(*1,4)	Korea	September 30	27.45	—
Kukdong Engineering & Construction Co.,Ltd(*1,2,4)	Korea	September 30	14.30	—

(*1) Financial statements as of September 30, 2014 were used for the equity method and significant transactions or events between September 30, 2014 and December 31, 2014 were properly considered.

(*2) Although the ownership interests in Aju Capital Co., Ltd. and Pohang TechnoPark2PFV were less than 15%, the Group used the equity method of accounting as the Group has significant influence on electing board members who are able to influence the entities' financial and operating policy decisions.

(*3) Although the ownership interest in Cardif Life Insurance Co., Ltd. was less than 15%, the Group used the equity method of accounting as the Group has significant influence through substantive operating transactions.

(*4) The Group previously acquired the shares of Daewontos Co., Ltd., Inhee Co., Ltd., DAEGY Electrical Construction., Ltd. & Kukdong Engineering & Construction Co.,Ltd by debt-equity swap as a part of reorganization procedures where the Group's voting right is restricted. As the reorganization procedures for Daewontos Co., Ltd., Inhee Co., Ltd., DAEGY Electrical Construction., Ltd. & Kukdong Engineering & Construction Co.,Ltd were completed and voting right were restored during 2012, 2013 and 2014.

(*5) The shares of Aju Capital Co., Ltd. were marketable investment securities and their market value was ₩47,624 million as of December 30, 2014 based on the quoted market price (₩6,440 per share) at that date.

(b) Changes in investments in associates for the years ended December 31, 2014 and 2013 were as follows:

Investees	2014 Acquisition cost	Beginning balance	Acquisition (Redemption)	Share of profit of associates	Changes in accumulated other comprehensive income	Dividends received	Ending balance
Aju Capital Co., Ltd.	₩ 36,971	28,228	—	3,438	(131)	(1,109)	30,426
Cardif Life Insurance Co., Ltd.	35,279	51,634	—	953	4,394	(84)	56,897
UAMCO., Ltd.	85,050	139,269	—	10,066	(56)	(35,041)	114,238
Pohang TechnoPark 2PFV	4,470	2,847	—	(870)	—	—	1,977
Daewontos Co., Ltd	—	—	—	—	—	—	—
Inhee Co., Ltd.	—	362	—	170	—	—	532
DAEGY Electrical Construction., Ltd.	—	—	—	41	3	—	44
Kukdong Engineering & Construction Co.,Ltd	9,092	—	9,092	(1,990)	56	—	7,158
	₩170,862	222,340	9,092	11,808	4,266	(36,234)	211,272

	2013						
Investees	Acquisition cost	Beginning balance	Acquisition (Redemption)	Share of profit of associates	Changes in accumulated other comprehensive income	Dividends received	Ending balance
Aju Capital Co., Ltd.	₩ 36,971	29,654	—	568	(149)	(1,845)	28,228
Cardif Life Insurance Co., Ltd.	35,279	43,625	8,999	3,294	(4,284)	—	51,634
UAMCO., Ltd.	85,050	120,915	—	18,373	(19)	—	139,269
Shinhan Corporate Restructuring Fund 7th	—	13	(13)	—	—	—	—
Pohang TechnoPark 2PFV	4,470	2,895	—	(48)	—	—	2,847
Daewontos Co., Ltd	—	122	—	(122)	—	—	—
Inhee Co., Ltd.	—	—	—	383	(21)	—	362
	₩161,770	197,224	8,986	22,448	(4,473)	(1,845)	222,340

(c) The condensed financial statements of associates as of December 31, 2014 and 2013 were as follows:

	December 31, 2014					
Investees	Assets	Liabilities	Operating revenue	Profit (loss) for the year	Other comprehensive income (loss)	Total comprehensive income (loss)
Aju Capital Co., Ltd.	₩ 6,428,736	5,714,874	781,957	26,756	(1,016)	25,740
Cardif Life Insurance Co., Ltd.	3,890,674	3,510,712	483,911	5,852	29,293	35,145
UAMCO., Ltd	4,357,490	3,688,589	548,990	57,519	(319)	57,200
Pohang TechnoPark 2PFV	14,668	1,401	—	(5,839)	—	(5,839)
Daewontos Co., Ltd.	6,139	7,344	10,954	(2)	—	(2)
Inhee Co., Ltd.	16,284	12,826	5,041	1,105	—	1,105
DAEGY Electrical Construction., Ltd.	1,278	1,119	286	148	—	148
Kukdong Engineering & Construction Co.,Ltd	368,308	337,159	57,654	(13,917)	348	(13,569)
	₩15,083,577	13,274,024	1,888,793	71,622	28,306	99,928

	December 31, 2013					
Investees	Assets	Liabilities	Operating revenue	Profit (loss) for the year	Other comprehensive income (loss)	Total comprehensive income (loss)
Aju Capital Co., Ltd.	₩ 6,044,214	5,349,045	790,073	2,232	1,324	3,556
Cardif Life Insurance Co., Ltd.	3,466,657	3,184,257	682,100	18,295	(28,557)	(10,262)
UAMCO., Ltd	4,365,097	3,567,972	708,035	105,013	(107)	104,906
Pohang TechnoPark 2PFV	20,783	1,676	—	(322)	—	(322)
Daewontos Co., Ltd	6,536	7,740	17,313	(873)	—	(873)
Inhee Co., Ltd.	16,481	14,127	5,866	662	(18,156)	(17,494)
	₩13,919,768	12,124,817	2,203,387	125,007	(45,496)	79,511

(d) The reconciliation of associates' financial information presented to the carrying amount of the Group's interest in the associates as of December 31, 2014 and 2013 were as follows:

	December 31, 2014					
Associates	**Net assets (A)**	**Proportion of ownership interest (B)**	**(A) x (B)**	**Unrealized income and expenses**	**Other adjustments**	**Carrying amount**
Aju Capital Co., Ltd.(*1)	₩ 668,171	12.85%	85,860	—	(55,434)	30,426
Cardif Life Insurance Co., Ltd.	379,962	14.99%	56,992	(95)	—	56,897
UAMCO., Ltd(*2)	652,801	17.50%	114,238	—	—	114,238
Pohang TechnoPark 2PFV	13,267	14.90%	1,977	—	—	1,977
Daewontos Co., Ltd.(*3)	(1,205)	36.33%	(438)	—	438	—
Inhee Co., Ltd.	3,458	15.36%	532	—	—	532
DAEGY Electrical Construction., Ltd.	159	27.45%	44	—	—	44
Kukdong Engineering & Construction Co.,Ltd(*4)	33,318	14.30%	4,763	—	2,395	7,158
	₩1,749,932		263,968	(95)	(52,601)	211,272

(*1) Net assets do not include non-controlling interests. Other adjustments represent cumulative impairment losses recognized in prior periods and inequable dividend.

(*2) Net assets do not include non-controlling interests.

(*3) Other adjustments represent the unrecognized share of losses of an associate because the Group has stopped recognizing its share of losses of the associate due to cumulative losses.

(*4) Other adjustments represent the goodwill arising on the acquisition.

	December 31, 2013					
Associates	**Net assets (A)**	**Proportion of ownership interest (B)**	**(A) x (B)**	**Unrealized income and expenses**	**Other adjustments**	**Carrying amount**
Aju Capital Co., Ltd.(*1)	₩ 651,747	12.85%	83,751	—	(55,523)	28,228
Cardif Life Insurance Co., Ltd.(*2)	282,400	14.99%	42,332	(171)	9,473	51,634
UAMCO., Ltd(*3)	795,823	17.50%	139,269	—	—	139,269
Pohang TechnoPark 2PFV	19,107	14.90%	2,847	—	—	2,847
Daewontos Co., Ltd.(*4)	(1,204)	36.33%	(437)	—	437	—
Inhee Co., Ltd.	2,354	15.36%	362	—	—	362
	₩1,750,227		268,124	(171)	(45,613)	222,340

(*1) Net assets do not include non-controlling interests. Other adjustments represent cumulative impairment losses recognized in prior periods.

(*2) Other adjustments represent the increase in net assets due to paid-in capital increase occurred between the end of the reporting period of the associate and the Group.

(*3) Net assets do not include non-controlling interests.

(*4) Other adjustments represent the unrecognized share of losses of an associate because the Group has stopped recognizing its share of losses of the associate due to cumulative losses.

(e) The unrecognized share of loss on investments in associates for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Beginning balance	₩(437)	—
Unrecognized share of income (loss)	(1)	(437)
Accumulated unrecognized share of loss	₩(438)	(437)

15. Investment properties

(a) Investment properties as of December 31, 2014 and 2013 were as follows:

	December 31, 2014		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩546,086	—	546,086
Buildings	224,836	(32,308)	192,528
	₩770,922	(32,308)	738,614

	December 31, 2013		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩436,046	—	436,046
Buildings	181,884	(20,976)	160,908
	₩617,930	(20,976)	596,954

(b) The fair value of investment properties as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Land and buildings(*)	₩792,716	633,516

(*) Fair value of investment properties is estimated based on the recent market transactions and certain significant unobservable inputs. Accordingly, fair value of investment properties is classified as level 3.

(c) Changes in investment properties for the years ended December 31, 2014 and 2013 were as follows:

	2014		
	Land	Buildings	Total
Beginning balance	₩436,046	160,908	596,954
Depreciation	—	(7,999)	(7,999)
Amounts transferred from property and equipment	109,199	38,615	147,814
Amounts transferred from non-current assets held for sale	841	1,000	1,841
Effects of foreign currency movements	—	4	4
Ending balance	₩546,086	192,528	738,614

	2013		
	Land	Buildings	Total
Beginning balance	₩437,301	108,131	545,432
Disposals	(799)	(638)	(1,437)
Depreciation	—	(6,416)	(6,416)
Amounts transferred from (to) property and equipment	(456)	59,827	59,371
Effects of foreign currency movements	—	4	4
Ending balance	₩436,046	160,908	596,954

(d) Income and expenses on investment properties for the years ended December 31, 2014 and 2013 were as follows

	2014	2013
Rental income	₩25,162	21,462
Direct operating expenses for investment properties that generate rental income	5,989	5,957
Gain from disposal of investment properties	—	248

16. Other assets

Other assets as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Unsettled trades and other financial assets	₩3,987,769	2,413,770
Domestic exchange settlement receivables	2,067,025	2,361,995
Guarantee deposits	1,177,578	1,220,377
Accrued income	803,708	923,332
Prepaid expense	95,545	74,614
Suspense payments	67,554	68,015
Sundry assets	107,818	169,739
Others	345	235
Present value discount	(54,894)	(66,156)
Allowance for impairment	(62,177)	(58,426)
	₩8,190,271	7,107,495

17. Pledged assets

(a) Assets pledged as collateral as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Loans	₩ 73,773	115,927
Securities(*1):		
Available-for-sale financial assets	574,334	1,178,428
Held-to-maturity financial assets	5,216,661	4,858,521
	5,216,661	6,036,949
Real estate(*2)	4,762	6,488
	₩5,869,530	6,159,364

(*1) The carrying amounts of assets pledged as collateral that the transferees had the right to sell or repledge regardless of the Group's default as of December 31, 2014 and 2013 were ₩493,104 million, ₩483,371 million, respectively.

(*2) The amounts were based on the notification amount of pledge.

(b) The fair value of collateral held that the Group has the right to sell or repledge regardless of pledger's default as of December 31, 2014 and 2013 were as follows:

	December 31, 2014		December 31, 2013	
	Collateral held	Collateral sold or repledged	Collateral held	Collateral sold or repledged
Securities	₩2,432,109	—	2,759,192	—

18. Financial liabilities designated at fair value through profit or loss

(a) Financial liabilities designated at fair value through profit or loss as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Deposits(*1,2)	₩6,139	—

(*1) The Bank has designated compound financial instruments involved the embedded derivatives at fair value through profit or loss in accordance with K-IFRS No.1039, '*Financial Instruments: Recognition and* Measurement'.

(*2) The carrying value of financial liabilities designated fair value through profit or loss was estimated by using valuation model adopted by the Bank. The Bank did not recognize profit or loss related to its own credit risk adjustment for the year ended December 31, 2014.

(b) Maturity amounts and book values of financial liabilities designated at fair value through profit or loss as of December 31, 2014 and 2013 were as follows:

	December 31, 2014		
	contractual amount due at maturity	Balance	Difference
Deposits	₩6,171	6,139	32

	December 31, 2013		
	contractual amount due at maturity	Balance	Difference
Deposits	₩—	—	—

(c) Gain (excluding interest income and expense) on financial liabilities designated at fair value through profit or loss for the years ended December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Deposits:		
Gain on valuation	₩32	—
Gain on transaction	2	—
	₩34	—

19. Deposits

Deposits as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Demand deposits:		
Korean won	₩ 62,007,754	52,499,442
Foreign currency	6,334,678	6,007,426
	68,342,432	58,506,868
Time deposits:		
Korean won	104,749,605	101,137,384
Foreign currency	9,427,981	9,230,994
Gain on fair value hedge	15,352	(102,849)
	114,192,938	110,265,529
Negotiable certificates of deposits	2,145,645	1,781,684
Note discount deposits	3,241,082	3,132,185
CMA	1,682,610	1,291,588
Others	35,165	42,578
	₩189,639,872	175,020,432

20. Trading liabilities

Trading liabilities as of December 31, 2014 and 2013 were as follows:

	December 31, 2014		December 31, 2013	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Gold deposits	—	₩428,936	—	₩398,596

21. Borrowings

Borrowings as of December 31, 2014 and 2013 were as follows:

	December 31, 2014		December 31, 2013	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Call money:				
Korean won	1.83~1.98	₩ 1,436,900	2.32	₩ 3,700
Foreign currency	0.10~9.00	345,836	0.10~5.08	314,660
		1,782,736		318,360
Bill sold	1.40~2.50	31,059	1.50~2.93	28,631
Bonds sold under repurchase agreements:				
Korean won	1.62	7,921	2.27~2.55	13,121
Foreign currency	0.50~5.82	368,788	0.66~3.34	331,511
		376,709		344,632
Borrowings in won:				
Borrowings from Bank of Korea	0.50~1.00	1,366,192	0.50~1.00	1,269,610
Others	0.00~5.05	3,315,403	0.00~5.05	3,307,945
		4,681,595		4,577,555
Borrowings in foreign currency:				
Overdraft due to banks	0.55~0.67	337,194	0.73~0.78	225,689
Borrowings from banks	0.28~8.85	2,783,837	0.05~1.83	2,640,072
Sub-lease	0.25~0.79	995,522	—	—
Others	0.48~0.68	1,738,494	0.55~1.85	1,842,079
		5,855,047		4,707,840
Due to Bank of Korea in foreign currency	0.10	77,179	0.10	94,315
Deferred origination costs		(1,504)		(1,994)
		₩12,802,821		₩10,069,339

22. Debt securities issued

Debt securities issued as of December 31, 2014 and 2013 were as follows:

	December 31, 2014		December 31, 2013	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Debt securities issued in won:				
Debt securities issued	0.00~8.91	₩ 9,640,890	0.00~8.36	₩ 8,956,923
Subordinated debt securities issued	3.41~5.10	2,901,239	3.41~7.70	5,060,630
Loss on fair value hedges		34,277		(24,853)
Discount on debt securities issued		(26,825)		(37,752)
		12,549,581		13,954,948
Debt securities issued in foreign currency:				
Debt securities issued	0.32~4.50	3,997,657	0.74~8.13	3,729,625
Loss on fair value hedges		46,850		70,163
Discount on debt securities issued		(12,680)		(15,081)
		4,031,827		3,784,707
		₩16,581,408		₩17,739,655

23. Liability for defined benefit obligation

(a) Defined benefit plan assets and liabilities

The Group provides a defined benefit plan for qualified employees. Plan assets are managed by trust companies, funds, and other similar companies that are subject to local regulations and each country's business environment.

Defined benefit plan assets and liabilities as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Present value of defined benefit obligation	₩ 999,623	737,773
Fair value of plan assets	(753,648)	(670,335)
Recognized liabilities for defined benefit obligation	₩ 245,975	67,438

(b) Changes in the present value of defined benefit obligation for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Beginning balance	₩737,773	748,324
Current service cost	99,879	105,065
Interest expense	35,250	31,998
Remeasurements(*1)	158,265	(24,976)
Past service cost(*2)	—	(96,779)
Effects of foreign currency movements	63	(92)
Benefits paid by the plan	(33,979)	(27,942)
Others	2,372	2,175
Ending balance	₩999,623	737,773

(*1) Remeasurements for the year ended December 31, 2014 consist of ₩3,580 million of actuarial gain arising from changes in demographic assumptions and ₩163,383 million of actuarial loss arising from changes in financial assumptions, ₩1,538 of gain arising experience adjustments.

(*2) As a result of a plan curtailment during the prior year, the Group's defined benefit obligation decreased by ₩96,779 million and related negative past service cost was recognized as profit or loss.

(c) Changes in the fair value of plan assets for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Beginning balance	₩670,335	583,657
Interest income	33,383	26,117
Remeasurements	(15,755)	(7,566)
Contributions paid into the plan	93,000	90,000
Benefits paid by the plan	(27,315)	(21,873)
Ending balance	₩753,648	670,335

(d) The amount of major categories of the fair value of plan assets as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Deposits	₩713,045	646,711
Others	40,603	23,624
	₩753,648	670,335

(e) Actuarial assumptions as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013	Descriptions
Discount rate	4.02%	4.98%	AA0 Corporate bond yields
Future salary increasing rate	2.84% + Upgrade rate	2.44% + Upgrade rate	Average for last 5 years

(f) Sensitivity analysis

Sensitivity analysis of the present value of defined benefit obligation as of December 31, 2014 and 2013 were as follows:

(i) Discount rate

	December 31, 2014	December 31, 2013
Present value	₩ 999,623	737,773
Present value when the factor rises by 100 basis points	877,225	652,611
Present value when the factor falls by 100 basis points	1,146,496	839,290

(ii) Future salary increasing rate

	December 31, 2014	December 31, 2013
Present value	₩ 999,623	737,773
Present value when the factor rises by 100 basis points	1,146,869	840,998
Present value when the factor falls by 100 basis points	874,776	649,864

(g) The weighted average durations of the defined benefit obligation as of December 31, 2014 and 2013 were 16.33 and 16.11 years.

24. Provisions

(a) Changes in provisions for the years ended December 31, 2014 and 2013 were as follows:

	2014					
	Asset retirement	Litigation	Unused credit	Guarantee	Others	Total
Beginning balance	₩ 25,364	94,735	91,415	92,561	59,941	364,016
Provision (reversal)	1,056	(26,178)	(7,023)	10,487	14,182	(7,476)
Provision used	(1,221)	(46,766)	—	—	(20,136)	(68,123)
Foreign exchange movements	—	439	1,299	11,604	772	14,114
Others(*)	3,897	—	—	(7,700)	—	(3,803)
Ending balance	₩ 29,096	22,230	85,691	106,952	54,759	298,728

	2013					
	Asset retirement	Litigation	Unused credit	Guarantee	Others	Total
Beginning balance	₩ 23,023	97,041	85,930	76,891	48,742	331,627
Provision (reversal)	545	(2,149)	4,344	21,909	39,776	64,425
Provision used	(189)	—	—	—	(25,569)	(25,758)
Foreign exchange movements	—	(157)	1,141	2,240	(41)	3,183
Others(*)	1,985	—	—	(8,479)	(2,967)	(9,461)
Ending balance	₩ 25,364	94,735	91,415	92,561	59,941	364,016

(*) Other changes were due to originations and maturities of financial guarantees recognized initially at their fair value, effect of discount rate change and acquisition cost of new leased properties relating to asset retirement.

(b) Asset retirement obligation liabilities represent the estimated cost to restore the existing leased properties which were discounted to the present value using the appropriate discount rate at the end of the reporting period. Disbursements of such costs were expected to incur at the end of the lease contract. Such costs were reasonably estimated using the average lease period and the average restoration expenses. The average lease period was calculated based on the past ten-year historical data of the expired leases. The average restoration expense was calculated based on the actual costs incurred for the past three years using the three-year average inflation rate.

25. Other liabilities

Other liabilities as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Unsettled trades and other financial liabilities	₩ 3,907,195	2,360,850
Borrowing from trust account	2,017,810	2,298,642
Accrued expenses	2,616,317	2,714,427
Domestic exchange settlement payables	1,430,094	945,959
Due to agencies	2,226,742	2,338,951
Account for agency business of other institutions	641,269	581,158
Security deposits received	373,298	351,733
Foreign exchange settlement payables	226,079	206,341
Suspense payable	85,837	70,374
Unearned income	73,250	75,613
Withholding value-added tax and other taxes	93,037	107,316
Dividend payable	14,937	18,545
Sundry liabilities	25,509	145,933
Present value discount	(2,296)	(2,642)
	₩13,729,078	12,213,200

26. Equity

(a) Equity as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Capital stock:		
Common stock	₩ 7,928,078	7,928,078
Other equity instruments:		
Hybrid bonds	1,100,250	2,099,350
Capital surplus:		
Share premium	398,080	398,080
Others	5,084	5,084
	403,164	403,164
Capital adjustments:		
Stock options	(22)	25
Others	(820)	—
	(842)	25
Accumulated other comprehensive income:		
Net change in fair value of available-for-sale financial assets	627,834	564,023
Equity in other comprehensive income of associates, net	7,738	3,441
Foreign currency translation differences for foreign operations	(152,433)	(157,229)
Remeasurements of defined benefit obligations	(245,740)	(113,833)
	237,399	296,402
Retained earnings:		
Legal reserve(*1)	1,232,400	1,098,257
Voluntary reserve(*2)	7,989,920	7,159,989
Other reserve(*3)	62,496	51,400
Retained earnings(*4)	1,520,758	1,496,698
	10,805,574	9,806,344
Non-controlling interests	3,277	2,718
	₩20,476,900	20,536,081

(*1) According to the article 40 of the Banking Act, the Bank was required to appropriate a legal reserve in an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 100% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to common stocks in connection with a free issue of shares.

(*2) The amounts include a regulatory reserve for loan losses of ₩1,695,516 million and asset revaluation surplus of ₩355,898 million as of December 31, 2014.

(*3) Other reserve was established according to the oversea branch's laws and it may be used only to reduce overseas branch's deficit.

(*4) The amounts include differences between a regulatory reserve for loan loss based on separate financial statement and consolidated financial statement of ₩16,889 million and provision for regulatory reserve for loan loss of ₩25,844 million as of December 31, 2014.

(b) Capital stock

Capital stock of the Bank as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Number of authorized shares	2,000,000,000 shares	2,000,000,000 shares
Par value per share in won	₩ 5,000	₩ 5,000
Number of issued shares outstanding	1,585,615,506 shares	1,585,615,506 shares

(c) Hybrid bonds

Hybrid bonds as of December 31, 2014 and 2013 were as follows:

Date of issue	Date of maturity	Book Value December 31, 2014	Book Value December 31, 2013	Interest rate (%)
Hybrid bonds issued in foreign currency:				
March 2, 2005	March 2, 2035	₩ 298,951	298,951	5.66
September 20, 2006	September 20, 2036	94,761	94,761	6.82
September 20, 2006	September 20, 2036	237,144	237,144	6.82
Hybrid bonds issued in won:				
March 21, 2008	March 21, 2038	119,878	119,878	7.30
March 25, 2008	March 25, 2038	49,948	49,948	7.30
June 5, 2009	June 5, 2039	—	699,370	5.95
June 29, 2009	June 29, 2039	—	299,730	5.95
June 7, 2013	June 7, 2043	299,568	299,568	4.63
		₩1,100,250	2,099,350	
Dividends on hybrid bond holders		₩ 96,293	133,290	
Weighted average interest rate (%)		6.24	6.35	

(*) The above hybrid bonds are subject to early redemption option after 5 years or 10 years from the date of issuance, and the maturity can be extended under the same condition at the maturity date. In addition, if no dividend is paid for common shares, the agreed interest is also not paid.

(d) Changes in accumulated other comprehensive income for the years ended December 31, 2014 and 2013 were as follows:

	2014				
	Net change in fair value of available-for-sale financial assets	Equity in the other comprehensive income of associates, net	Foreign currency translation differences for foreign operations	Defined benefit plan actuarial gain (loss)	Total
Beginning balance	₩ 564,023	3,441	(157,229)	(113,833)	296,402
Change due to fair value	396,065	—	—	—	396,065
Change due to other comprehensive income of associates	—	4,266	—	—	4,266
Change due to impairment	(17,714)	—	—	—	(17,714)
Change due to disposal	(297,540)	—	—	—	(297,540)
Effect of hedge accounting	2,181	—	15,621	—	17,802
Effect of foreign currency movements	1,191	—	(6,502)	—	(5,311)
Remeasurement loss related to defined benefit plan	—	—	—	(174,020)	(174,020)
Effect of tax	(20,372)	31	(4,323)	42,113	17,449
Ending balance	₩ 627,834	7,738	(152,433)	(245,740)	237,399

	2013				
	Net change in fair value of available-for-sale financial assets	**Equity in the other comprehensive income of associates, net**	**Foreign currency translation differences for foreign operations**	**Defined benefit plan actuarial gain (loss)**	**Total**
Beginning balance	₩ 868,708	7,868	(94,943)	(127,030)	654,603
Change due to fair value	56,366	—	—	—	56,366
Change due to other comprehensive income of associates	—	(4,473)	—	—	(4,473)
Change due to impairment	10,832	—	—	—	10,832
Change due to disposal	(472,352)	—	—	—	(472,352)
Effect of hedge accounting	4,170	—	71,031	—	75,201
Effect of foreign currency movements	(976)	—	(122,512)	—	(123,488)
Remeasurement gain related to defined benefit plan	—	—	—	17,410	17,410
Effect of tax	97,275	46	(10,805)	(4,213)	82,303
Ending balance	₩ 564,023	3,441	(157,229)	(113,833)	296,402

(e) Statements of appropriation of retained earnings for the years ended December 31, 2014 and 2013 were as follows:

	2014 Expected date of approval: March 18, 2015	**2013 Date of approval: March 25, 2014**
Unappropriated retained earnings:		
Balance at beginning of year	₩ —	—
Changes in accounting policies	—	127,030
Interest on hybrid bond	(96,293)	(133,290)
Profit for the year	1,433,310	1,341,431
	1,337,017	1,335,171
Transfer from reserves:		
Voluntary reserve	5,659,656	4,832,017
	5,659,656	4,832,017
	6,996,673	6,167,188
Appropriation of retained earnings:		
Legal reserve	143,331	134,143
Regulatory reserve for loan loss	42,733	2,291
Other reserve	12,720	11,098
Voluntary reserves	6,346,989	5,659,656
Redemption of hybrid bond	900	—
Dividends on common stock	450,000	360,000
Dividends per share in won:		
Current year ₩283.80 (5.68%)		
Last year ₩227.04 (4.54%)		
	6,996,673	6,167,188
Unappropriated retained earnings to be carried over to subsequent year	₩ —	—

These statements of appropriation of retained earnings were based on the separate financial statements of the Parent Company.

(f) Dividends

Dividends of common stock for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Number of issued shares outstanding	1,585,615,506	1,585,615,506
Par value per share in won	₩ 5,000	5,000
Dividend rate per share	5.68%	4.54%
Dividend per share in won	₩ 283.80	227.04

(g) Dividends payout ratio

Dividends payout ratio for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Dividends	₩ 450,000	360,000
Profit for the year(*)	1,455,224	1,373,017
Dividends payout ratio to profit for the year	30.92%	26.22%
Profit for the year adjusted for regulatory reserve(*)	₩1,429,380	1,373,084
Dividends to profit for the year	31.48%	26.22%

(*) Profit for the year and profit for the year adjusted for regulatory reserve were the amount attributable to equity holder of the Group.

27. Regulatory reserve for loan loss

The Group should calculate and disclose regulatory reserve for loan loss, in accordance with Article 29-1 and 29-2 of Regulation on Supervision of Banking Business.

(a) The regulatory reserve for loan loss as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Regulatory reserve for loan loss	₩1,718,248	1,718,315
Provision for (reversal of) regulatory reserve for loan loss	25,844	(67)
	₩1,744,092	1,718,248

(b) Profit for the year adjusted for regulatory reserve for loan loss and earnings per share adjusted for regulatory reserve for loan loss for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Provision for (reversal of) regulatory reserve for loan loss	₩ 25,844	(67)
Profit for the year adjusted for regulatory reserve	1,429,809	1,373,243
Earnings per share adjusted for regulatory reserve in won	₩ 841	782

28. Net interest income

(a) Net interest income for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Interest income:		
Cash and due from banks	₩ 124,682	92,416
Trading assets	205,994	214,490
Available-for-sale financial assets	596,681	756,983
Held-to-maturity financial assets	333,114	380,286
Loans	7,158,168	7,530,975
Others	94,677	112,223
	8,513,316	9,087,373
Interest expense:		
Deposits	(3,369,225)	(3,816,612)
Borrowings	(191,762)	(207,298)
Debt securities issued	(524,078)	(658,004)
Others	(61,118)	(54,911)
	(4,146,183)	(4,736,825)
Net Interest income	₩ 4,367,133	4,350,548

(b) Interest income recognized on impaired financial assets for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Interest income	₩34,702	45,023

29. Net fees and commission income

Net fees and commission income for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Fees and commission income:		
Credit placement fees	₩ 56,853	56,620
Commission received as electronic charge receipt	134,496	130,982
Brokerage fees	105,920	118,318
Commission received as agency	328,266	318,223
Investment banking fees	45,761	38,335
Commission received in foreign exchange activities	137,516	132,422
Asset management fees from trust accounts	49,741	42,241
Guarantee fees	55,009	55,512
Others	57,922	52,450
	971,484	945,103
Fees and commission expense:		
Credit-related fee	(28,776)	(29,781)
Brand-related fee	(50,655)	(83,599)
Service-related fees	(14,493)	(14,962)
Trading and brokerage fees	(4,107)	(5,251)
Commission paid in foreign exchange activities	(21,285)	(20,046)
Others	(49,225)	(42,564)
	(168,541)	(196,203)
Net fees and commission income	₩ 802,943	748,900

30. Dividend income

Dividend income for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Trading assets	₩ 6,186	1,733
Available-for-sale financial assets	87,292	63,909
	₩93,478	65,642

31. Net trading income (loss)

Net trading income (loss) for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Trading assets and trading liabilities		
Debt:		
Gain on valuation of debt securities	₩ 15,810	1,736
Gain on sale of debt securities	10,195	7,953
Loss on valuation of debt securities	(4,248)	(17,262)
Loss on sale of debt securities	(4,971)	(12,085)
	16,786	(19,658)
Equity:		
Gain on valuation of equity securities	3,897	9,396
Gain on sale of equity securities	29,033	32,868
Loss on valuation of equity securities	(7,088)	(1,559)
Loss on sale of equity securities	(10,486)	(16,198)
	15,356	24,507
Gold:		
Gain on valuation of gold deposit	—	157,548
Gain on sale of gold deposit	1,499	2,941
Loss on valuation of gold deposit	(19,403)	(91,523)
Loss on sale of gold deposit	(203)	(586)
	(18,107)	68,380
	14,035	73,229
Derivatives		
Foreign exchange:		
Loss on valuation and transaction, net	(35,953)	(82,758)
Interest rates:		
Loss on valuation and transaction, net	(16,002)	(3,796)
Equity:		
Gain (Loss) on valuation and transaction, net	302	(1,948)
Commodity:		
Loss on valuation and transaction, net	(2,186)	(27,969)
	(53,839)	(116,471)
Net trading income (loss)	₩(39,804)	(43,242)

32. Impairment loss on financial assets

Impairment loss on financial assets for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Impairment loss:		
Loans and due from banks	₩463,724	673,744
Available-for-sale financial assets	220,286	203,584
	₩684,010	877,328

33. General and administrative expenses

General and administrative expenses for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Employee benefits:		
Short and long term employee benefits	₩1,526,950	1,438,523
Post-employee benefits	101,746	14,167
Termination benefits	106,226	56,184
	1,734,922	1,508,874
Amortization:		
Depreciation	132,605	136,930
Amortization of intangible assets	70,345	66,657
	202,950	203,587
Other general and administrative: expenses:		
Employee fringe benefits	122,265	113,234
Rent	258,737	253,990
Service contract expenses	224,462	243,294
Taxes and dues	82,229	83,193
Advertising	59,057	51,912
Electronic data processing expenses	63,441	62,739
Others	169,948	172,059
	980,139	980,421
	₩2,918,011	2,692,882

34. Share-based payments

(a) Cash-settled stock options as of December 31, 2014 were as follows:

	4th grant	5th grant	7th grant
Grant date	March 30, 2005	March 21, 2006	March 19, 2008
Exercise price in won	₩28,006	₩38,829	₩49,053
Number of shares granted	1,871,400	2,143,800	314,700
Contractual exercise period(*1)	Within 4 years after 3 years from grant date	Within 4 years after 3 years from grant date	Within 4 years after 3 years from grant date
Changes in number of shares granted:			
Outstanding at December 31, 2013	93,426	101,963	247,873
Exercised	—	—	(35,294)
Outstanding at December 31, 2014(*2)	93,426	101,963	212,579
Exercisable at December 31, 2014	93,426	101,963	212,579
Valuation method for the liability:	Fair value	Fair value	Fair value
Valuation model	Black-Scholes Model	Black-Scholes Model	Black-Scholes Model
Stock price in won	₩44,450	₩44,450	₩44,450
Expected stock price volatility	—	—	16.90%
Expected exercise period (year)	—	—	0.11
Expected dividends rate	—	—	1.58%
Risk-free interest rate	—	—	2.05%
Fair value in won:	₩16,444	₩5,621	₩39

(*1) Rights of exercise for 4th grant and 5th grant are suspended as of December 31, 2014.

(*2) The weighted average exercise price for 407,968 options outstanding as of December 31, 2014 was ₩41,678.

(b) Equity-settled share-based payments

i) Equity-settled share-based payments as of December 31, 2014 were as follows:

	Content	
Grant year	2010~2013	2014~
Type	Equity-settled share-based payment	Equity-settled share-based payment
Service period	Upon appointment and promotion since April 1, 2010 (Within 3 years from grant date)	Upon appointment and promotion since January 1, 2014 (Within 1 year from grant date)
Performance conditions	Increase rate of stock price and achievement of target ROE(*)	Increase rate of stock price and achievement of target ROE(*)

(*) ROE: Return on equity

ii) Granted shares and the fair value of grant date as of December 31, 2014 were as follows:

Grant date	Grant shares	Fair value(*1) (in won)	Estimated shares(*2)
April 1, 2010	306,400	45,150	15,747
July 21, 2010	3,800	46,800	39
August 30, 2010	12,400	46,500	1,023
November 4, 2010	3,800	44,000	268
December 30, 2010	42,800	52,900	4,712
January 11, 2011	65,200	51,500	42,674
January 28, 2011	49,500	50,700	43,096
February 10, 2011	3,300	49,700	2,053
April 18, 2011	15,400	46,800	11,946
January 26, 2012	49,200	44,300	30,972
February 8, 2012	30,900	46,650	19,474
March 27, 2012	4,100	44,550	2,362
August 24, 2012	10,800	36,150	4,830
October 15, 2012	4,100	37,200	2,714
January 1, 2013	183,100	40,050	101,261
March 21, 2013	4,400	37,750	1,149
May 27, 2013	14,500	40,250	7,736
August 1, 2013	4,400	41,250	2,080
January 1, 2014	109,800	47,300	101,016
February 8, 2014	5,400	44,300	4,449
April 1, 2014	4,800	47,000	3,324
October 15, 2014	2,400	47,150	470
	930,500		403,395

(*1) The fair value per share was evaluated based on the closing price of Shinhan Financial Group at each grant date.

(*2) Grant shares at grant date were adjusted pursuant to increase rate of stock price (33.4% to 2013, 20.0% after 2014) and achievement of target ROE (66.6% to 2013, 80.0% after 2014) based on standard quantity applicable to the days of service among specified period of service, which allows for the determination of acquired quantity at the end of the operation period.

(*3) The amount that the Bank must pay to the Shinhan Financial Group according to commitment was recognized in liabilities after directly deducting the fair value evaluated by Shinhan Financial Group from equity. As of December 31, 2014, the fair value per share data evaluated by Shinhan Financial Group amounted to ₩44,450.

(c) Stock compensation costs calculated for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Compensation costs recorded for the year	₩6,127	7,946

(d) Accrued expenses of the stock compensation costs and residual compensation costs as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Residual compensation costs recorded after the year	₩ 5,417	7,704
Accrued expenses	20,494	21,427

35. Net other operating expenses

Net other operating expenses for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Other operating income		
Gain on sale of assets:		
Loans	₩ 16,932	8,348
Written-off loans	9,572	76,713
	26,504	85,061
Others:		
Gain on hedge activity from hedged items	77,801	285,995
Gain on hedge activity from hedging instruments	235,653	28,610
Reversal of allowance for acceptances and guarantee	5,403	—
Reversal of other allowance	35,792	—
Others	25,282	17,481
	379,931	332,086
	406,435	417,147
Other operating expense		
Loss on sale of assets:		
Loans	(148)	(28,982)
Others:		
Loss on hedge activity from hedged items	(236,023)	(28,451)
Loss on hedge activity from hedging instruments	(68,841)	(291,814)
Loss on allowance for acceptances and guarantee	(15,890)	(21,909)
Loss on other allowance	(17,829)	(42,516)
Contribution to fund	(244,914)	(244,521)
Insurance fee	(240,513)	(239,257)
Others	(87,395)	(92,640)
	(911,405)	(961,108)
	(911,553)	(990,090)
	₩(505,118)	(572,943)

36. Net non-operating income (expense)

Net non-operating income (expense) for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Non-operating income		
Gain on sale of assets:		
Property and equipment	₩ 476	1,036
Investment property	460	179
Intangible assets	—	248
	936	1,463
Investments in associates:		
Gain from disposition	—	57
Others:		
Rental income on investment property	25,162	21,462
Others	53,729	43,739
	78,891	65,201
	79,827	66,721
Non-operating expenses		
Loss on sale of assets:		
Property and equipment	(1,153)	(306)
Intangible assets	(68)	(71)
	(1,221)	(377)
Others:		
Investment properties depreciation	(7,999)	(6,416)
Donations	(12,717)	(35,745)
Property and equipment impairment losses	(1)	(85)
Intangible assets impairment losses	(547)	(1,649)
Others	(30,750)	(36,856)
	(52,014)	(80,751)
	(53,235)	(81,128)
	₩ 26,592	(14,407)

37. Income tax expense

(a) The components of income tax expense of the Group for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Current income tax expense	₩405,064	390,972
Deferred taxes arising from changes in temporary differences	(42,359)	(119,072)
Tax adjustment charged or credited directly to equity	17,438	82,937
Income tax expense	₩380,143	354,837

(b) The income tax expense calculated by applying statutory tax rates to the Group's taxable income differs from the actual tax expense in the consolidated statements of income for the years ended December 31, 2014 and 2013 for the following reasons:

	2014	2013
Profit before income tax	₩1,835,796	1,728,013
Statutory tax rate	24.20%	24.20%
Income tax expense at statutory tax rates	443,801	417,717
Adjustments:		
Non-taxable income	(28,480)	(34,915)
Non-deductible expense	3,776	8,947
Decrease resulting from consolidated corporate tax system	(33,880)	(30,333)
Others	(5,074)	(6,579)
Income tax expense	₩ 380,143	354,837
Effective tax rate	20.71%	20.53%

(c) Changes in temporary differences and deferred tax assets (liabilities) for the years ended December 31, 2014 and 2013 were as follows:

	2014				
	Beginning balance	Decreases	Increases	Ending balance	Deferred tax assets (liabilities)(*1)
Accrued income	₩ (441,833)	(441,833)	(347,483)	(347,483)	(84,091)
Accounts receivable	(8,133)	(8,133)	(58,567)	(58,567)	(14,173)
Trading assets	(67,935)	(118,756)	(135,567)	(84,746)	(20,509)
Available-for-sale financial assets	1,730,484	919,944	361,189	1,171,729	283,558
Investments in associates and subsidiaries(*2)	(59,147)	(102,509)	—	43,362	10,494
Deferred loan origination costs and fee	(46,552)	(87,737)	(304,481)	(263,296)	(63,718)
Revaluation and depreciation on property and equipment	(446,441)	6,473	3,100	(449,814)	(108,855)
Derivative assets (liabilities)	(970)	55,193	(15,607)	(71,770)	(17,368)
Deposits	106,159	119,482	134,019	120,696	29,208
Accrued expenses	200,644	201,669	331,497	330,472	79,974
Defined benefit obligations	602,286	27,316	293,053	868,023	210,062
Plan assets	(602,286)	(27,315)	(178,677)	(753,648)	(182,383)
Other provisions	299,765	299,765	191,776	191,776	46,410
Allowance for guarantees and acceptance	92,561	92,561	106,952	106,952	25,882
Allowance for advanced depreciation	(180,945)	—	(86)	(181,031)	(43,810)
Allowance for expensing depreciation	(2,850)	(232)	—	(2,618)	(634)
Deemed dividends	5,513	—	—	5,513	1,334
Net change in fair value of available-for-sale financial assets	(744,094)	(744,094)	(828,276)	(828,276)	(200,443)
Donation payables	50,306	50,306	49,300	49,300	11,931
Allowance and bad debt	159,419	159,419	192,503	192,503	50,117
Compensation expenses associated with stock option	3,299	3,221	2,118	2,196	531
Fictitious dividends	3,966	57	—	3,909	946
Others	(518,441)	(718,795)	64,045	264,399	63,986
	134,775	(313,998)	(139,192)	309,581	78,449
Temporary differences not qualified for deferred tax assets or liabilities:					
Investments in associates and subsidiaries(*2)	(10,356)	(76,500)	(77,676)	(11,532)	(2,791)
	₩ 145,131	(237,498)	(61,516)	321,113	81,240

(*1) Deferred tax assets of overseas subsidiaries have increased by ₩19 million due to foreign currency exchange rate changes.

(*2) The effect of income taxes by the valuation of equity method was reasonably estimated based on the both plausibility and the applicable amount of deferred income tax belonging to each associate investee.

	2013				
	Beginning balance	Decreases	Increases	Ending balance	Deferred tax assets (liabilities)(*1)
Accrued income	₩ (508,335)	(508,335)	(441,833)	(441,833)	(106,923)
Accounts receivable	(53,882)	(80,536)	(34,787)	(8,133)	(1,968)
Trading assets	(14,401)	(3,871)	(57,405)	(67,935)	(16,440)
Available-for-sale financial assets	1,295,094	559,161	994,551	1,730,484	418,777
Investments in associates and subsidiaries(*2)	(42,909)	—	(16,238)	(59,147)	(14,313)
Deferred loan origination costs and fee	(33,263)	(44,110)	(57,399)	(46,552)	(11,266)
Revaluation and depreciation on Property and equipment	(438,627)	11,747	3,933	(446,441)	(108,039)
Derivative assets (liabilities)	(98,600)	(156,551)	(58,921)	(970)	(234)
Deposits	132,232	167,214	141,141	106,159	25,690
Accrued expenses	182,339	183,063	201,368	200,644	48,556
Defined benefit obligations	711,245	21,872	(87,087)	602,286	145,753
Plan assets	(472,230)	(21,873)	(151,929)	(602,286)	(145,753)
Other provisions	254,688	254,688	299,765	299,765	72,543
Allowance for guarantees and acceptance	76,891	76,891	92,561	92,561	22,400
Allowance for advanced depreciation	(181,096)	(151)	—	(180,945)	(43,789)
Allowance for expensing depreciation	(3,082)	(232)	—	(2,850)	(690)
Deemed dividends	5,513	—	—	5,513	1,334
Net change in fair value of available-for-sale financial assets	(1,146,055)	(1,146,055)	(744,094)	(744,094)	(180,071)
Donation payables	54,925	54,925	50,306	50,306	12,174
Allowance and bad debt	152,851	152,851	159,419	159,419	42,321
Compensation expenses associated with stock option	2,740	2,662	3,221	3,299	798
Fictitious dividends	3,953	9	22	3,966	960
Others	(245,310)	294,195	21,064	(518,441)	(125,464)
	(365,319)	(182,436)	317,658	134,775	36,356
Temporary differences not qualified for deferred tax assets or liabilities:					
Investments in associates and subsidiaries(*2)	(11,346)	—	990	(10,356)	(2,506)
	₩ (353,973)	(182,436)	316,668	145,131	38,862

(*1) Deferred tax assets of overseas subsidiaries have decreased by ₩65 million due to foreign currency exchange rate changes.

(*2) The effect of income taxes by the valuation of equity method was reasonably estimated based on the both plausibility and the applicable amount of deferred income tax belonging to each associate investee.

(d) Changes in tax effects that were directly charged or credited to equity for the years ended December 31, 2014 and 2013 were as follows:

	December 31, 2014		December 31, 2013		
	Amount before tax	Tax effects	Amount before tax	Tax effects	Changes in Tax effects
Net change in fair value of available-for-sale financial assets	₩ 828,277	(200,443)	744,094	(180,071)	(20,372)
Equity in other comprehensive income of associates	7,656	82	3,390	51	31
Foreign currency translation differences for foreign operations	(126,901)	(25,531)	(136,021)	(21,208)	(4,323)
Remeasurements of defined benefit obligations	(324,196)	78,456	(150,176)	36,343	42,113
Other (stock option)	77	(19)	33	(8)	(11)
	₩ 384,913	(147,455)	461,320	(164,893)	17,438

	December 31, 2013		December 31, 2012		
	Amount before tax	Tax effects	Amount before tax	Tax effects	Changes in Tax effects
Net change in fair value of available-for-sale financial assets	₩ 744,094	(180,071)	1,146,054	(277,346)	97,275
Equity in other comprehensive income of associates	3,390	51	7,863	5	46
Foreign currency translation differences for foreign operations	(136,020)	(21,208)	(84,540)	(10,403)	(10,805)
Remeasurements of defined benefit obligations	(150,176)	36,343	(167,586)	40,556	(4,213)
Other (stock option)	33	(8)	2,653	(642)	634
	₩ 461,321	(164,893)	904,444	(247,830)	82,937

(e) The current tax assets and liabilities as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Current tax assets:		
Income taxes paid	₩ 7,033	5,224
Current tax liabilities:		
Payable due to consolidated tax system	₩168,652	134,344
Income taxes payables	2,047	13,941
	₩170,699	148,285

(f) The deferred tax assets (liabilities) and current tax assets (liabilities) presented on a gross basis prior to any offsetting as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Deferred tax assets	₩1,194,441	1,167,231
Deferred tax liabilities	1,113,201	1,128,369
Current tax assets	267,071	255,123
Current tax liabilities	430,737	398,184

38. Earnings per share

Earnings per share for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Profit for the year	₩ 1,455,224	1,373,017
Less: dividends on hybrid bonds	(96,293)	(133,290)
Profit available for common stock	1,358,931	1,239,727
Weighted average number of common shares outstanding	1,585,615,506	1,585,615,506
Basic and diluted earnings per share in won	₩ 857	782

Considering that the Group had no dilutive potential ordinary shares and that stock options were not included in the calculation of diluted earnings per share because they were anti-dilutive for the reporting periods presented, diluted earnings per share equal basic earnings per share for the years ended December 31, 2014 and 2013.

39. Commitments and contingencies

(a) Guarantees, acceptances and credit commitments as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Guarantees:		
Guarantee outstanding	₩10,775,530	10,499,522
Contingent guarantees	4,334,310	5,052,394
	₩15,109,840	15,551,916
Commitments to extend credit:		
Loan commitments in won	₩52,196,405	52,863,179
Loan commitments in foreign currency	20,194,874	20,119,314
ABS and ABCP purchase commitments	1,986,308	1,415,531
Others	1,215,108	1,174,291
	₩75,592,695	75,572,315
Endorsed bills:		
Secured endorsed bills	₩ 51,043	54,460
Unsecured endorsed bills	10,914,587	11,327,272
	₩10,965,630	11,381,732
Loans sold with repurchase agreement	₩ 2,099	2,099

(b) Provision for acceptances and guarantees

Allowance for acceptances and guarantees, as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Guarantees outstanding	₩10,775,530	10,499,522
Contingent guarantees	4,334,310	5,052,394
ABS and ABCP purchase commitments(*)	1,986,308	1,415,531
Secured endorsed bills	51,043	54,460
	₩17,147,191	17,021,907
Allowance for acceptances and guarantees	₩ 106,952	92,561
Ratio (%)	0.62	0.54

(*) ABS: Asset Backed Securities
ABCP: Asset Backed Commercial Paper

(c) Legal contingencies

Pending litigations in which the Group was involved as a defendant as of December 31, 2014 were as follows:

Case	Number of Claim	Claim amount	Description
Claimed uncollected receivables of goods	1	₩ 43,761	A plaintiff claimed uncollected receivables of goods against the Bank since the plaintiff had delivered goods based on a bank guarantee forged by the Bank issued. The Bank has paid the amount in full which is ordered to pay by ruling of its first trial, and is currently in its second trial.
Compensation for a loss	1	47,200	The plaintiff has filed a lawsuit against the Bank claiming that the Bank should compensate for a loss of the damaged right of management insisting the Bank had purchased the shares of Shinho Paper Co., Ltd. (currently known as Artone Paper Co., Ltd.) while being aware that the sale had been executed against the will of the members of Aram Corporate Restructuring Association. The first appeal has been ruled in favor of the plaintiff. The Bank has appealed and such appeal is currently pending at the second appeal. As of March 31, 2014, the Bank believes that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The Bank has paid the amount in full which is ordered to pay by ruling of its first and second trial. The Bank is currently in its third trial.
Refund a cost of the fixed collateral establishment ...	1	218	The plaintiffs have filed the lawsuits against the Bank claiming that the Bank should refund a cost of the fixed collateral establishment insisting a loan agreement was unfair and invalid since it prescribed that the cost should be paid by the borrower. As of December 31, 2014, There have been no losses of lawsuits from terminated or ongoing litigations, and therefore, the Bank is currently in its first trial.
Contract void check and the return of unfair profits	6	43,406	As of December 31, 2014, the Bank set as allowance for the lawsuits that has filed to nullify investor's obligations under the KIKO contract. The cases are currently pending at the second appeal or the final appeal. The Bank believes that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The Bank has recorded a provision or a liability related to this claim.
Others	125	165,254	It includes various cases, such as compensation for a loss claim. The Bank recognizes provisions based on the progress of relevant lawsuits.
	134	₩299,839	

As of December 31, 2014, the Group recorded a provision of ₩22,230 million for litigation for certain of the above lawsuits. Additional losses may be incurred from these legal actions besides the current provision established by the Group, but the amount of loss is not expected to have a material adverse effect on the Group's consolidated financial position or results of operations.

(d) Contingency gain from lawsuit against Samsung Motors Co., Ltd.

On September 1999, the creditors of Samsung Motors Co., Ltd.("Samsung Motors") including the Bank, reached a written agreement with Samsung affiliates regarding the disposal of Samsung Motors. According the agreement, the creditors were supposed to dispose of 350 million shares of Samsung Life Insurance Co., Ltd. By December 31, 2000, which were provided to them with regard to liquidation of Samsung Motors. And if the proceeds from the disposal of the shares were less than ₩2,450 billion, Samsung Group was to reimburse the shortage by investing in the creditors' equity or buying subordinated bonds issued by the creditors. Otherwise, Samsung Group was to make payment of interests based on the bank's delinquent interest rate.

On December 9, 2005, the Bank, with the other creditors, filed a lawsuit against Samsung Group CEO Gun-hee, Lee and Samsung affiliates to claim the agreed amount. The Supreme Court ruled in favour of the creditors on January 29, 2015.

(e) Maturity structure of minimum lease payments

The future minimum lease payments under non-cancellable operating leases were payable as of December 31, 2014 and 2013 were as follows:

	December 31, 2014			
	Within 1 year	1~5 years	Over 5 years	Total
Minimum lease payments	₩118,988	168,214	5,309	292,511

	December 31, 2013			
	Within 1 year	1~5 years	Over 5 years	Total
Minimum lease payments	₩96,395	134,224	14,755	245,374

40. Cash flows

(a) Cash and cash equivalents reported in the accompanying consolidated statements of cash flows as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Cash	₩ 2,471,103	2,589,117
Reserve deposits	5,668,726	3,161,035
Other deposits	7,720,248	6,679,811
Cash and due from banks	15,860,077	12,429,963
Restricted due from banks	(9,181,973)	(5,520,439)
Due with original maturities of less than three months	(2,141,900)	(1,918,163)
	₩ 4,536,204	4,991,361

(b) Significant non-cash activities for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Dividend payable of hybrid bonds	₩14,937	18,545
Debt-equity swap	57,335	158,754
Payable of purchased intangible assets	9,450	36,260

41. Related parties

(a) Significant balances with the related parties as of December 31, 2014 and 2013 were as follows:

Related party	Account	December 31, 2014	December 31, 2013
The Parent company			
Shinhan Financial Group	Provisions	₩120,813	385
	Current tax liabilities	168,652	134,344
	Other liabilities	34,213	34,997
Entities under common control			
Shinhan Card Co., Ltd.	Derivative assets	12,269	2,820
	Other assets	1,793	1,575
	Deposits	97,333	21,081
	Derivative liabilities	60	1,849
	Provisions	19	19
	Other liabilities	19,027	32,500
Shinhan Investment Corp.	Cash and due from banks	—	8
	Derivative assets	5,898	2,001
	Loans	9,655	9,801
	Allowances	(61)	(71)
	Other assets	17,760	18,771
	Deposits	193,038	56,429
	Derivative liabilities	4,411	3,540
	Provisions	54	39
	Other liabilities	29,448	34,543
Shinhan Life Insurance	Derivative assets	12,657	25
	Other assets	8	5
	Deposits	6,862	33,310
	Derivative liabilities	1,601	7,326
	Provisions	2	2
	Other liabilities	38,748	41,652
Shinhan Capital Co., Ltd.	Other assets	1	—
	Deposits	15,071	18,166
	Provisions	4	4
	Other liabilities	1,319	1,403
Jeju Bank	Loans	4,964	9,797
	Allowances	(3)	(2)
	Other assets	27	56
	Deposits	1,567	1,368
	Other liabilities	1,140	1,140
Shinhan Credit Information Co., Ltd.	Deposits	10,511	11,119
	Other liabilities	1,452	1,455
Shinhan Private Equity, Inc.	Loans	3,500	1,701
	Allowances	(19)	(36)
	Other assets	—	3
	Deposits	168	36
	Provisions	5	9
	Other liabilities	—	1
Shinhan BNP Paribas AMC	Deposits	119,522	109,561
	Other liabilities	2,034	1,265
SHC Management Co., Ltd.	Deposits	100	100
	Other liabilities	3	3
Shinhan Data system	Deposits	2,481	843
	Other liabilities	4,458	4,114

Related party	Account	December 31, 2014	December 31, 2013
Shinhan Savings Bank	Other liabilities	₩ —	90
Shinhan Aitas	Other assets	6	—
	Deposits	10,255	10,171
	Other liabilities	100	183
KREDIT private equity REIT No.1	Deposits	—	1,701
	Other liabilities	—	25
Investments in associates and entities under common control's			
Aju Capital Co., Ltd.	Trading assets	50,000	60,000
	Loans	200,000	50,000
	Allowances	(614)	(275)
	Deposits	1,184	470
	Provisions	78	280
UAMCO., Ltd.	Deposits	28,801	1,719
	Provisions	50	50
Cardif Life Insurance	Deposits	194	262
	Provisions	1	1
Pohang TechnoPark2PFV	Deposits	14,666	14,689
Kukdong Engineering & Construction Co., Ltd.	Deposits	6,986	—
BNP Paribas Cardif General Insurance	Deposits	7	—
Korea investment gong-pyeong office real estate investment trust 2nd	Deposits	32,002	—
Miraeasset 3rd Investment Fund	Deposits	1,777	158
KDB Daewoo Securities Platinum PEF	Deposits	2,025	—
Dream High Fund III	Deposits	301	—
Medici 2nd Investment Fund	Deposits	—	62
KDB Daewoo Securities Platinum PEF	Deposits	—	652
Family Food Co., Ltd.	Provisions	—	5
Key management personnel	Loans	2,718	799
	Allowance	(1)	(1)

(b) Significant transactions with the related parties for the years ended December 31, 2014 and 2013 were as follows:

Related Party	Account	2014	2013
The Parent company			
Shinhan Financial Group	Other operating income	₩ 1,941	1,967
	Interest expense	(1,201)	(2,892)
	Fees and commission expense	(46,050)	(76,000)
Entities under common control			
Shinhan Card Co., Ltd.	Interest income	214	533
	Fees and commission income	174,433	168,824
	Gain related to derivatives	15,430	3,262
	Other operating income	1,217	1,087
	Interest expense	(703)	(814)
	Fees and commission expense	(431)	(513)
	Loss related to derivatives	(892)	(3,630)
	Other operating expense	(41)	(40)
Shinhan Investment Corp.	Interest income	1,082	1,018
	Fees and commission income	3,413	3,164
	Gain related to derivatives	10,808	4,714
	Other operating income	2,654	2,538
	Interest expense	(1,531)	(2,925)
	Provision for allowance	10	13
	Loss related to derivatives	(8,764)	(5,177)
	Other operating expense	(649)	(576)

Related Party	Account	2014	2013
Shinhan Life Insurance	Interest income	₩ 56	58
	Fees and commission income	15,769	13,151
	Gain related to derivatives	15,725	388
	Other operating income	1,761	2,180
	Interest expense	(1,107)	(1,192)
	Fees and commission expense	(50)	(60)
	Loss related to derivatives	(2,905)	(7,684)
	Other operating expense	(707)	(681)
Shinhan Capital Co., Ltd.	Interest income	1	2
	Other operating income	641	850
	Interest expense	(368)	(346)
Jeju Bank	Interest income	84	125
	Other operating income	218	42
	Interest expense	(30)	(30)
	Provision for allowance	(1)	—
	Other operating income	(2)	—
Shinhan Credit Information Co., Ltd	Fees and commission income	2	2
	Other operating income	200	142
	Interest expense	(298)	(331)
	Fees and commission expense	(5,315)	(5,399)
	Loss related to derivatives	(6)	—
Shinhan Private Equity, Inc.	Interest income	45	43
	Other operating income	4	1
	Interest expense	—	(21)
	Provision for allowance	17	12,386
Shinhan BNP Paribas AMC	Interest income	3	—
	Fees and commission income	43	30
	Other operating income	27	19
	Interest expense	(2,723)	(2,871)
	Fees and commission expense	(1,991)	(1,881)
Shinhan Data System	Other operating income	288	303
	Interest expense	(141)	(36)
	Other operating expense	(30,035)	(33,946)
SHC management Co., Ltd.	Interest expense	(3)	(3)
Shinhan Savings Bank	Other operating income	76	209
	Interest expense	(1)	(277)
Shinhan Aitas	Fees and commission income	25	26
	Other operating income	28	11
	Interest expense	(287)	(324)
	Fees and commission expense	—	(40)
Investments in associates and entities under common control's			
Aju Capital Co., Ltd.	Interest income	5,638	2,185
	Fees and commission income	260	546
	Other operating income	202	—
	Interest expense	(1)	(24)
	Provision for allowance	(339)	(21)
UAMCO., Ltd	Interest income	40	115
	Fees and commission income	7	5
	Interest expense	(1)	(1)
Cardif Life Insurance	Fees and commission income	30	16
Pohang TechnoPark2PFV	Interest expense	(15)	(15)
Inhee co., Ltd.	Fees and commission income	—	1
Kukdong Engineering & Construction Co., Ltd.	Fees and commission income	15	—
	Interest expense	(40)	—
	Fees and commission expense	(4)	—

Related Party	Account	2014	2013
BNP Paribas Cardif General Insurance	Fees and commission income	₩ 1	—
Korea investment gong-pyeong office real estate investment trust 2nd	Interest expense	(1,274)	—
Miraeasset 3rd Investment Fund	Interest expense	(1)	(2)
Dream High Fund III	Interest expense	(6)	—
Family Food Co., Ltd.	Other operating income	5	—
Key management personnel	Interest income	96	40

(c) Details of transactions with key management for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Short and long term employee benefits	₩ 8,413	9,034
Post-employment benefits	236	191
Share-based payment transactions	3,374	2,270
	₩12,023	11,495

(d) The guarantees provided between the related parties as of December 31, 2014 and 2013 were as follows:

		Amount of guarantees		
Guarantor	Guaranteed Parties	December 31, 2014	December 31, 2013	Account
Shinhan Bank	Shinhan Investment Corp.	₩ 9,893	9,498	Performance guarantees
		181,000	181,000	Unused credit
	Shinhan Card Co., Ltd.	500,000	500,000	Unused credit
	Shinhan Life Insurance	50,000	50,000	Unused credit
	Shinhan Capital Co., Ltd.	—	4,982	Letter of guarantee
		—	295	Letter of credit for importing
		60,000	60,000	Unused credit
	Shinhan BNP Paribas AMC	192,849	—	Security underwriting commitment
	Shinhan Private Equity, Inc.	4,248	8,214	Unused credit
	SHC Management Co., Ltd.	94	94	Performance guarantees
	KoFC Shinhan Frontier Champ 2010-4 PEF	26,834	26,995	Security underwriting commitment
	Cardif Life Insurance	10,000	10,000	Unused credit
	Aju Capital Co., Ltd.	50,000	100,000	Unused credit
		50,000	40,000	Security underwriting commitment
	UAMCO., Ltd.	112,200	112,200	Unused credit
		179,900	179,900	Security underwriting commitment
	Family Food Co,. Ltd.	—	3,000	Unused credit
		₩1,427,018	1,286,178	

(e) Details of collaterals provided to the related parties as of December 31, 2014 and 2013 were as follows:

	Related party	Pledged assets	December 31, 2014 Carrying amount	December 31, 2014 Amounts collateralized	December 31, 2013 Carrying amount	December 31, 2013 Amounts collateralized
Entities under common control	Shinhan Investment Corp.	Securities	₩155,303	34,041	171,345	42,372
	Shinhan Life Insurance	Securities	10,385	10,385	—	—
			₩165,688	44,426	171,345	42,372

(f) Details of collaterals provided by the related parties as of December 31, 2014 and 2013 were as follows:

	Related party	Pledged assets	December 31, 2014	December 31, 2013
Entities under common control	Shinhan Investment Corp.	Deposits	₩ 22,000	22,000
		Real estate	91,974	91,974
	SHC Management Co., Ltd.	Deposits	100	100
	Shinhan Capital Co., Ltd.	Deposits	11,200	16,032
		Government bonds	—	1,928
	Jeju Bank	Government bonds	20,000	20,000
	Shinhan Life Insurance	Government bonds	7,446	6,894
Investments in associates	Cardif Life Insurance	Government bonds	12,770	2,958
			₩165,490	161,886

42. Investments in subsidiaries

(a) Condensed financial positions for the Bank and its subsidiaries as of December 31, 2014 and 2013 were as follows:

	December 31, 2014 Total assets	December 31, 2014 Total liabilities	December 31, 2014 Total equity	December 31, 2013 Total assets	December 31, 2013 Total liabilities	December 31, 2013 Total equity
Shinhan Bank	₩242,075,869	221,704,012	20,371,857	225,735,681	205,263,519	20,472,162
Shinhan Asia	309,478	126,229	183,249	244,278	80,275	164,003
Shinhan America	1,057,143	906,062	151,081	1,037,819	898,449	139,370
Shinhan Europe	356,019	277,610	78,409	427,915	346,418	81,497
Shinhan Khmer	142,350	109,738	32,612	151,343	124,319	27,024
Shinhan Kazakhstan	172,109	102,687	69,422	119,531	42,962	76,569
Shinhan Canada	377,086	335,864	41,222	383,228	341,675	41,553
Shinhan China	3,977,209	3,599,289	377,920	3,251,418	2,897,126	354,292
Shinhan Japan	4,828,433	4,542,653	285,780	5,569,999	5,272,990	297,009
Shinhan Vietnam	2,010,873	1,625,063	385,810	1,469,915	1,118,703	351,212
Structured Entities	5,132,803	5,301,309	(168,506)	5,352,358	5,535,315	(182,957)

(b) Condensed comprehensive income statements for the Bank and its subsidiaries for the years ended December 31, 2014 and 2013 were as follows:

	2014			2013		
	Operating income	Profit (Loss) for the year	Total comprehensive income (loss)	Operating income	Profit (Loss) for the year	Total comprehensive income (loss)
Shinhan Bank	₩13,295,328	1,433,310	1,355,956	14,882,357	1,341,431	1,031,669
Shinhan Asia	9,021	3,582	19,246	11,623	4,172	1,401
Shinhan America	47,024	4,511	11,711	50,123	40,881	33,612
Shinhan Europe	12,927	3,793	(3,088)	12,748	3,057	5,227
Shinhan Khmer	9,372	4,293	5,588	7,864	1,595	891
Shinhan Kazakhstan	9,392	2,519	(7,147)	7,408	3,542	1,640
Shinhan Canada	12,835	1,432	(332)	12,044	111	(3,541)
Shinhan China	159,623	16,888	23,628	125,810	(8,806)	(3,492)
Shinhan Japan	216,354	14,176	(11,231)	193,614	12,755	(64,131)
Shinhan Vietnam	110,029	23,688	34,598	93,960	31,730	19,458
Structured Entities	194,415	(15,933)	(15,091)	203,697	(30,024)	(29,018)

43. Interests in unconsolidated structured entities

(a) The nature and extent of interests in unconsolidated structured entities

The Group involved in assets-backed securitization, structured financing, beneficiary certificates and other structured entities and characteristics of these structured entities are as follows:

	Description
Assets-backed securitization	Securitization vehicles are established to buy assets from originators and issue asset-backed securities in order to facilitate the originators' funding activities and enhance their financial soundness. The Group is involved in the securitization vehicles by purchasing (or committing to purchase) the asset-backed securities issued and/or providing other forms of credit enhancement. The Group does not consolidate a securitization vehicle if (i) the Group is unable to make or approve decisions as to the modification of the terms and conditions of the securities issued by such vehicle or disposal of such vehicles' assets, (ii) (even if the Group is so able) if the Group does not have the exclusive or primary power to do so, or (iii) if the Group does not have exposure, or right, to a significant amount of variable returns from such entity due to the purchase (or commitment to purchase) of asset-backed securities so issued or subordinated obligations or by providing other forms of credit support.
Project financing	Structured entities for project financing are established to raise funds and invest in a specific project such as M&A (Mergers and Acquisitions), BTL (Build-Transfer-Lease), shipping finance, etc. The Group is involved in the structured entities by originating loans, investing in equity, or providing credit enhancement
Investment fund	Investment fund is a type of financial instrument where investment funds raise funds from the general public to invest in a group of assets such as stocks or bonds and distribute their income and capital gains to their investors. The Group is involved in investment fund by investing in various investment funds.

i) The size of unconsolidated structured entities as of December 31, 2014 and 2013 were as follows:

	December 31, 2014			
	Assets-backed securitization	Structured financing	Investment fund	Total
Total assets	₩18,405,975	31,290,465	7,739,222	57,435,622

	December 31, 2013			
	Assets-backed securitization	Structured financing	Investment fund	Total
Total assets	₩16,901,389	38,920,533	7,498,036	63,319,958

ii) Income and expense from unconsolidated structured entities for the years ended December 31, 2014 and 2013 were as follows:

	2014			
	Assets-backed securitization	Structured Financing	Investment fund	Total
Income				
Interest income	₩16,573	126,391	—	142,964
Fees and commission income	11,501	9,767	—	21,268
Dividend income	13	—	27,162	27,175
Other	308	129	349	786
	₩28,395	136,287	27,511	192,193
Expense	₩ 818	—	30,436	31,254

	2013			
	Assets-backed securitization	Structured Financing	Investment fund	Total
Income				
Interest income	₩15,163	149,215	—	164,378
Fees and commission income	7,597	6,857	—	14,454
Dividend income	—	7,075	3,827	10,902
Other	967	92,069	6,701	99,737
	₩23,727	255,216	10,528	289,471
Expense	₩ —	—	360	360

iii) Book value of the assets the Group has transferred to unconsolidated structured entities were as follows:

Type	December 31, 2014
Korea housing finance corporation MBS2014-17	₩67,800

Type	December 31, 2013
Korea housing finance corporation MBS2013-05	₩210,300
Korea housing finance corporation MBS2013-09	65,800
Korea housing finance corporation MBS2013-15	42,900
Korea housing finance corporation MBS2013-19	18,100
Korea housing finance corporation MBS2013-29	268,000
National happiness fund	250
	₩605,350

(b) Nature of risk associated with interests in unconsolidated structured entities

i) The carrying amounts of the assets and liabilities recognized relating to its interests in unconsolidated structured entities as of December 31, 2014 and 2013 were as follows:

	December 31, 2014			
	Assets-backed securitization	**Structured Financing**	**Investment fund**	**Total**
Assets:				
Loans	₩ 368,112	2,497,972	3,589	2,869,673
Trading assets	573,919	48,877	—	622,796
Derivative assets	42	—	—	42
Available-for-sale Financial assets	330,807	224,342	622,859	1,178,008
	₩1,272,880	2,771,191	626,448	4,670,519
Liabilities:				
Other liabilities	₩ 1,200	—	—	1,200

	December 31, 2013			
	Assets-backed securitization	**Structured Financing**	**Investment fund**	**Total**
Assets:				
Loans	₩ 140,575	2,962,626	—	3,103,201
Trading assets	230,729	—	—	230,729
Derivative assets	884	1,075	—	1,959
Available for sale Financial assets	719,755	84,291	538,623	1,342,669
	₩1,091,943	3,047,992	538,623	4,678,558

ii) Exposure to risk relating to interests in unconsolidated structured entities as of December 31, 2014 and 2013 were as follows:

	December 31, 2014			
	Assets-backed securitization	**Structured Financing**	**Investment fund**	**Total**
Assets owned	₩1,272,880	2,771,191	626,448	4,670,519
Purchase commitments	325,195	30,000	103,702	458,897
Providing unused credit	1,631,113	110,224	—	1,741,337
Guarantees	—	28,888	—	28,888
	₩3,229,188	2,940,303	730,150	6,899,641

	December 31, 2013			
	Assets-backed securitization	**Structured Financing**	**Investment fund**	**Total**
Assets owned	₩1,091,943	3,047,992	538,623	4,678,558
Purchase commitments	157,000	—	18,913	175,913
Providing unused credit	1,258,531	168,520	—	1,427,051
Guarantees	—	5,410	—	5,410
	₩2,507,474	3,221,922	557,536	6,286,932

44. Information of trust business

(a) Total assets with trust business as of December 31, 2014 and 2013 and operating revenue for the years ended December 31, 2014 and 2013 were as follows:

	Total assets		Operating revenue	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Consolidated	₩ 3,882,632	3,667,084	149,686	143,885
Unconsolidated	27,103,450	22,674,439	502,429	581,492
	₩30,986,082	26,341,523	652,115	725,377

(b) Significant balances with trust business as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Borrowings from trust accounts	₩2,017,811	2,298,642
Accrued revenues from asset management fee from trust accounts	16,227	15,206
Accrued interest expenses	526	665

(c) Significant transactions with trust business for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Asset management fee	₩49,741	42,241
Interest on borrowings from trust account	44,891	50,043

Independent Auditors' Report

The Board of Directors and Stockholder
Shinhan Bank:

We have audited the accompanying consolidated statements of financial position of Shinhan Bank and its subsidiaries (the "Group") as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 the audit evidence we have obtained is sufficient and appropriate to provide a 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 its financial performance and its cash flows for the years ended December 31, 2013 and 2012 in accordance with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those knowledgeable about Korean auditing standards and their application in practice.

As discussed in note 3 to the consolidated financial statements, the Group applied the amendments to K-IFRS No. 1019, 'Employee Benefits' and recognized the required remeasurements in other comprehensive income, and the Group adopted K-IFRS No. 1110, 'Consolidated Financial Statements' as the basis for determining the scope of consolidation. The Group applied these changes in accounting policies retrospectively, and accordingly restated the comparative information of the consolidated financial statements as of and for the year ended December 31, 2012, and the consolidated statement of financial position as of January 1, 2012.

/s/ KPMG Samjong Accounting Corp.
Seoul, Korea
March 13, 2014

This report is effective as of March 13, 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 the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SHINHAN BANK AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of December 31, 2013, December 31, 2012, and January 1, 2012.

(In millions of won)	Note	December 31, 2013	December 31, 2012 (Restated)	January 1, 2012 (Restated)
Assets				
Cash and due from banks	4,7,10,40,41	₩ 12,429,963	9,347,347	10,838,203
Trading assets	4,6,8,43	7,519,765	7,994,871	9,330,859
Derivative assets	4,9,41,43	1,457,994	1,843,714	2,153,824
Loans	4,6,10,17,41,43	174,689,344	169,699,199	164,202,496
Available-for-sale financial assets	4,6,11,17,43	24,093,086	28,316,748	26,725,683
Held-to-maturity financial assets	4,6,11,17	7,433,620	9,224,328	9,902,422
Property and equipment	6,12,17	2,201,033	2,215,048	2,166,087
Intangible assets	6,13	225,845	180,563	259,933
Investments in associates	14	222,340	197,224	171,945
Investment properties	6,15	596,954	545,432	553,312
Current tax assets	36	5,224	13,673	8,819
Deferred tax assets	36	49,335	17,340	6,855
Other assets	4,10,16,41,44	7,107,495	7,790,228	5,742,195
Assets held for sale		13,696	10,070	15,777
Total assets		₩238,045,694	237,395,785	232,078,410
Liabilities				
Deposits	4,18,41	₩175,020,432	170,009,006	165,798,268
Trading liabilities	4,19	398,596	484,061	602,592
Derivative liabilities	4,9,41,43	1,478,179	1,537,822	1,726,718
Borrowings	4,20,41	10,069,339	10,846,518	13,416,653
Debt securities issued	4,21	17,739,655	18,500,639	19,054,607
Liability for defined benefit obligations	22	67,438	164,668	199,008
Provisions	23,39,41	364,016	331,627	440,364
Current tax liabilities	36,41	148,285	150,603	372,506
Deferred tax liabilities	36	10,473	97,485	207,898
Other liabilities	4,24,33,41,43,44	12,213,200	14,936,495	10,906,370
Total liabilities		217,509,613	217,058,924	212,724,984
Equity				
Capital stock	25	7,928,078	7,928,078	7,928,078
Other equity instruments	25	2,099,350	2,329,760	2,329,760
Capital surplus	25	403,164	403,164	403,164
Capital adjustments	25	25	2,011	1,034
Accumulated other comprehensive income	25,36	296,402	654,603	790,637
Retained earnings	25,26,36	9,806,344	9,016,617	7,898,061
Total equity attributable to equity holder of Shinhan Bank		20,533,363	20,334,233	19,350,734
Non-controlling interests	25	2,718	2,628	2,692
Total equity		20,536,081	20,336,861	19,353,426
Total liabilities and equity		₩238,045,694	237,395,785	232,078,410

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2013 and 2012

(In millions of won)	**Note**	**2013**	**2012 (Restated)**
Interest income		₩ 9,087,373	10,455,938
Interest expense		4,736,825	5,687,499
Net interest income	4,6,27,43	4,350,548	4,768,439
Fees and commission income		945,103	1,015,749
Fees and commission expense		196,203	199,885
Net fees and commission income	4,6,28,41,43	748,900	815,864
Dividend income	29	65,642	80,895
Net trading income (loss)	30	(43,242)	116,654
Net foreign currencies transaction income		255,444	109,167
Net gain on sales of available-for-sale financial assets	11	485,833	313,639
Net impairment loss on financial assets	4,10,31,42	(877,328)	(893,884)
General and administrative expenses	13,22,32,42	(2,692,882)	(2,700,743)
Net other operating expenses	34,42	(572,943)	(531,908)
Operating income	6	1,719,972	2,078,123
Non-operating expenses, net	35	(14,407)	(18,835)
Equity in income of investments in associate	6,14	22,448	21,897
Profit before income taxes		1,728,013	2,081,185
Income tax expense	6,36	354,837	425,777
Profit from continuing operations		1,373,176	1,655,408
Discontinued operations			
Profit from discontinued operations	6,37	—	7,311
Profit for the year	6,26	1,373,176	1,662,719
Other comprehensive income (loss) for the year, net of income tax	4,25		
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation differences for foreign operations		(62,354)	(91,348)
Net change in fair value of available-for-sale financial assets		(304,687)	(47,187)
Equity in other comprehensive income of associates		(4,426)	6,826
		(371,467)	(131,709)
Items that will not be reclassified subsequently to profit or loss			
Remeasurement gain (loss) related to defined benefit plan		13,197	(4,505)
Total other comprehensive loss for the year, net of income tax		(358,270)	(136,214)
Total comprehensive income for the year		₩ 1,014,906	1,526,505

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Continued)
For the years ended December 31, 2013 and 2012

(In millions of won, except for earning per share)	Note	2013	2012 (Restated)
Profit attributable to:	6		
Equity holder of Shinhan Bank		1,373,017	1,662,546
Non-controlling interests		159	173
		1,373,176	1,662,719
Other comprehensive income (loss) attributable to:			
Equity holder of Shinhan Bank		1,014,816	1,526,512
Non-controlling interests		90	(7)
		1,014,906	1,526,505
Earnings per share:	38		
Basic and diluted earnings per share in won		782	951

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIAIRES
Consolidated Statements of Changes in Equity
For the years ended December 31, 2013 and 2012

(In millions of won)

	Attributable to equity holder of Shinhan Bank								
	Capital stock	Other equity instruments	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2012	₩7,928,078	2,329,760	403,164	1,034	913,162	7,711,930	19,287,128	2,692	19,289,820
Changes in accounting policies	—	—	—	—	(122,525)	186,131	63,606	—	63,606
Restated Balance	7,928,078	2,329,760	403,164	1,034	790,637	7,898,061	19,350,174	2,692	19,353,426
Profit for the year	—	—	—	—	—	1,662,546	1,662,546	173	1,662,719
Other comprehensive income (loss), net of income tax									
Foreign currency translation differences for foreign operations	—	—	—	—	(91,168)	—	(91,168)	(180)	(91,348)
Net change in unrealized fair value of available-for-sale financial assets	—	—	—	—	(47,187)	—	(47,187)	—	(47,187)
Equity in other comprehensive income of associates	—	—	—	—	6,826	—	6,826	—	6,826
Remeasurement loss related to defined benefit plan	—	—	—	—	(4,505)	—	(4,505)	—	(4,505)
	—	—	—	—	(136,034)	—	(136,034)	(180)	(136,214)
Total comprehensive income (loss) for the year	—	—	—	—	(136,034)	1,662,546	1,526,512	(7)	1,526,505
Transactions with owners of Shinhan Bank									
Annual dividends to equity holder	—	—	—	—	—	(390,000)	(390,000)	—	(390,000)
Dividend to hybrid bond holders	—	—	—	—	—	(153,990)	(153,990)	—	(153,990)
Share-based payments	—	—	—	977	—	—	977	—	977
Disposal of subsidiary	—	—	—	—	—	—	—	(57)	(57)
	—	—	—	977	—	(543,990)	(543,013)	(57)	(543,070)
Balance at December 31, 2012 (Restated)	₩7,928,078	2,329,760	403,164	2,011	654,603	9,016,617	20,334,233	2,628	20,336,861

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIAIRES
Consolidated Statements of Changes in Equity (Continued)
For the years ended December 31, 2013 and 2012

(In millions of won)	Attributable to equity holder of Shinhan Bank								
	Capital stock	Other equity instruments	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2013	₩7,928,078	2,329,760	403,164	2,011	654,603	9,016,617	20,334,233	2,628	20,336,861
Profit for the year	—	—	—	—	—	1,373,017	1,373,017	159	1,373,176
Other comprehensive income (loss), net of income tax									
Foreign currency translation differences for foreign operations	—	—	—	—	(62,285)	—	(62,285)	(69)	(62,354)
Net change in unrealized fair value of available-for-sale financial assets	—	—	—	—	(304,687)	—	(304,687)	—	(304,687)
Equity in other comprehensive income of associates	—	—	—	—	(4,426)	—	(4,426)	—	(4,426)
Remeasurement gain related to defined benefit plan	—	—	—	—	13,197	—	13,197	—	13,197
	—	—	—	—	(358,201)	—	(358,201)	(69)	(358,270)
Total comprehensive income (loss) for the year	—	—	—	—	(358,201)	1,373,017	1,014,816	90	1,014,906
Transactions with owners of Shinhan Bank									
Annual dividends to equity holder	—	—	—	—	—	(450,000)	(450,000)	—	(450,000)
Dividend to hybrid bond holders	—	—	—	—	—	(133,290)	(133,290)	—	(133,290)
Issuance of hybrid bonds	—	299,568	—	—	—	—	299,568	—	299,568
Redemption of hybrid bonds	—	(529,978)	—	—	—	—	(529,978)	—	(529,978)
Share-based payment	—	—	—	(1,986)	—	—	(1,986)	—	(1,986)
	—	(230,410)	—	(1,986)	—	(583,290)	(815,686)	—	(815,686)
Balance at December 31, 2013	₩7,928,078	2,099,350	403,164	25	296,402	9,806,344	20,533,363	2,718	20,536,081

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2013 and 2012

(In millions of won)	2013	2012 (Restated)
Cash flows from operating activities		
Profit before income taxes	₩ 1,728,013	2,081,185
Adjustments for:		
Net interest income	(4,350,548)	(4,768,439)
Dividend income	(65,642)	(80,895)
Non-cash trading loss (income), net	134,239	(41,682)
Non-cash foreign currencies transaction income, net	(154,469)	(44,465)
Net gain on sales of available-for-sale financial assets	(485,833)	(313,639)
Net impairment loss on financial assets	673,744	818,142
Net impairment loss on other financial assets	203,584	75,742
Non-cash employee benefits	26,533	113,607
Depreciation and amortization	203,587	191,734
Non-cash other operating expenses, net	115,889	29,003
Equity in income of investments in associates, net	(22,448)	(21,897)
Non-cash non-operating expenses, net	8,517	30,299
	(3,712,847)	(4,012,490)
Changes in assets and liabilities:		
Due from banks	(2,799,900)	2,031,308
Trading assets	385,659	1,258,083
Derivative assets	1,240,303	1,562,018
Loans	(6,779,357)	(7,397,734)
Other assets	509,146	(2,120,626)
Deposits	6,410,251	5,612,713
Trading liabilities	73,883	(112,749)
Derivative liabilities	(1,347,950)	(1,404,172)
Liability for defined benefit obligations	(93,894)	(148,775)
Provisions	(25,758)	(104,197)
Other liabilities	(2,784,970)	4,304,684
	(5,212,587)	3,480,553
Income taxes paid	(384,841)	(772,742)
Interest received	9,180,011	10,438,030
Interest paid	(4,640,230)	(5,748,483)
Dividends received	67,491	82,599
Net cash provided by (used in) operating activities	₩ (2,974,990)	5,548,652

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Continued)
For the years ended December 31, 2013 and 2012

(In millions of won)	2013	2012 (Restated)
Cash flows from investing activi ties		
Proceeds from sale of available-for-sale financial assets	₩ 22,893,258	31,082,817
Acquisitions of available-for-sale financial assets	(18,717,848)	(32,538,544)
Proceeds from sale of held-to-maturity financial assets	2,212,075	2,378,258
Acquisitions of held-to-maturity financial assets	(469,268)	(1,745,778)
Proceeds from sale of property and equipment	11,205	5,954
Acquisitions of property and equipment	(195,939)	(201,794)
Proceeds from sale of intangible assets	2,131	1,414
Acquisitions of intangible assets	(78,471)	(37,170)
Proceeds from sale of investments in associates	93	28,000
Acquisitions of investments in associate	(9,022)	(9,750)
Proceeds from sale of assets held for sale	2,185	6,489
Proceeds from sales of investment properties	1,685	—
Decrease in other assets	161,164	126,750
Increase in other assets	(162,084)	(162,501)
Net cash provided by (used in) investing activities	5,651,164	(1,065,855)
Cash flows from financing activities		
Proceeds from borrowings	16,022,419	15,282,060
Repayments of borrowings	(16,659,772)	(17,546,442)
Proceeds from issuance of debt securities	5,305,202	7,096,702
Repayments of debt securities	(5,743,766)	(7,736,545)
Dividends paid	(582,876)	(544,875)
Proceeds from hybrid bonds	299,568	—
Redemption of hybrid bonds	(529,978)	—
Increase in other liabilities	12,942	18,703
Decrease in other liabilities	(17,277)	(4,513)
Net cash used in financing activities	(1,893,538)	(3,434,910)
Effect of exchange rate fluctuations on cash and cash equivalents held	1,795	(3,635)
Cash flows from discontinued operations	—	50,976
Net increase cash and cash equivalents	784,431	1,095,228
Beginning cash and cash equivalents	4,206,930	3,111,702
Ending cash and cash equivalents	₩ 4,991,361	4,206,930

See accompanying notes to the consolidated financial statements.

1. Reporting entity

Shinhan Bank (the "Bank"), the controlling company, and its subsidiaries included in consolidation (collectively the "Group") are summarized as follows:

(a) Controlling company

The Bank was established through the merger of Hansung Bank and Dongil Bank, which were established on February 19, 1897 and August 8, 1906, respectively, to engage in commercial banking and trust operations.

The Bank acquired Chungbuk Bank and Kangwon Bank in 1999, and the former Shinhan Bank in 2006, and subsequently changed its name to Shinhan Bank. As of December 31, 2013, the Bank has 1,585,615,506 outstanding common shares with par value of ₩7,928,078 million which Shinhan Financial Group Co., Ltd. ("Shinhan Financial Group") owns 100% of them. As of December 31, 2013, the Bank operates through 836 domestic branches, 107 depositary offices, 24 premises and 7 overseas branches.

(b) Subsidiaries included in consolidation

a. *Shinhan Asia Ltd.*

Shinhan Asia Limited ("Shinhan Asia") engages in merchant banking activities in Hong Kong. As of December 31, 2013, Shinhan Asia's capital stock amounted to US $100 million.

b. *Shinhan Bank America*

Shinhan Bank America ("Shinhan America") was established on March 24, 2003 through the merger of Chohung Bank of New York and California Chohung Bank. As of December 31, 2013, Shinhan America's capital stock amounted to US $123 million.

c. *Shinhan Bank Europe GmbH*

Shinhan Bank Europe GmbH ("Shinhan Europe") was established in 1994. As of December 31, 2013, Shinhan Europe's capital stock amounted to EUR 23 million.

d. *Shinhan Khmer Bank*

Shinhan Khmer Bank ("Shinhan Khmer") was established on August 10, 2007. As of December 31, 2013, Shinhan Khmer's capital stock amounted to US $20 million.

e. *Shinhan Kazakhstan Bank*

Shinhan Kazakhstan Bank ("Shinhan Kazakhstan") was established on March 21, 2008. As of December 31, 2013, Shinhan Kazakhstan's capital stock amounted to KZT 10,029 million.

f. *Shinhan Canada Bank*

Shinhan Canada Bank ("Shinhan Canada") was established on August 22, 2008. As of December 31, 2013, Shinhan Canada's capital stock amounted to CAD 50 million.

g. *Shinhan Bank China Limited*

Shinhan Bank China Limited ("Shinhan China") was established on April 30, 2008. As of December 31, 2013, Shinhan China's capital stock amounted to CNY 2,000 million.

h. *Shinhan Bank Japan*

Shinhan Bank Japan ("Shinhan Japan") was established on September 14, 2009. As of December 31, 2013, Shinhan Japan's capital stock amounted to JPY 15,000 million.

i. *Shinhan Bank Vietnam*

Shinhan Bank Vietnam ("Shinhan Vietnam") was established on October 13, 2009 and merged with Shinhan Vina Bank on November 28, 2011. As of December 31, 2013, Shinhan Vietnam's capital stock amounted to VND 4,547,100 million.

Details of ownerships in subsidiaries excluding structured entities as of December 31, 2013 and 2012 were as follows:

		Ownership (%)	
Investee	**Country**	**December 31, 2013**	**December 31, 2012**
Shinhan Asia	Hong Kong	99.9	99.9
Shinhan America	U.S.A	100.0	100.0
Shinhan Europe	Germany	100.0	100.0
Shinhan Khmer	Cambodia	90.0	90.0
Shinhan Kazakhstan	Kazakhstan	100.0	100.0
Shinhan Canada	Canada	100.0	100.0
Shinhan China	China	100.0	100.0
Shinhan Japan	Japan	100.0	100.0
Shinhan Vietnam	Vietnam	100.0	100.0

In addition, structured entities included in consolidation as of December 31, 2013 were as follows:

Structured entities	**Country**	**Closing month**
I-Clover Series L1	Korea	December
Shinwha-China Investment Co., Ltd.	Korea	December
Shinhan Mortgage 2nd ABS Specialty Co., Ltd.	Korea	December
MPC Yulchon Green 1st	Korea	December
AR Plus 2nd	Korea	December
MPC Yulchon 2nd	Korea	September
STAY 2nd	Korea	March
S Dream 5th Co., Ltd	Korea	December
S Dream 7th Co., Ltd	Korea	December
AETAS DRIVE FIRST Co., Ltd	Korea	December
AR Plus 3rd	Korea	September
MPC Yulchon 1st	Korea	December
S-Nuri 1st L.L.C	Korea	December
S-Nuri 6th L.L.C	Korea	September
Development Trust	Korea	December
Non-specified Money Trust	Korea	December
Old-age Living Pension Trust	Korea	December
New-Personal Pension Trust	Korea	December
Personal Pension Trust	Korea	December
Retirement Trust	Korea	December
New Old-age Living Pension Trust	Korea	December
Pension Trust	Korea	December
Household Money Trust	Korea	December
Installment Money Trust for Purpose	Korea	December
Corporation Money Trust	Korea	December
China Opportunity Private Special Asset Investment Fund 3rd	Korea	December
Shinhan BNPP Private Corporate 25th	Korea	January

Structured entities	Country	Closing month
Shinhan BNPP Private Corporate 18th	Korea	January
Heungkuk Muzeegae Private Securities Investment Trust T-19	Korea	February
Dongbu All Together Private Investment Trust Fund 5th	Korea	March
KIM Private Basic Securities Investment Trust 4 (Fund)	Korea	March
Samsung Partner Private Securities No.2[Trust]	Korea	March

The Group consolidates a structured entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to most significantly affect those returns through its power over the structured entity based on the terms in the agreement relating to the establishment of the structured entity. As the Group's interests in the structured entities are presented as liabilities in the consolidated statement of financial position of the Group, the Group does not recognize non-controlling interests for the consolidated structured entities.

The Group provides ABCP purchase agreement amounting to ₩112,277 million to the structured entities described above.

Status of subsidiaries those were added to the consolidated financial statements and excluded from the consolidated financial statements for the year ended December 31, 2013 were as follows:

i) Newly added subsidiaries for the year ended December 31, 2013

	Reason
S Dream 5th Co.,Ltd	ABCP purchase agreement & asset management, etc
S Dream 7th Co.,Ltd	ABCP purchase agreement & asset management, etc
AETAS DRIVE FIRST Co.,Ltd	ABL credit offering & asset management, etc
AR Plus 3rd	ABCP purchase agreement & asset management, etc
MPC Yulchon 1st	ABCP purchase agreement & asset management, etc
S-Nuri 1st L.L.C	ABCP purchase agreement & asset management, etc
S-Nuri 6th L.L.C	ABCP purchase agreement & asset management, etc
Shinhan BNPP Private Corporate 25th	100% ownership of beneficiary certificate
Shinhan BNPP Private Corporate 18th	100% ownership of beneficiary certificate
Heungkuk Muzeegae Private Securities Investment Trust T-19	100% ownership of beneficiary certificate
Dongbu All Together Private Investment Trust Fund 5th	100% ownership of beneficiary certificate
KIM Private Basic Securities Investment Trust 4 (Fund)	100% ownership of beneficiary certificate
Samsung Partner Private Securities No.2[Trust]	100% ownership of beneficiary certificate

ii) Excluded subsidiaries for the year ended December 31, 2013

	Reason
I-Clover Series B5	Termination of the ABCP purchase agreement
I-Clover Series L2	Termination of the ABCP purchase agreement
STAY 1st	Termination of the ABCP purchase agreement
KAMCO Value Recreation 6th ABS Specialty Co., Ltd.	Liquidation of SPC
Dongbu All Together Private Investment Trust Fund 2nd	Disposal of beneficiary certificate
Heungkuk Rainbow Private Investment Trust Fund K-94th	Disposal of beneficiary certificate
Heungkuk Rainbow Private Investment Trust Fund K-99th	Disposal of beneficiary certificate
Shinyoung Private Investment Trust Fund S-1st	Disposal of beneficiary certificate
Heungkuk Rainbow Private Investment Trust Fund K-100	Disposal of beneficiary certificate

2. Basis of preparation

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are as follows

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in *the Act on External Audit of Stock Companies.*

These consolidated financial statements have been prepared in accordance with the accounting policies described below.

Moreover, the comparative statement of comprehensive income and the statement of cash flow have been re-presented to show the discontinued operation separately from continuing operations as the Group disposed all the investment on Shinhan Aitas to Shinhan Financial Group for the year ended December 31, 2012. Financial information on the discontinued operation is described in Note 37.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statements of financial position:

- derivative financial instruments that are measured at fair value
- financial instruments at fair value through profit or loss that are measured at fair value
- available-for-sale financial assets that are measured at fair value
- share-based payment arrangements that are measured at fair value
- recognized financial liabilities designated as hedged items in qualifying fair value hedge relationships and adjusted for changes in fair value attributable to the risk being hedged
- Liabilities for defined benefit plans that are recognized as net of the total present value of defined benefit obligations less the fair value of plan assets

(c) Functional and presentation currency

These consolidated financial statements are presented in Korean won, which is the Group's functional currency and the currency of the primary economic environment in which the Group operates. Subsidiaries whose functional currency is not Korean won were as follows:

Functional currency	Subsidiary
USD	Shinhan Asia, Shinhan America, Shinhan Khmer
EUR	Shinhan Europe
KZT	Shinhan Kazakhstan
CAD	Shinhan Canada
CNY	Shinhan China
JPY	Shinhan Japan
VND	Shinhan Vietnam

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have a significant effect on the amount recognized in the consolidated financial statements is described in Note 5.

3. Significant accounting policies

(a) Changes in accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for the changes in accounting policies as explained below.

i) *Changes in accounting policies*

ⓐ K-IFRS No. 1001, '*Presentation of Financial Statements'*

The Group has applied the amendments to K-IFRS No. 1001, '*Presentation of Financial Statements'* since January 1, 2013. The amendments require presenting in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). Comparative information has been re-presented on the same basis.

ⓑ K-IFRS No. 1110, '*Consolidated Financial Statements'*

The Group has applied the amendments to K-IFRS No. 1110, *'Consolidated Financial Statements'* since January 1, 2013. The standard defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. A subsidiary is an entity that is controlled by another entity. 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.

ⓒ K-IFRS No. 1111, *'Joint Arrangements'*

The Group adopted K-IFRS No. 1111, *'Joint Arrangements'* since January 1, 2013. The standard classifies joint arrangements into two types - joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. The standard requires a joint operator to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant IFRSs applicable to the particular assets, liabilities, revenues and expenses. The standard requires a joint venturer to recognize an investment and to account for that investment using the equity method.

ⓓ K-IFRS No. 1112, '*Disclosure of Interests in Other Entities'*

The Group adopted K-IFRS No. 1112, '*Disclosure of Interests in Other Entities'* since January 1, 2013. The standard brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. The standard requires the disclosure of information about the nature, risks and financial effects of these interests.

ⓔ Amendments to K-IFRS No. 1019, '*Employee Benefits'*

The Group has applied the amendments to K-IFRS No. 1019, '*Employee Benefits'* since January 1, 2013. The standard requires the Group to recognize remeasurements immediately in other comprehensive income and to calculate the expected return on plan assets based on the rate used to discount the defined benefit obligation.

ⓕ K-IFRS No. 1113, '*Fair Value Measurement'*

The Group adopted K-IFRS No. 1113, '*Fair Value Measurement'* since January 1, 2013. The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements.

ⓖ Amendments to K-IFRS No. 1107 *'Financial Instruments: Disclosures'*

The Group has applied the amendments to K-IFRS No.1107, 'Financial Instruments Disclosures' since January 1, 2013. The amendments require the Group to disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on the Group's financial position.

ii) *Impact of changes in accounting policies*

ⓐ K-IFRS No. 1110, '*Consolidated Financial Statements'*

The Group re-assessed the control conclusion for its investees as of January 1, 2013. As a result, the following subsidiaries were newly included in the consolidation.

Company	**Reason**
Old-age Living Pension Trust New-Personal Pension Trust Personal Pension Trust Retirement Trust New Old-age Living Pension Trust Pension Trust Household Money Trust Installment Money Trust for Purpose Corporation Money Trust	The Group is exposed, or has rights, to variable returns from its involvement with the investees and has the ability to affect those returns through its power over these investees. Accordingly, they are newly consolidated. Prior to the adoption of K-IFRS No. 1110, they had not been consolidated since the Group had not held the majority of the benefits or the residual risk.

The Group retrospectively applied K-IFRS No. 1110. The Group has taken advantage of the transitional provisions of K-IFRS NO. 1110 and has not included in the following tables the impact of consolidating the additional subsidiary on the Group's financial position, comprehensive income and cash flows as of and for the year ended December 31, 2013. The financial impact on the consolidated financial statements is as follows:

- Summary of the consolidated statements of financial position as of December 31, 2012 and January 1, 2012

	December 31, 2012			**January 1, 2012**		
	As previously reported(*)	**Adjustments**	**As restated**	**As previously reported(*)**	**Adjustments**	**As restated**
Cash and due from banks	₩ 9,295,347	52,000	9,347,347	10,783,403	54,800	10,838,203
Trading assets	5,359,510	2,635,361	7,994,871	6,764,341	2,566,518	9,330,859
Loans	169,140,922	558,277	169,699,199	163,637,977	564,519	164,202,496
Other assets	7,742,781	47,447	7,790,228	5,681,720	60,475	5,742,195
Impact on total assets		3,293,085			3,246,312	
Deposits	166,820,320	3,188,686	170,009,006	162,582,328	3,215,940	165,798,268
Provisions	331,579	48	331,627	440,324	40	440,364
Deferred tax liabilities	76,783	20,702	97,485	187,591	20,307	207,898
Other liabilities	14,917,696	18,799	14,936,495	10,959,951	(53,581)	10,906,370
Impact on total liabilities		3,228,235			3,182,706	
Retained earnings	8,951,767	64,850	9,016,617	7,834,455	63,606	7,898,061
Impact on total equity		64,850			63,606	

(*) The amounts are restated to reflect the impact of the amendments to K-IFRS No. 1019, *'Employee Benefits'*.

- Summary of the consolidated statement of comprehensive income for the year ended December 31, 2012

	2012		
	As previously reported(*)	Adjustments	As restated
Net interest income	₩4,751,085	17,354	4,768,439
Net fees and commission income	836,142	(20,278)	815,864
Dividend income	80,593	302	80,895
Net trading income	106,344	10,310	116,654
Net impairment loss on financial asset	(893,457)	(427)	(893,884)
Net other operating expenses	(526,286)	(5,622)	(531,908)
Income tax expense	(425,380)	(397)	(425,777)
Net income for the period	1,661,477	1,242	1,662,719

(*) The amounts are recalculated to reflect the impact of the amendments K-IFRS No. 1019, '*Employee Benefits*'.

- The consolidated statement of cash flows for the year ended December 31, 2012

There is no impact on the net cash flows from operating activities, investing and financing activities, and cash and cash equivalents.

ⓑ Amendments to K-IFRS No. 1019, '*Employee Benefits*'

The amendments to K-IFRS No. 1019 are applied retrospectively, and the Group restated its prior period consolidated financial statements accordingly.

The following table summarizes the financial effects on the consolidated statements of financial position as of December 31, 2013 and 2012 and January 1, 2012 and the consolidated statement of comprehensive income for the years ended December 31, 2013 and 2012.

- Summary of the consolidated statements of financial position

	December 31, 2013		
	Before applying the amendment	Adjustments	After applying the amendment
Accumulated other comprehensive income	₩ 410,236	(113,834)	296,402
Retained earnings	9,692,510	113,834	9,806,344

	December 31, 2012		
	As previously reported(*)	Adjustments	As restated
Accumulated other comprehensive income	₩ 781,633	(127,030)	654,603
Retained earnings	8,889,587	127,030	9,016,617

	January 1, 2012		
	As previously reported(*)	Adjustments	As restated
Accumulated other comprehensive income	₩ 913,162	(122,525)	790,637
Retained earnings	7,775,536	122,525	7,898,061

(*) The amounts are restated to reflect the impact of the adoption of K-IFRS No. 1110, '*Consolidated Financial Statements*'.

- Summary of the consolidated statement of comprehensive income

	2013		
	Before applying the amendments	Adjustments	After applying the amendments
General and administrative expenses	₩2,675,473	17,409	2,692,882
Income tax expenses	359,050	(4,213)	354,837
Net income for the year	1,386,373	(13,197)	1,373,176
Remeasurement loss related to defined benefit plan	—	13,197	13,197

	2012		
	As previously reported(*)	Adjustments	As restated
General and administrative expenses	₩2,706,686	(5,943)	2,700,743
Income tax expenses	424,338	1,439	425,777
Net income for the year	1,658,214	4,505	1,662,719
Remeasurement loss related to defined benefit plan	—	(4,505)	(4,505)

(*) The amounts are restated to reflect the impact of the adoption of K-IFRS No. 1110, '*Consolidated Financial Statements*'.

(b) Approval of the consolidated financial statements

The Group's financial statements were approved by the board of directors on February 11, 2014, which will be submitted for approval at the shareholder's meeting to be held on March 25, 2014.

(c) Basis of consolidation

i) *Subsidiaries*

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for the same transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

ii) *Intra-group transactions eliminated on consolidation*

Intra-group balances, transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

iii) *Non-controlling interests*

Non-controlling interests in a subsidiary are accounted for separately from the parent's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interests holders, even when the allocation reduces the non-controlling interests balance below zero.

(d) Business combinations

i) *Business combinations*

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Each identifiable asset and liability is measured at its acquisition-date fair value except for below:

- Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors
- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized
- Deferred tax assets or liabilities are recognized and measured in accordance with K-IFRS No. 1012, '*Income Taxes'*
- Employee benefit arrangements are recognized and measured in accordance with K-IFRS No. 1019, '*Employee Benefits'*
- Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset
- Reacquired rights are measured in accordance with special provisions
- Liabilities or equity instruments related to share-based payment transactions are measured in accordance with the method in K-IFRS No. 1102, '*Share-based Payment'*
- Assets held for sale are measured at fair value less costs to sell in accordance with K-IFRS No. 1105, '*Non-current Assets Held for Sale and Discontinued Operations'*

As of the acquisition date, non-controlling interests in the acquiree are measured as the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employee that is included in consideration transferred in the business combination shall be measured in accordance with the method described above rather than at fair value.

Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No. 1032, *'Financial Instruments: Presentation'* and K-IFRS No. 1039, '*Financial Instruments: Recognition and Measurement'*.

ii) *Goodwill*

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, bargain purchase gain is recognized immediately in profit or loss.

When the Group additionally acquires non-controlling interest, the group does not recognize goodwill since the transaction is regarded as equity transaction.

As part of its transition to K-IFRS, the Group elected to restate only those business combinations which occurred on or after January 1, 2010 in accordance with K-IFRS. In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP.

(e) Investments in associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity or when another entity is classified as a subsidiary by the Banking act since the Group holds more than 15% of the voting power of another entity.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The investment in an associate and a joint venture is initially recognized at cost, and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate and the joint venture after the date of acquisition. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate or a joint venture uses accounting policies different from those of the Group for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has to make payments on behalf of the investee for further losses.

(f) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The segment reporting to a chief operating decision maker includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly general expenses and income tax assets and liabilities. The Group considers the CEO as the chief operating decision maker.

(g) Foreign currency

i) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedging instrument of the net investment in a foreign operation or a qualifying cash flow hedge, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

ii) *Foreign operations*

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations including comparatives, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date and the income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation and are translated using the exchange rate at the reporting date.

On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

iii) *Net investment in a foreign operation.*

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognized in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Equity instruments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date. However, the Group's account overdraft is included in borrowings.

(i) Non-derivative financial assets

Financial assets are classified into financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity financial assets. Financial assets are recognized when the Group becomes a party to the contractual provisions of the instrument. In addition, a regular way purchase or sale (a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation of convention in the market place concerned) is recognized on the trade date are recognized on the trade date.

A financial asset is measured initially at its fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition of the financial asset.

i) *Financial assets at fair value through profit or loss*

A financial asset is classified as at fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

ii) *Held-to-maturity financial assets*

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, is classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

iii) *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

iv) *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives those are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

v) *Derecognition of financial assets*

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

vi) *Offsetting*

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to set off the recognized amounts, and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(j) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

i) *Loans*

The Group first assesses whether objective evidence of impairment exists individually for loans that are individually significant, 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. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables 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 (i.e., the effective interest rate computed at initial recognition).

If the interest rate of loans is a floating rate, the discount rate used to evaluate impairment is the current effective interest rate defined in the agreement. The present value of estimated future cash flows of secured financial assets is calculated by including cash flows from collateral after deducting costs to acquire and sell the collateral, regardless of probability of realization of such collateral.

In assessing collective impairment, the Group classifies loans, based on credit risk assessment or a credit rating assessment process that takes into account asset type, industry, regional location, collateral type, delinquency and other relevant factors.

Future cash flows of loans subject to collective impairment assessment are estimated by using statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of losses incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the impairment losses are likely to be greater or less than suggested by historical modelling. In adjusting the future cash flows by historical modelling, the result has to be in line with changes and trends of observable data (e.g., impairment losses of collective assets and unemployment rates, asset prices, commodity prices, payment status and other variables representing the size of impairment losses). Methodologies and assumptions used to estimate future cash flow are reviewed on a regular basis in order to reduce discrepancy between estimated impairment losses and actual loss.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans. When a subsequent event causes the amount of impairment losses to decrease, and the decrease can be related objectively to an event occurring after the impairment is recognized, the decrease in impairment losses is reversed through profit or loss of the period.

ii) *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 that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. 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 is recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

iii) *Held-to-maturity financial assets*

An impairment loss in respect of held-to-maturity financial assets measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate and is recognized in profit or loss. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(k) Derivative financial instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

i) *Hedge Accounting*

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (fair value hedges) foreign currency risk of highly probable forecasted transactions or firm commitments (cash flow hedges), and foreign currency risk of net investment in foreign operation(net investment hedges).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

ii) *Fair value hedges*

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

iii) *Cash flow hedges*

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity. The amount recognized in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the consolidated statements of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in the hedging reserve in equity remains there until the forecasted transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognized in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognized. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss. In other cases the amount recognized in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

iv) *Net investment hedges.*

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the accumulated other comprehensive income is transferred to profit or loss as part of the profit or loss on disposal in accordance with K-IFRS No. 1021, *'The Effects of Changes in Foreign Exchange Rates'*.

v) *Separable embedded derivatives*

Embedded derivatives are separated from the host contract and accounted for separately only if the economic characteristics and risks of the host contract and the embedded derivative are not closely related; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

vi) *Derivative financial instruments*

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

(l) Property and equipment

Property and equipment are initially measured at cost and after initial recognition. The cost of property and equipment includes expenditures arising directly from the construction or acquisition of the asset, 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.

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

Certain land and buildings are measured at fair value at the date of transition to K-IFRS, which is deemed cost, in accordance with K-IFRS No.1101, 'First-time Adoption'. Dividend from relevant revaluation surplus is prohibited in accordance with the resolution of the board of directors.

The Group recognizes in the carrying amount of an item of property and equipment the cost of replacing part of property and equipment when that cost is incurred if it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Land is not depreciated. Other property and equipment are depreciated on a straight-line basis over the estimated useful lives, which most closely reflect the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives for the current and comparative periods were as follows:

Descriptions	**Useful lives**
Buildings………………………………………………………………	40 years
Other properties ……………………………………………………	4~5 years

The gain or loss arising from the derecognition of an item of property and equipment, which is included in profit or loss, is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Depreciation methods, useful lives and residual values are reassessed at each fiscal year-end and any adjustment is accounted for as a change in accounting estimate.

(m) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

Descriptions	Useful lives
Software and capitalized development cost	5 years
Other intangible assets	5 years or contract periods, whichever the shorter

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

(n) Investment property

Investment property is property held either to earn rental income or for capital appreciation or both. An investment property is initially recognized at cost including any directly attributable expenditure. Subsequent to initial recognition, the asset is measured at cost less accumulated depreciation and accumulated impairment losses, if any.

The depreciation method and the estimated useful lives for the current and comparative periods were as follows:

Descriptions	Depreciation method	Useful lives
Buildings	Straight-line	40 years

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as changes in accounting estimates.

(o) Leases

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(i) *Finance leases*

At the commencement of the lease term, the Group recognizes as finance assets and finance liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs 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 lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee 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 Group reviews to determine whether the leased asset may be impaired.

(ii) *Operating leases*

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the period of the lease.

(p) Assets held for sale

Assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized.

An asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

(q) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, deferred tax assets and assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU 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 or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(r) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

i) *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

ii) *Other financial liabilities*

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(s) Equity capital

i) *Capital stock*

Capital stock is classified as equity. Incremental costs directly attributable to the transaction of stock are recognized as a deduction from equity, net of any tax effects.

ii) *Hybrid bonds*

The Group classifies an issued financial instrument, or its component parts, as a financial liability or an equity instrument depending on the substance of the contractual arrangement of such financial instrument. Hybrid bonds where the Group has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation are classified as an equity instrument and presented in equity.

iii) *Non-controlling interests*

Non-controlling interests, which represent the equity in a subsidiary not attributable, directly or indirectly, to a parent's ownership interests, consist of the amount of those non-controlling interests at the date of the original combination calculated in accordance with K-IFRS No. 1103, '*Business Combinations'* and the non-controlling interests share of changes in equity since the date of the combination.

(t) Employee benefits

i) *Short-term employee benefits*

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

ii) *Other long-term employee benefits*

The Group's net obligation in respect of other long-term employee benefits that are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

iii) *Retirement benefits: defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes service cost and net interest on the net defined benefit liability (asset) in profit or loss and remeasurements of the net defined benefit liability (asset) in other comprehensive income.

iv) *Termination benefits*

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

(u) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

The Group has granted share-based payment based on Shinhan Financial Group's share to the employees. In accordance with a repayment arrangement with Shinhan Financial Group, the Group is required to pay Shinhan Financial Group for the provision of the share-based payments. The Group recognizes the costs as expenses and accrued expenses in liabilities for the service period. When vesting conditions are not satisfied because of death, retirement or dismissal of employees during the specified service period, no amount is recognized for goods or services received on a cumulative basis. Share-based payment arrangements in which the Group has no obligation to settle the share-based payment transaction are accounted for as equity-settled share-based payment transactions, regardless of the repayment arrangement with Shinhan Financial Group.

(v) Provisions

Provisions are recognized when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

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 provision is reversed.

Provision is used only for expenditures for which the provision is originally recognized.

(w) Financial guarantee contract

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee contract. The financial guarantee liability is subsequently measured at the higher of the amount of the best estimate of the expenditure required to settle the present obligation at the end of reporting period; and the amount initially recognized less, cumulative amortization recognized on a straight-line basis over the guarantee period. Financial guarantee liabilities are included within other liabilities.

*(x) **Financial income and expense***

i) *Interest income and expense*

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or 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, and all other premiums or discounts. When it is not possible to estimate reliably the cash flows or the expected life of a financial instrument, the Group uses the contractual cash flows over the full contractual term of the financial instrument.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

ii) *Fees and commission*

The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument.

ⓐ Fees that are an integral part of the effective interest rate of a financial instrument.

Such fees are generally treated as an adjustment to the effective interest rate. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, preparing and processing documents, closing the transaction and the origination fees received on issuing financial liabilities. However, when the financial instrument is measured at fair value with the change in fair value recognized in profit or loss, the fees are recognized as revenue when the instrument is initially recognized.

ⓑ Fees earned as services are provided

Fees and commission income, including investment management fees, sales commission, and account servicing fees, are recognized as the related services are provided. If it is unlikely that a specific lending arrangement will be entered into and the loan commitment is outside the scope of K-IFRS No. 1039, *'Financial Instruments: Recognition and Measurement'* the commitment fee is recognized as revenue on a time proportion basis over the commitment period.

ⓒ Fees that are earned on the execution of a significant act

The fees that are earned on the execution of a significant act including commission on the allotment of shares or other securities to a client, placement fee for arranging a loan between a borrower and an investor and sales commission, are recognized as revenue when the significant act has been completed.

iii) *Dividends*

Dividends are recognized when the shareholder's right to receive payment is established. Usually this is the ex-dividend date for equity securities.

They can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

*(y) **Income tax***

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Shinhan Financial Group, the parent company, files its national income tax return with the Korean tax authorities under the consolidated corporate tax system, which allows it to make national income tax payments based on the consolidated profits or losses of the Shinhan Financial Group and its wholly owned domestic subsidiaries including the Group. Deferred taxes are measured based on the future tax benefits expected to be realized in consideration of the expected profits or losses of eligible companies in accordance with the consolidated corporate tax system. Consolidated corporate tax amounts, once determined, are allocated to each of the subsidiaries and are used as a basis for the income taxes to be recorded in their stand-alone financial statements.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which

(z) Accounting for trust accounts

The Group accounts for trust accounts separately from its group accounts under the Financial Investment Services and Capital Markets Act and thus the trust accounts are not included in the accompanying consolidated financial statements. Borrowings from trust accounts are included in other liabilities. Trust fees and commissions in relation to the service provided to trust accounts by the Group are recognized as fees and commissions income.

(aa) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholder of the Bank by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(ab) Discontinued operation

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of comprehensive income and cash flows are re-presented as if the operation had been discontinued from the start of the comparative period.

(ac) New standards and interpretations not yet adopted

The following amendment to an existing standard has been published and is mandatory for the Group for annual periods beginning on or after January 1, 2014, and the Group has not early adopted them.

i) Amendments to K-IFRS No. 1032, *'Financial Instruments: Presentation'*

The amendments clarified the application guidance related to 'offsetting a financial asset and a financial liability'. The amendment is mandatorily effective for periods beginning on or after January 1, 2014. The amendments are not expected to have a material effect on the Group's financial statements.

4. Financial risk management

4-1. Credit risk

Credit risk is the risk of financial loss of the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from due from banks, the lending process related to loans, investment activities in debt securities and off balance sheet items including loan commitments, etc. Credit risk management is critical to the Group's business activities; thus, the Group carefully manages the credit risk exposure.

(a) Credit risk management

Major policies of the credit risk management are determined by the Credit Policy Committee, which is the Group's executive decision-making body for credit risk management. The Credit Policy Committee is led by the Group's Deputy President and Head of Risk Management Group. The Credit Policy Committee also consists of chief officers from eight different business units. The Credit Review Committee performs credit review evaluations and operates separately from the Credit Policy Committee.

Each business unit is required to implement the Group's risk management policies and procedures. Risk Management Department reviews compliance of business units with agreed exposure limits established by the Credit Policy Committee, including those for selected industries, country risk and product types.

The Group established the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to the business unit credit officer. Larger facilities require approval by the Credit Committee. The Group assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and review of facilities are subject to the same review process.

The Group is responsible for limiting concentrations of exposures to counterparties, geographies and industries, and by issuers, credit rating band, market liquidity and country.

The Group develops and maintains the risk grading system in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining credit approvals, credit renewals, credit pricing, credit limits, or where impairment provisions may be required against specific credit exposures for existing loans.

Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolio, including those subject to central approval. In addition to periodic loan reviews by credit officers, the Group also utilizes an automated monitoring tool which conducts searches for companies with high probability of default. Regular reports on the credit quality of local portfolios are provided to the Credit Administration Department who may require appropriate corrective action to be taken.

(b) Maximum exposure to credit risk

The Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements as of December 31, 2013 and 2012 was as follows:

	December 31, 2013	December 31, 2012 (Restated)
Due from banks and loans(*1,2):		
Banks	₩ 10,319,637	6,774,056
Retail:		
Mortgage lending	40,970,300	40,161,820
Other	39,014,553	37,256,102
	79,984,853	77,417,922
Government	9,109,552	7,164,419
Corporate:		
Large companies	29,652,111	32,019,256
Small and medium enterprises	50,992,108	46,565,391
Special finance	4,431,802	6,162,897
Other	849	2,061
	85,076,870	84,749,605
Card	39,278	2,474
	184,530,190	176,108,476
Trading assets:		
Debt securities	6,473,993	6,377,842
Gold deposits	76,337	437,928
Derivative assets	1,457,994	1,843,714
Available-for-sale financial assets:		
Debt securities	21,232,753	24,814,636
Held-to-maturity financial assets:		
Debt securities	7,433,620	9,224,328
Other financial assets(*1,3)	6,901,231	7,616,313
Off balance sheet items:		
Financial guarantee contracts	2,392,517	2,829,082
Loan commitments and other liabilities for credit	74,158,883	71,674,359
	76,551,400	74,503,441
	₩304,657,518	300,926,678

(*1) The maximum exposure amounts for due from banks and loans and other financial assets are recorded as net of allowances.

(*2) Due from banks and loans were classified as in a similar manner to the categorization applied when calculating BIS ratio under new Basel Capital Accord (Basel III).

(*3) Other financial assets comprise accounts receivable, accrued income, guarantee deposits, domestic exchange settlements debits, suspense receivables, etc.

(c) Impaired due from banks and loans

i) Due from banks and loans as of December 31, 2013 and 2012 were as follows:

	December 31, 2013					
	Banks	Retail	Government	Corporate	Card	Total
Neither past due nor impaired	₩10,334,664	79,583,362	9,114,647	84,586,205	39,375	183,658,253
Past due but not impaired	—	403,415	—	420,481	146	824,042
Impaired	—	239,333	—	1,428,225	10	1,667,568
	10,334,664	80,226,110	9,114,647	86,434,911	39,531	186,149,863
Less: allowance	(15,027)	(241,257)	(5,095)	(1,358,041)	(253)	(1,619,673)
	₩10,319,637	79,984,853	9,109,552	85,076,870	39,278	184,530,190

	December 31, 2012 (Restated)					
	Banks	Retail	Government	Corporate	Card	Total
Neither past due nor impaired	₩6,783,150	77,003,212	7,168,021	84,474,719	2,474	175,431,576
Past due but not impaired	116	325,070	—	442,524	—	767,710
Impaired	—	429,186	—	1,244,991	—	1,674,177
	6,783,266	77,757,468	7,168,021	86,162,234	2,474	177,873,463
Less: allowance	(9,210)	(339,546)	(3,602)	(1,412,629)	—	(1,764,987)
	₩6,774,056	77,417,922	7,164,419	84,749,605	2,474	176,108,476

ii) Credit quality of due from banks and loans that were neither past due nor impaired as of December 31, 2013 and 2012 was as follows:

	December 31, 2013					
	Banks	Retail	Government	Corporate	Card	Total
Grade 1(*)	₩10,334,664	75,124,722	9,114,647	50,969,742	34,972	145,578,747
Grade 2(*)	—	4,458,640	—	33,616,463	4,403	38,079,506
	10,334,664	79,583,362	9,114,647	84,586,205	39,375	183,658,253
Less: allowance	(15,027)	(125,270)	(5,095)	(657,195)	(235)	(802,822)
	₩10,319,637	79,458,092	9,109,552	83,929,010	39,140	182,855,431
Mitigation of credit risk due to collateral	₩ 152	54,809,672	—	45,415,301	15	100,225,140

	December 31, 2012 (Restated)					
	Banks	Retail	Government	Corporate	Card	Total
Grade 1(*)	₩6,783,150	75,175,126	7,168,021	50,873,298	—	139,999,595
Grade 2(*)	—	1,828,086	—	33,601,421	2,474	35,431,981
	6,783,150	77,003,212	7,168,021	84,474,719	2,474	175,431,576
Less: allowance	(9,210)	(127,422)	(3,602)	(994,292)	—	(1,134,526)
	₩6,773,940	76,875,790	7,164,419	83,480,427	2,474	174,297,050
Mitigation of credit risk due to collateral	₩ —	52,034,445	—	39,641,043	—	91,675,488

(*) Credit quality of due from banks and loans was classified based on the internal credit rating.

iii) Aging analyses of due from banks and loans, that were past due but not impaired as of December 31, 2013 and 2012 were as follows:

	December 31, 2013				
	Bank	Retail	Corporate	Card	Total
Within 30 days	₩ —	334,011	358,690	93	692,794
30~60 days	—	40,599	31,674	20	72,293
60~90 days	—	26,313	14,207	18	40,538
More than 90 days	—	2,492	15,910	15	18,417
	—	403,415	420,481	146	824,042
Less: allowance	—	(22,076)	(23,357)	(10)	(45,443)
	₩ —	381,339	397,124	136	778,599
Mitigation of credit risk due to collateral	₩ —	320,855	266,354	—	587,209

	December 31, 2012 (Restated)			
	Bank	Retail	Corporate	Total
Within 30 days	₩ 116	254,315	315,288	569,719
30~60 days	—	42,654	53,335	95,989
60~90 days	—	27,549	56,068	83,617
More than 90 days	—	552	17,833	18,385
	116	325,070	442,524	767,710
Less: allowance	—	(17,439)	(24,840)	(42,279)
	₩ 116	307,631	417,684	725,431
Mitigation of credit risk due to collateral	₩ —	247,414	264,995	512,409

iv) Mitigation of credit risk due to the collateral of impaired due from banks and loans as of December 31, 2013 and 2012 was as follows:

	December 31, 2013			
	Retail	Corporate	Card	Total
Impaired	₩239,333	1,428,225	10	1,667,568
Less: allowance	(93,911)	(677,489)	(8)	(771,408)
	₩145,422	750,736	2	896,160
Mitigation of credit risk due to collateral	₩ 97,277	492,777	—	590,054

	December 31, 2012 (Restated)		
	Retail	Corporate	Total
Impaired	₩ 429,186	1,244,991	1,674,177
Less: allowance	(194,685)	(393,497)	(588,182)
	₩ 234,501	851,494	1,085,995
Mitigation of credit risk due to collateral	₩ 106,405	464,947	571,352

(d) Credit rating

i) Credit rating of debt securities as of December 31, 2013 and 2012 was as follows:

	December 31, 2013			
	Trading assets	Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA	₩1,640,089	13,729,157	6,376,540	21,745,786
AA- to AA+	1,585,343	3,799,023	791,398	6,175,764
A- to A+	2,272,927	1,719,726	109,147	4,101,800
BBB- to BBB+	435,735	894,125	—	1,329,860
Lower than BBB-	264,861	418,568	23,305	706,734
Unrated	275,038	672,154	133,230	1,080,422
	₩6,473,993	21,232,753	7,433,620	35,140,366

	December 31, 2012 (Restated)			
	Trading assets	Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA	₩1,288,125	16,716,336	7,952,032	25,956,493
AA- to AA+	1,824,084	4,582,167	821,520	7,227,771
A- to A+	2,337,880	1,528,691	90,410	3,956,981
BBB- to BBB+	740,448	1,043,280	—	1,783,728
Lower than BBB-	60,160	246,909	26,337	333,406
Unrated	127,145	697,253	334,029	1,158,427
	₩6,377,842	24,814,636	9,224,328	40,416,806

The credit qualities of securities debt securities according to the credit ratings by external rating agencies were as follows:

	KIS(*1)	KR(*2)	S&P	Fitch	Moody's
AAA	—	—	AAA	AAA	Aaa
AA- to AA+	AAA	AAA	AA- to AA+	AA- to AA+	Aa3 to Aa1
A- to A+	AA- to AA+	AA- to AA+	A- to A+	A- to A+	A3 to A1
BBB- to BBB+	BBB- to A	BBB- to A	BBB- to BBB+	BBB- to BBB+	Baa3 to Baa1
Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than Baa3
Unrated	Unrated	Unrated	Unrated	Unrated	Unrated

(*1) KIS: Korea Investors Service

(*2) KR: Korea Ratings

ii) Credit status of debt securities as of December 31, 2013 and 2012 was as follows:

	December 31, 2013	December 31, 2012 (Restated)
Neither past due nor impaired	₩35,140,366	40,416,806
Impaired	—	—
	₩35,140,366	40,416,806

(e) Assets acquired through foreclosures amounting to ₩6,074 million, ₩9,977 million were classified as assets held for sale as of December 31, 2013 and 2012, respectively.

(f) ***Concentration by geographic location***

An analysis of concentration by geographic location for financial assets including due from banks and loans, net of allowance, as of December 31, 2013 and 2012 was as follows:

	December 31, 2013						
	Korea	U.S.A	Japan	Vietnam	China	Other	Total
Due from banks and loans:							
Banks	₩ 3,508,804	1,182,001	203,537	99,266	2,975,472	2,350,557	10,319,637
Retail	79,247,913	230,170	226,804	30,824	23,551	225,591	79,984,853
Government	8,637,464	222,567	141,928	39,176	936	67,481	9,109,552
Corporate	76,987,699	1,269,030	1,640,359	935,088	1,892,132	2,352,562	85,076,870
Card	35,724	1,276	4	2,268	—	6	39,278
	168,417,604	2,905,044	2,212,632	1,106,622	4,892,091	4,996,197	184,530,190
Trading assets	6,473,993	—	—	—	—	76,337	6,550,330
Available-for-sale financial assets	20,417,269	299,227	—	373,060	5,106	138,091	21,232,753
Held-to-maturity financial assets	7,294,783	1,133	50,408	10,450	63,991	12,855	7,433,620
	₩202,603,649	3,205,404	2,263,040	1,490,132	4,961,188	5,223,480	219,746,893

	December 31, 2012 (Restated)						
	Korea	U.S.A	Japan	Vietnam	China	Other	Total
Due from banks and loans:							
Banks	₩ 3,316,497	534,204	142,839	104,818	1,112,011	1,563,687	6,774,056
Retail	76,904,760	245,870	43,893	9,062	13,401	200,936	77,417,922
Government	6,610,197	221,413	226,426	50,827	617	54,939	7,164,419
Corporate	78,876,483	1,037,021	1,252,534	681,755	1,264,749	1,637,063	84,749,605
Card	—	1,366	—	1,108	—	—	2,474
	165,707,937	2,039,874	1,665,692	847,570	2,390,778	3,456,625	176,108,476
Trading assets	6,377,842	—	—	—	—	437,928	6,815,770
Available-for-sale financial assets	24,218,505	264,487	—	218,275	—	113,369	24,814,636
Held-to-maturity financial assets	9,090,046	1,210	62,629	19,609	—	50,834	9,224,328
	₩205,394,330	2,305,571	1,728,321	1,085,454	2,390,778	4,058,756	216,963,210

(g) Concentration by industry sector

An analysis of concentration by industry sector for financial assets including due from banks and loans, net of allowance, as of December 31, 2013 and 2012 was as follows:

	December 31, 2013						
	Finance and insurance	**Manu-facturing**	**Retail and wholesale**	**Real estate and service**	**Others**	**Retail customers**	**Total**
Due from banks and loans:							
Banks	₩ 8,232,502	—	—	114,037	1,973,098	—	10,319,637
Retail	—	—	—	—	—	79,984,853	79,984,853
Government	8,910,132	—	—	—	199,420	—	9,109,552
Corporate	1,904,015	31,347,060	12,047,979	14,538,327	25,239,489	—	85,076,870
Card	—	—	—	—	—	39,278	39,278
	19,046,649	31,347,060	12,047,979	14,652,364	27,412,007	80,024,131	184,530,190
Trading assets	3,612,013	603,954	228,176	536,200	1,569,987	—	6,550,330
Available-for-sale financial assets	15,267,484	755,954	110,571	644,268	4,454,476	—	21,232,753
Held-to-maturity financial assets	2,140,945	26,448	—	168,702	5,097,525	—	7,433,620
	₩40,067,091	32,733,416	12,386,726	16,001,534	38,533,995	80,024,131	219,746,893

	December 31, 2012 (Restated)						
	Finance and insurance	**Manu-facturing**	**Retail and wholesale**	**Real estate and service**	**Others**	**Retail customers**	**Total**
Due from banks and loans:							
Banks	₩ 5,738,333	—	—	120,696	915,027	—	6,774,056
Retail	—	—	—	—	—	77,417,922	77,417,922
Government	6,959,974	—	—	—	204,445	—	7,164,419
Corporate	1,915,919	32,022,051	10,934,764	14,958,465	24,918,406	—	84,749,605
Card	—	—	—	—	—	2,474	2,474
	14,614,226	32,022,051	10,934,764	15,079,161	26,037,878	77,420,396	176,108,476
Trading assets	3,627,315	799,497	457,761	1,005,903	925,294	—	6,815,770
Available-for-sale financial assets	16,864,320	838,340	154,157	603,043	6,354,776	—	24,814,636
Held-to-maturity financial assets	3,053,098	—	—	274,223	5,897,007	—	9,224,328
	₩38,158,959	33,659,888	11,546,682	16,962,330	39,214,955	77,420,396	216,963,210

4-2. Market risk

Market risk is the risk that changes in market price such as interest rates, equity prices, foreign exchange rates, etc, will affect the Group's income. Trading position is exposed to the risk such as interest rates, equity prices, foreign exchange rates, etc, and non-trading position is mainly exposed to interest rate. The Group separates and manages its exposure to market risk between trading and non-trading position.

Overall authority for market risk is vested in the Group's Asset & Liability Management Committee ("ALM Committee"). The Risk Management Department is responsible for the development of detailed risk management policies which are subject to review and approval by the ALM Committee and for the day-to-day review of their implementation. The ALM Committee also sets Value at Risk (VaR) limit, damage limit, sensitivity limit, investment limits, position limits, and stress damage limits of each department and desk. The Risk Management Department monitors operation departments and reports regularly to the ALM Committee and the Risk Management Committee.

Before launching a new product from each business unit, the Group is required to perform an objective analysis of the risk evaluation and examination of fair value measurement method from the Risk Management Department or Fair Value Evaluation Committee. The Derivative and Structured Product Risk Review Committee reviews the related risk exposure and investment limit.

(a) ***Market risk management of trading positions***

Trading position includes securities, foreign exchange position, and derivatives which are traded for profits.

Trading data of foreign exchange, stocks, bonds and derivatives from trading positions are tracked and daily risk limits are systematically monitored based on the Group's risk management parameters. Statistical analysis that complements the above risk management process and stress testing is performed regularly in order to manage the impact and loss of rapid economic changes. These risk management processes enable the Group to manage the scale of potential losses within a certain range when a crisis occurs.

i) *Measurement method on market risk arising from trading position*

The principal tool used to measure and control market risk exposure within the Group's trading position is VaR. The VaR of a trading position is the estimated loss that will arise on the portfolio over a specified period of time (ten days holding period) from an adverse market movement with a specified probability (confidence level). The Group measures market risk based on 99% confidence level by using the VaR model based on historical simulation.

VaR is a commonly used market risk management technique. However, VaR estimates possible losses over a certain period at a particular confidence level using the historical market movement data. The use of historical market movement data as a basis for determining the possible range of future outcome may not always cover all possible scenarios, especially those of an exceptional nature. VaR models assume that a holding period of generally one to ten days is sufficient prior to liquidating the underlying positions, but this may not be the case for certain highly illiquid assets or in situations in which there is severe general market illiquidity.

The Group directly applies the historical changes in interest rates, equity prices, and foreign exchange rates to current position. The actual outputs are regularly monitored by testing the effectiveness of assumptions, measurements and parameter. The application of this method does not prevent loss from larger market movement that exceeds the acceptable parameter.

VaR limit related to the operation of trading and non-trading portfolio is determined by management annually. VaR is measured at least daily. The quality of VaR model is monitored consistently by examining the VaR results related to trading book.

ii) *VaR of trading position*

Analysis of trading position VaR for the years ended December 31, 2013 and 2012 was as follows:

	2013			
	Average	**Maximum**	**Minimum**	**At December 31**
Interest rate risk	₩ 21,604	28,670	14,413	25,136
Equity risk	5,677	13,250	2,737	7,341
Foreign currency risk(*)	45,176	50,933	41,554	43,993
Volatility risk	278	350	198	208
Covariance	(25,837)	(40,931)	(18,457)	(27,001)
	₩ 46,898	52,272	40,445	49,677

	2012			
	Average	**Maximum**	**Minimum**	**At December 31**
Interest rate risk	₩ 24,085	32,036	19,817	19,817
Equity risk	26,476	41,920	11,085	12,247
Foreign currency risk(*)	79,449	95,661	49,583	55,243
Volatility risk	257	897	95	251
Covariance	(60,274)	(80,989)	(37,435)	(38,966)
	₩ 69,993	89,525	43,145	48,592

(*) The Group measured foreign currency risk arising from trading position and non-trading position.

(b) Market risk management of non-trading position

The most critical market risk that arises from non-trading position is the interest rate risk. Accordingly, the Group measures and manages market risk for non-trading position by taking into account effects of interest rate changes on both its net asset value and income. Interest rate risk is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALM Committee is the monitoring body for compliance with these limits including establishing policies and setting the limits and is assisted by the Risk Management Department in its day-to-day monitoring activities.

i) *Measurement method on market risk arising from non-trading position*

The Group measures and manages interest rate risk by using various analyses such as interest rate gap, duration gap, and NII (Net Interest Income) simulation of each scenario through the ALM system (OFSA). The Group also monitors interest rate VaR, earnings at risk ("EaR"), and gap rate of interest rate by setting the limits on a monthly basis.

The Group measures interest rate VaR by using standard modified duration and interest rate volatility, and interest rate EaR by using impact period by maturity period and interest rate volatility based on a standard methodology provided by Bank for International Settlements ("BIS").

ii) *Interest rate VaR and EaR for non-trading positions*

Interest rate VaR and EaR for non-trading positions which were measured by the standard methodology provided by BIS as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	**December 31,2012**
Interest rate VaR	₩415,700	841,157
Interest rate EaR	356,453	249,567

(c) Foreign exchange risk

The Group manages foreign currency risk based on general positions which includes all spot and future foreign currency positions, etc. The ALM Committee oversees the Group's foreign exchange exposure for both trading and non-trading activities by establishing limits for the net foreign currencies open position. The Group's foreign exchange position is centralized at the FX & Derivatives Department. Dealers in the FX & Derivatives Department manage the Group's overall position within the set limits through spot trading, forward contracts, currency options, futures and swaps and foreign exchange swaps. The Group's foreign exchange transactions are mainly conducted in the U.S. dollar (USD), Japanese yen (JPY), euro (EUR) and Chinese yuan (CNY). Other foreign currencies are limitedly traded.

Foreign currency denominated assets and liabilities as of December 31, 2013 and 2012 were as follows:

	December 31, 2013					
	USD	JPY	EUR	CNY	Other	Total
Assets						
Cash and due from banks	₩ 2,188,833	1,233,478	85,314	1,460,395	436,166	5,404,186
Trading assets	—	—	—	—	76,337	76,337
Derivative assets	188,330	34	7,864	397	1,871	198,496
Loans	11,393,740	4,075,431	1,088,485	1,777,469	2,045,999	20,381,124
Available-for-sale financial assets	855,333	6,399	13,508	5,106	522,868	1,403,214
Held-to-maturity financial assets	1,133	294,027	—	63,991	28,251	387,402
Other financial assets	1,305,838	348,469	105,359	43,322	112,102	1,915,090
	₩15,933,207	5,957,838	1,300,530	3,350,680	3,223,594	29,765,849
Liabilities						
Deposits	₩ 6,428,513	5,279,307	312,076	2,492,749	1,811,457	16,324,102
Trading liabilities	—	—	—	—	398,596	398,596
Derivative liabilities	130,605	46,114	—	2,901	1,862	181,482
Borrowings	4,072,632	420,004	505,242	228,988	221,460	5,448,326
Debt securities issued	2,534,654	653,029	—	104,292	507,813	3,799,788
Other financial liabilities	1,108,073	309,024	374,696	170,065	318,366	2,280,224
	₩14,274,477	6,707,478	1,192,014	2,998,995	3,259,554	28,432,518
Net assets (liabilities)	₩ 1,658,730	(749,640)	108,516	351,685	(35,960)	1,333,331
Off-balance						
Derivative exposures	(958,171)	756,302	(113,311)	52,451	301,954	39,225
Net position	₩ 700,559	6,662	(4,795)	404,136	265,994	1,372,556

	December 31, 2012					
	USD	JPY	EUR	CNY	Other	Total
Assets						
Cash and due from banks	₩ 841,423	1,117,778	72,352	869,410	329,697	3,230,660
Trading assets	—	—	—	—	437,928	437,928
Derivative assets	277,666	—	9,939	—	121	287,726
Loans	10,997,249	4,933,486	1,323,022	1,340,645	1,964,774	20,559,176
Available-for-sale financial assets	862,560	40,662	9,005	—	334,775	1,247,002
Held-to-maturity financial assets	1,210	392,628	—	—	40,648	434,486
Other financial assets	2,046,380	215,776	15,531	145,075	93,889	2,516,651
	₩15,026,488	6,700,330	1,429,849	2,355,130	3,201,832	28,713,629
Liabilities						
Deposits	₩ 5,072,717	5,651,055	245,374	1,634,499	1,517,097	14,120,742
Trading liabilities	—	—	—	—	484,061	484,061
Derivative liabilities	123,088	47,718	—	—	16	170,822
Borrowings	4,726,626	669,151	688,222	84,900	250,879	6,419,778
Debt securities issued	2,451,584	436,625	106,220	210,002	658,191	3,862,622
Other financial liabilities	1,313,903	227,995	253,730	244,272	224,260	2,264,160
	₩13,687,918	7,032,544	1,293,546	2,173,673	3,134,504	27,322,185
Net assets (liabilities)	₩ 1,338,570	(332,214)	136,303	181,457	67,328	1,391,444
Off-balance						
Derivative exposures	(886,388)	331,807	(122,759)	203,513	572,845	99,018
Net position	₩ 452,182	(407)	13,544	384,970	640,173	1,490,462

4-3. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The ALM Committee is responsible for establishing policies and setting the limits related to liquidity risk management. The Risk Management Department evaluates and manages the Group's overall liquidity risk and monitors compliance of all operating subsidiaries and foreign branches with limits on a daily basis.

The Group applies the following basic principles for liquidity risk management:

- raise funding in sufficient amounts at the optimal time and reasonable costs;
- maintain risk at appropriate levels and preemptively manage them through a prescribed risk limit system and an early warning signal detection system;
- secure stable sources of revenue and minimize actual losses by implementing an effective asset-liability management system based on diversified sources of funding with varying maturities;
- monitor and manage daily and intra-daily liquidity positions and risk exposures as to timely payment and settlement of financial obligations due under both normal and crisis situations;
- conduct periodic contingency analysis in anticipation of any potential liquidity crisis and establish and implement emergency plans in case of a crisis actually happening; and
- consider liquidity-related costs, benefits and risks in determining the price of products and services, employee performance evaluations and approval of launching new products and services.

The Group manages its liquidity risk within the limits set on won and foreign currency by using various analysis methods such as liquidity gap, real liquidity gap and loan-deposit ratio through the ALM system and various indices including risk limits, early warning index, and monitoring index.

(a) ***Contractual maturities for financial instruments***

Contractual maturities for financial assets and financial liabilities as of December 31, 2013 and 2012 were as follows:

	December 31, 2013						
	Less than 1 month	1~3 months	3~6 months	6 months~ 1 year	1~5 years	More than 5 years	Total
Assets							
Cash and due from banks	₩11,042,109	588,946	489,874	323,294	20,361	—	12,464,584
Trading assets	7,519,765	—	—	—	—	—	7,519,765
Derivative assets	1,423,032	308,026	60,241	123,365	666,459	736,877	3,318,000
Loans	19,695,885	22,601,117	27,932,644	42,576,196	43,359,022	42,459,631	198,624,495
Available-for-sale financial assets	22,569,081	—	—	—	—	1,524,005	24,093,086
Held-to-maturity financial assets	152,963	840,028	185,153	1,650,112	5,406,412	258,459	8,493,127
Other financial assets	3,337,429	—	—	—	3,688,710	—	7,026,139
	₩65,740,264	24,338,117	28,667,912	44,672,967	53,140,964	44,978,972	261,539,196
Liabilities							
Deposits	₩79,794,983	20,255,842	25,316,676	42,643,541	10,509,105	2,864,199	181,384,346
Trading liabilities	398,596	—	—	—	—	—	398,596
Derivative liabilities	1,269,690	46,717	42,157	64,830	379,475	416,179	2,219,048
Borrowings	2,683,168	1,418,140	1,675,192	1,349,509	2,696,970	496,252	10,319,231
Debt securities issued	591,117	1,533,444	1,768,509	2,587,669	9,524,727	4,642,638	20,648,104
Other financial liabilities	11,935,298	—	—	—	138,934	—	12,074,232
	₩96,672,852	23,254,143	28,802,534	46,645,549	23,249,211	8,419,268	227,043,557

	December 31, 2012 (Restated)						
	Less than 1 month	1~3 months	3~6 months	6 months~ 1 year	1~ 5 years	More than 5 years	Total
Assets							
Cash and due from banks	₩ 8,194,725	322,330	287,318	334,411	229,332	3,935	9,372,051
Trading assets	7,994,871	—	—	—	—	—	7,994,871
Derivative assets	1,701,353	324,673	58,793	120,729	786,257	625,855	3,617,660
Loans	18,932,614	22,653,418	28,666,296	41,306,930	41,125,224	43,421,769	196,106,251
Available-for-sale financial assets	27,316,772	—	—	—	—	999,976	28,316,748
Held-to-maturity financial assets	259,685	424,589	437,935	1,451,635	7,084,773	967,501	10,626,118
Other financial assets	4,380,025	—	—	—	3,377,027	—	7,757,052
	₩68,780,045	23,725,010	29,450,342	43,213,705	52,602,613	46,019,036	263,790,751
Liabilities							
Deposits	₩68,373,161	19,472,367	17,167,691	57,480,773	11,007,002	2,617,906	176,118,900
Trading liabilities	484,061	—	—	—	—	—	484,061
Derivative liabilities	1,487,388	45,815	48,617	81,812	496,489	375,361	2,535,482
Borrowings	3,204,920	1,918,201	1,299,297	1,199,631	2,778,720	653,871	11,054,640
Debt securities issued	828,493	1,242,513	1,177,303	2,945,496	11,727,939	3,645,486	21,567,230
Other financial liabilities	14,403,810	—	—	—	493,203	—	14,897,013
	₩88,781,833	22,678,896	19,692,908	61,707,712	26,503,353	7,292,624	226,657,326

These amounts include cash flows of principal and interest on financial assets and financial liabilities.

The undiscounted cash flows were classified based on the earliest dates for obligation repayment. Trading assets and available-for-sale financial assets except for assets restricted for sale for certain periods were included in the less than 1month.

(b) Contractual maturities for off balance sheet items

Financial guarantees such as financial guarantee contracts, loan commitments and others provided by the Group are classified based on the earliest date at which the Group should fulfill the obligation under the guarantee when the counterparty requests for the payment.

Off balance items as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012 (Restated)
Financial guarantee contracts	₩ 2,392,517	2,829,082
Loan commitments and others	74,158,883	71,674,359
	₩76,551,400	74,503,441

4-4. Measurement of fair value

The fair value which the Group primarily uses for measurement of financial instruments are the published price quotations in an active market which are based on the market prices or the dealer price quotations of financial instruments traded in an active market where available, which is the best evidence of fair value.

If the market for a financial instrument is not active, fair value is established either by using a valuation technique or independent third-party valuation service. The Group uses diverse valuation techniques under reasonable assumptions which are based on the inputs observable in markets at the end of each reporting period.

Valuation techniques include using the recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. For example, the fair value for interest swaps is the present value of estimated future cash flows, and fair value for foreign exchange forwards contracts is measured by using the published forward exchange rate at the end of each reporting period.

The Group classifies and discloses fair value of the financial instruments into the following three-level hierarchy:

(i) Level 1: Financial instruments measured at quoted prices from active markets are classified as level 1.

(ii) Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as level 2.

(iii) Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as level 3.

(a) ***Financial instruments measured at fair value***

i) The level in the fair value hierarchy of financial instruments measured at the fair value is as follows:

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Trading assets:				
Debt securities	₩ 384,481	6,089,512	—	6,473,993
Equity securities	58,761	910,674	—	969,435
Gold deposits	76,337	—	—	76,337
Derivative assets:				
Trading	10	1,279,799	25,973	1,305,782
Hedging	—	100,615	51,597	152,212
Available-for-sale financial assets:				
Debt securities	6,716,965	14,515,788	—	21,232,753
Equity securities	1,661,792	103,697	1,094,844	2,860,333
	₩8,898,346	23,000,085	1,172,414	33,070,845
Liabilities				
Trading liabilities:				
Securities borrowed	₩ —	—	—	—
Gold deposits	398,596	—	—	398,596
Derivative liabilities:				
Trading	—	1,220,070	22,581	1,242,651
Hedging	—	44,183	191,345	235,528
	₩ 398,596	1,264,253	213,926	1,876,775

	December 31, 2012 (Restated)			
	Level 1	Level 2	Level 3	Total
Assets				
Trading assets:				
Debt securities	₩ 219,337	6,158,505	—	6,377,842
Equity securities	168,624	1,010,477	—	1,179,101
Gold deposits	437,928	—	—	437,928
Derivative assets:				
Trading	16	1,554,310	29,251	1,583,577
Hedging	—	192,328	67,809	260,137
Available-for-sale financial assets:				
Debt securities	7,007,061	17,807,575	—	24,814,636
Equity securities	2,049,673	99,276	1,353,163	3,502,112
	₩9,882,639	26,822,471	1,450,223	38,155,333
Liabilities				
Trading liabilities:				
Gold deposits	₩ 484,061	—	—	484,061
Derivative liabilities:				
Trading	—	1,423,746	25,240	1,448,986
Hedging	—	38,198	50,638	88,836
	₩ 484,061	1,461,944	75,878	2,021,883

ii) There was no transfer between level 1 and level 2 for years ended December 31, 2013.

iii) Changes in level 3 of the fair value hierarchy

Changes in level 3 of the fair value hierarchy for the years ended December 31, 2013 and 2012 were as follows:

	2013		
	Available-for-sale financial assets	Net derivative instruments	Total
Beginning balance	₩1,353,163	21,182	1,374,345
Total gain or loss:			
Recognized in profit or loss	(65,150)	(153,246)	(218,396)
Recognized in other comprehensive income	67,072	—	67,072
Purchases/issue	115,563	(1,729)	113,834
Settlements	(215,177)	(2,563)	(217,740)
Transfers into (out of) level 3	(160,627)	—	(160,627)
Ending balance	₩1,094,844	(136,356)	958,488

	2012		
	Available-for-sale financial assets	Net derivative instruments	Total
Beginning balance	₩1,339,021	203,207	1,542,228
Total gain or loss:			
Recognized in profit or loss	117,885	23,978	141,863
Recognized in other comprehensive income	(89,210)	—	(89,210)
Purchases/issue	140,560	306	140,866
Settlements	(251,595)	(170,870)	(422,465)
Transfers into (out of) level 3	96,502	(35,439)	61,063
Ending balance	₩1,353,163	21,182	1,374,345

iv) Inputs unobservable in markets

ⓐ Valuation techniques and inputs used in measuring fair value of financial instruments classified as level 2 as of December 31, 2013 were as follows

	December 31, 2013			
	Type of financial instruments	**Book value**	**Valuation techniques**	**inputs**
Trading assets	Debt securities	₩ 6,089,512	Discounted cash flow	Discount rate
	Equity securities	910,674	Net asset value	Price of underlying assets
		7,000,186		
Derivative assets	Trading	1,279,799	Option model	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
	Hedging	100,615	Discounted cash flow	
		1,380,414		
Available-for-sale financial assets	Debt securities	14,515,788	Discounted cash flow	Discount rate
	Equity securities	103,697	Net asset value	Price of underlying assets
		14,619,485		
		₩23,000,085		
Derivative liabilities	Trading	₩ 1,220,070	Option model	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
	Hedging	44,183	Discounted cash flow	
		1,264,253		
		₩ 1,264,253		

ⓑ Information about significant unobservable inputs in measuring financial instruments categorized as level 3 as of December 31, 2013 was as follows:

	December 31, 2013				
	Valuation techniques	**Type of financial instruments**	**Book value**	**Significant unobservable inputs**	**Range of estimates for unobservable inputs**
Derivative assets:	Option model(*)	Equity and foreign exchange related	₩ 9,495	The volatility of the underlying asset	5.63%~24.61%
				Correlations	(34.85%)~(39.25%)
	Option model(*)	Interest rates related	68,075	The volatility of the underlying asset	0.44%~0.45%
				Regression coefficient	0.02%~2.05%
				Correlations	61.19%
Available-for-sale financial assets:	Discounted cash flow	Equity securities	1,063,678	Discount rate	2.86%~26.61%
				Growth rate	0.00%
			₩1,141,248		
Derivative liabilities:	Option model(*)	Equity related	₩ 802	The volatility of the underlying asset	5.63%~24.61%
				Correlations	(34.85%)~(39.25%)
	Option model(*)	Interest rates related	213,124	The volatility of the underlying asset	0.22%~0.51%
				Regression coefficient	0.00%~5.12%
				Correlations	27.02%~94.6%
			₩ 213,926		

(*) Option model that the Group uses in derivative valuation includes Black-Scholes model, Hull-White model, Monte Carlo simulation, etc.

v) Sensitivity to changes in unobservable inputs.

For level 3 fair value measurement, changing one or more of the unobservable inputs used to reasonably possible alternative assumptions would have the following effect on profit or loss, or other comprehensive income:

December 31, 2013			
Type of financial instrument		**favorable change**	**unfavorable change**
Derivative assets(*1)	Equity and foreign exchange related	₩ 165	(44)
	Interest rates related	1,721	(1,848)
Available-for-sale financial assets(*2)	Equity securities	125,037	(42,633)
		₩125,923	(44,525)
Derivative liabilities(*1)	Equity related	₩ 44	(165)
	Interest rates related	15,062	(14,377)
		₩ 15,106	(14,542)

(*1) Based on 10% of increase or decrease in volatility of underlying assets or correlation

(*2) Based on changes in growth rate (0%~1%) and discount rate (-1%~1%)

(b) ***The financial instruments measured at amortized cost***

i) The method of measuring the fair value of financial instruments measured at amortized cost is as follows:

Type	**Measurement methods of fair value**
Cash and due from banks..................	The book value and the fair value for cash are identical and most deposits are floating interest rate deposits or next day deposits of a short-term instrument. Therefore, the book value approximates fair value.
Loans..	The fair value of loans is measured by discounting the expected cash flows at the market interest rate, credit risk, etc.
Held-to-maturity financial assets	The fair value of held-to-maturity financial assets is determined by applying the lesser of two quoted bond prices provided by two bond pricing agencies as of the latest trading date.
Deposits and borrowings	The book amount and the fair value for demand deposits, cash management account deposits and call money as short-term instruments are identical. The fair value of others is measured by discounting the contractual cash flows at the market interest rate that takes into account the residual risk.
Debt securities issued	The fair value of deposits and borrowings is based on the published price quotations in an active market. In case there is no observable market price, it is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.

ii) The book value and the fair value of financial instruments measured at amortized cost as of December 31, 2013 and 2012 were as follows:

	December 31, 2013				
	Book value				
	Balance	Unamortized balance	Allowance	Total	Fair value
Assets					
Cash and due from banks:					
Cash and cash equivalent	₩ 2,589,117	—	—	2,589,117	2,589,117
Due from banks	9,852,490	—	(11,644)	9,840,846	9,840,846
Loans:					
Household loans	73,031,842	111,498	(193,242)	72,950,098	72,909,139
Corporate loans	94,415,522	137,945	(1,399,472)	93,153,995	94,132,989
Public and other loans	2,479,154	3,847	(10,304)	2,472,697	2,484,788
Loans to bank	6,078,034	—	(4,758)	6,073,276	6,081,699
Card receivables	39,531	—	(253)	39,278	39,531
Held-to-maturity financial assets:					
Government bonds	4,259,467	—	—	4,259,467	4,447,334
Financial institutions bonds	653,277	—	—	653,277	659,748
Corporate bonds and others	2,520,876	—	—	2,520,876	2,561,070
Other financial assets	7,025,813	(66,156)	(58,426)	6,901,231	6,950,939
	₩202,945,123	187,134	(1,678,099)	201,454,158	202,697,200
Liabilities					
Deposits:					
Demand deposits	₩ 58,506,868	—	—	58,506,868	58,506,868
Time deposits	110,265,529	—	—	110,265,529	110,218,994
Negotiable certificates of deposits	1,781,684	—	—	1,781,684	1,805,452
Note discount deposits	3,132,185	—	—	3,132,185	3,131,971
CMA(*)	1,291,588	—	—	1,291,588	1,291,588
Others	42,578	—	—	42,578	42,587
Borrowings:					
Call money	318,360	—	—	318,360	318,360
Bill sold	28,631	—	—	28,631	28,524
Bonds sold under repurchase agreements	344,632	—	—	344,632	344,632
Borrowings	9,285,395	(1,994)	—	9,283,401	9,291,803
Due to Bank of Korea in foreign currency	94,315	—	—	94,315	94,315
Debt securities issued:					
Debt securities issued in won	13,992,700	(37,752)	—	13,954,948	14,072,870
Debt securities issued in foreign currency	3,799,788	(15,081)	—	3,784,707	3,858,418
Other financial liabilities	12,100,640	(2,642)	—	12,097,998	12,068,342
	₩214,984,893	(57,469)	—	214,927,424	215,074,724

	December 31, 2012 (Restated)				
	Book value				
	Balance	Unamortized balance	Allowance	Total	Fair value
Assets					
Cash and due from banks:					
Cash and cash equivalent	₩ 2,938,070	—	—	2,938,070	2,938,070
Due from banks	6,413,732	—	(4,455)	6,409,277	6,409,277
Loans:					
Household loans	70,933,181	99,829	(267,176)	70,765,834	71,152,827
Corporate loans	92,749,489	131,315	(1,468,188)	91,412,616	92,392,182
Public and other loans	3,061,975	4,339	(13,736)	3,052,578	3,071,211
Loans to bank	4,477,129	—	(11,432)	4,465,697	4,483,004
Card receivables	2,474	—	—	2,474	2,474
Held-to-maturity financial assets:					
Government bonds	4,981,642	—	—	4,981,642	5,242,727
Financial institutions bonds	1,101,275	—	—	1,101,275	1,122,471
Corporate bonds and others	3,141,411	—	—	3,141,411	3,215,340
Other financial assets	7,757,053	(78,796)	(61,944)	7,616,313	7,670,134
	₩197,557,431	156,687	(1,826,931)	195,887,187	197,699,717
Liabilities					
Deposits:					
Demand deposits	₩ 51,721,627	—	—	51,721,627	51,721,627
Time deposits	112,319,985	—	—	112,319,985	112,567,657
Negotiable certificates of deposits	1,273,333	—	—	1,273,333	1,303,483
Note discount deposits	3,013,376	—	—	3,013,376	3,013,147
CMA(*)	1,626,061	—	—	1,626,061	1,626,061
Others	54,624	—	—	54,624	54,662
Borrowings:					
Call money	273,835	—	—	273,835	273,835
Bill sold	55,397	—	—	55,397	55,023
Bonds sold under repurchase agreements	306,538	—	—	306,538	306,538
Borrowings	10,057,440	(2,842)	—	10,054,598	10,073,308
Due to Bank of Korea in foreign currency	156,150	—	—	156,150	156,151
Debt securities issued:					
Debt securities issued in won	14,675,818	(22,205)	—	14,653,613	14,991,677
Debt securities issued in foreign currency	3,862,622	(15,596)	—	3,847,026	4,067,560
Other financial liabilities	14,832,857	(4,173)	—	14,828,684	14,830,905
	₩214,229,663	(44,816)	—	214,184,847	215,041,634

(*) CMA: Cash management account deposits

iii) The fair value hierarchy of financial instruments which are not measured at fair value in the consolidated statement of financial position as of December 31, 2013 was as follows:

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and due from banks:				
Cash and cash equivalent	₩ 2,589,117	—	—	2,589,117
Due from banks	9,840,846	—	—	9,840,846
Loans:				
Household loans	—	—	72,909,139	72,909,139
Corporate loans	—	—	94,132,989	94,132,989
Public and other loans	—	—	2,484,788	2,484,788
Loans to bank	4,843,106	—	1,238,593	6,081,699
Card receivables	—	—	39,531	39,531
Held-to-maturity financial assets:				
Government bonds	2,382,547	2,064,787	—	4,447,334
Financial institutions bonds	100,166	559,582	—	659,748
Corporate bonds and others	—	2,561,070	—	2,561,070
Other financial assets	4,571,823	—	2,379,116	6,950,939
	₩24,327,605	5,185,439	173,184,156	202,697,200
Liabilities				
Deposits:		—		
Demand deposits	₩58,506,868	—	—	58,506,868
Time deposits	—	—	110,218,994	110,218,994
Negotiable certificates of deposits	—	—	1,805,452	1,805,452
Note discount deposits	—	—	3,131,971	3,131,971
CMA(*)	1,291,588	—	—	1,291,588
Others	—	—	42,587	42,587
Borrowings:				
Call money	318,360	—	—	318,360
Bill sold	—	—	28,524	28,524
Bonds sold under repurchase agreements	—	—	344,632	344,632
Borrowings	—	—	9,291,803	9,291,803
Due to Bank of Korea in foreign currency	—	—	94,315	94,315
Debt securities issued:				
Debt securities issued in won	—	12,144,888	1,927,982	14,072,870
Debt securities issued in foreign currency	—	3,858,418	—	3,858,418
Other financial liabilities	3,159,821	—	8,908,521	12,068,342
	₩63,276,637	16,003,306	135,794,781	215,074,724

(*) CMA: Cash management account deposits

iv) For financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed, valuation techniques and inputs used in measuring fair value of financial instruments classified as level 2 or level 3 as of December 31, 2013 were as follows.

	December 31, 2013			
Level	Type	Fair value(*)	Valuation technique	Inputs
Level 2	Held-to-maturity financial assets	₩ 5,185,439		Discount rate
	Loans	170,805,040	Discounted cash flow	Discount rate, Credit spread, Prepayment rate
Level 3	Other financial assets	2,379,116		Discount rate
		₩178,369,595		
Level 2	Debt securities issued	₩ 16,003,306		Discount rate
	Deposits	114,674,453		Discount rate
	Borrowing	5,638,607	Discounted cash flow	Discount rate
Level 3	Debt securities issued	1,927,983		Discount rate, Regression coefficient, Correlation coefficient
	Other financial liabilities	8,908,521		Discount rate
		₩147,152,870		

(*) Valuation techniques and inputs are not disclosed when the carrying amount is a reasonable approximation of fair value

(c) There was no deferred day one gain or loss for the years ended December 31, 2013 and 2012.

(d) Classification by category of financial instruments

Financial assets and liabilities were measured at fair value or amortized cost. The financial instruments measured at fair value or amortized costs were measured in accordance with the Group's valuation methodologies, which were described in Note 3.

The carrying amounts of each category of financial instruments as of December 31, 2013 and 2012 were as follows:

	December 31, 2013					
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Derivatives held for hedging	Total
Assets						
Due from banks	₩ —	—	—	9,840,846	—	9,840,846
Trading assets	7,519,765	—	—	—	—	7,519,765
Derivatives	1,305,782	—	—	—	152,212	1,457,994
Loans	—	—	—	174,689,344	—	174,689,344
Available-for-sale financial assets	—	24,093,086	—	—	—	24,093,086
Held-to-maturity financial assets	—	—	7,433,620	—	—	7,433,620
Other financial assets	—	—	—	6,901,231	—	6,901,231
	₩8,825,547	24,093,086	7,433,620	191,431,421	152,212	231,935,886

	December 31, 2013			
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivatives held for hedging	Total
Liabilities				
Deposits	₩ —	175,020,432	—	175,020,432
Trading liabilities	398,596	—	—	398,596
Derivatives	1,242,651	—	235,528	1,478,179
Borrowings	—	10,069,339	—	10,069,339
Debt securities issued	—	17,739,655	—	17,739,655
Other financial liabilities	—	12,097,998	—	12,097,998
	₩1,641,247	214,927,424	235,528	216,804,199

	December 31, 2012 (Restated)					
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Derivatives held for hedging	Total
Assets						
Due from banks	₩ —	—	—	6,409,277	—	6,409,277
Trading assets	7,994,871	—	—	—	—	7,994,871
Derivatives	1,583,577	—	—	—	260,137	1,843,714
Loans	—	—	—	169,699,199	—	169,699,199
Available-for-sale financial assets	—	28,316,748	—	—	—	28,316,748
Held-to-maturity financial assets	—	—	9,224,328	—	—	9,224,328
Other financial assets	—	—	—	7,616,313	—	7,616,313
	₩9,578,448	28,316,748	9,224,328	183,724,789	260,137	231,104,450

	December 31, 2012 (Restated)			
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivatives held for hedging	Total
Liabilities				
Deposits	₩ —	170,009,006	—	170,009,006
Trading liabilities	484,061	—	—	484,061
Derivatives	1,448,986	—	88,836	1,537,822
Borrowings	—	10,846,518	—	10,846,518
Debt securities issued	—	18,500,639	—	18,500,639
Other financial liabilities	—	14,828,684	—	14,828,684
	₩1,933,047	214,184,847	88,836	216,206,730

(e) Financial instruments income and costs by category for the years ended December 31, 2013 and 2012 were as follows:

	2013					
	Interest income (expense)	Fees and commission income (expense)	Impairment loss	Others	Total	Other comprehensive income (loss)
Financial assets at fair value through profit or loss	₩ 214,490	5,799	—	(41,508)	178,781	—
Available-for-sale financial assets	756,983	—	(203,584)	542,591	1,095,990	(401,960)
Held-to-maturity financial assets	380,286	—	—	—	380,286	—
Loans and receivables	7,735,614	130,857	(673,744)	(20,634)	7,172,093	—
Financial liabilities at fair value through profit or loss	—	(88)	—	—	(88)	—
Financial liabilities measured at amortized cost	(4,736,825)	(5)	—	264,695	(4,472,135)	71,031
Net derivatives held for hedging	—	—	—	(263,206)	(263,206)	—
	₩ 4,350,548	136,563	(877,328)	481,938	4,091,721	(330,929)

	2012 (Restated)					
	Interest income (expense)	Fees and commission income (expense)	Impairment loss	Others	Total	Other comprehensive income (loss)
Financial assets at fair value through profit or loss	₩ 256,089	6,180	—	118,501	380,770	—
Available-for-sale financial assets	925,744	—	(75,742)	389,329	1,239,331	(61,617)
Held-to-maturity financial assets	471,881	—	—	—	471,881	—
Loans and receivables	8,802,224	154,407	(818,142)	(12,066)	8,126,423	—
Financial liabilities at fair value through profit or loss	—	(489)	—	—	(489)	—
Financial liabilities measured at amortized cost	(5,687,499)	(2)	—	(15,305)	(5,702,806)	82,096
Net derivatives held for hedging	—	—	—	19,840	19,840	—
	₩ 4,768,439	160,096	(893,884)	500,299	4,534,950	20,479

4-5. Capital risk management

Capital regulations applicable to the Group were adopted in 1988, which focused primarily on capital adequacy and asset soundness as a measure of risk. Building upon the initial Basel Capital Accord of 1988, capital regulations were developed to reflect additional risks as well. For the purpose of improving risk management and increasing capital adequacy of banks, capital adequacy standards based on the new Basel Capital Accord (Basel II) was implemented by the Financial Services Commission regulations beginning in January 2008. Under these regulations, all domestic banks including the Group were required to maintain a minimum capital adequacy ratio and report whether the Group meet the minimum capital adequacy ratio to the Financial Services Commission.

Under the Banking Act, the capital of a bank is divided into two categories.

(a) Tier 1 capital (Common equity Tier 1 capital + Additional Tier 1 capital)

① Common equity Tier 1 capital: Common equity Tier 1 capital consists of capital stock, capital surplus, retained earnings (excluding regulatory reserve for loan loss), accumulated other comprehensive income and other disclosed reserves, and non-controlling interests that meet certain criteria.

② Additional Tier 1 capital: Additional Tier 1 capital consists of equity instrument that meet certain criteria for perpetual nature of the equity instrument, any related capital surplus, instruments issued by consolidated subsidiaries of the Group and held by third parties that meet certain criteria.

(b) ***Tier 2 capital (Supplementary capital)***

Tier 2 capital consists of instruments that meet certain criteria for loss absorption in case of liquidation, any related capital surplus, and instruments issued by consolidated subsidiaries of the Group and held by third parties that meet certain criteria.

The capital adequacy ratio of the Group is calculated by ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets. Pursuant to Basel III, operational risk, such as inadequate procedures, loss risk by employees, internal systems, occurrence of unexpected events, as well as credit risk and market risk, is taken into account in calculating the risk-weighted assets.

The Group evaluates and manages the capital adequacy ratio pursuant to internally developed standards. It means that the Group assesses whether the level of available capital to economic capital is sufficient, or not. The Group manages each type of risks (credit, market, operation, interest rate, liquidity, and concentration, and total risk.

Details of capital categories and the capital adequacy ratio of the Group as of December 31, 2013 and 2012 were as follows:

Category	**December 31, 2013**	**December 31, 2012(*)**
Capital:		
Common equity Tier I capital	₩ 16,130,379	15,696,206
Additional Tier I capital	1,891,004	2,096,866
Tier I capital	18,021,383	17,793,072
Tier II capital	3,035,709	3,170,790
	21,057,092	20,963,862
Total risk-weighted assets	₩129,276,682	128,735,040
Capital adequacy ratio:		
Common equity	12.48%	12.19%
Tier I capital ratio	13.94%	13.82%
Tier II capital ratio	2.35%	2.46%
Total capital ratio	16.29%	16.28%

(*) The capital and capital adequacy ratio as of December 31, 2012 were recalculated based on Basel III.

The Group maintains the total capital ratio of 8% or above, Tier I capital ratio of 4.5% or above, and common equity capital ratio of 3.5% or above as described in the above table.

4-6. Transfer of financial asset

(a) ***Transfer of financial assets that were not derecognized***

i) Bonds sold under repurchase agreements as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	**December 31, 2012 (Restated)**
Transferred asset:		
Available-for-sale financial assets	₩131,504	78,413
Held-to-maturity financial assets	262,225	241,592
	393,729	320,005
Associated liabilities:		
Bonds sold under repurchase agreements	331,511	282,276

ii) Securities loaned as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012 (Restated)	Lender
Government bonds	₩100,149	343,850	Korea Securities Finance Corp., Mitsui Sumitomo and others
Financial institutions bonds	—	370,143	Korea Securities Finance Corp.
	₩100,149	713,993	

(b) *Qualify for derecognition and continuing involvement in financial assets*

There are no financial assets that meets the conditions of the derecognition and in which the Group has continuing involvement as of December 31, 2013 and 2012.

4-7. Offsetting financial assets and financial liabilities

Details of financial assets and financial liabilities subject to offsetting, enforceable master netting agreements and similar agreements as of December 31, 2013 and 2012 were as follows:

	December 31, 2013					
				Amount not offsetting in the statements of financial position		
	Financial assets and liabilities recognized	Offsetting financial assets and liabilities recognized	Financial assets and liabilities recognized after offset	Financial instruments	Cash collateral received	Total
Financial assets						
Derivative assets(*1)	₩ 1,456,041	—	1,456,041	2,961,044	22,425	943,369
Other financial assets(*1)	2,470,797	—	2,470,797			
Bonds sold under repurchase agreements related collateral of securities(*2)	393,729	—	393,729	331,511	—	62,218
Bonds purchased under resale agreement (Loans)(*2)	2,729,539	—	2,729,539	2,729,539	—	—
Securities lent(*2)	100,149	—	100,149	100,149	—	—
Domestic exchange settlements receivables(*3)	23,272,502	20,939,147	2,333,355	—	—	2,333,355
Receivables from disposal of securities(*4)	164	164	—	—	—	—
	₩30,422,921	20,939,311	9,483,610	6,122,243	22,425	3,338,942
Financial liabilities						
Derivative liabilities(*1)	₩ 1,410,753	—	1,410,753	2,974,169	—	567,026
Other financial liabilities(*1)	2,130,442	—	2,130,442			
Bonds sold under repurchase agreements (Borrowings)(*2)	331,511	—	331,511	331,511	—	—
Domestic exchange settlement payables(*3)	21,811,694	20,939,147	872,547	872,547	—	—
Payables from purchase of securities(*4)	9,161	164	8,997	—	—	8,997
	₩25,693,561	20,939,311	4,754,250	4,178,227	—	576,023

	December 31, 2012					
				Amount not offsetting in the statements of financial position		
	Financial assets and liabilities recognized	Offsetting financial assets and liabilities recognized	Financial assets and liabilities recognized after offset	Financial instruments	Cash collateral received	Total
Financial assets						
Derivative assets(*1)	₩ 1,835,503	—	1,835,503			
Other financial assets(*1)	3,056,019	—	3,056,019	4,232,908	104,789	553,825
Bonds sold under repurchase agreements related collateral of securities(*2)	320,005	—	320,005	282,276	—	37,729
Bonds purchased under resale agreement (Loans)(*2)	2,559,539	—	2,559,539	2,559,539	—	—
Securities lent(*2)	713,993	—	713,993	713,993	—	—
Domestic exchange settlements receivables(*3)	23,471,325	21,490,097	1,981,228	—	—	1,981,228
Receivables from disposal of securities(*4)	6,525	1,718	4,807	—	—	4,807
	₩31,962,909	21,491,815	10,471,094	7,788,716	104,789	2,577,589
Financial liabilities						
Derivative liabilities(*1)	₩ 1,469,219	—	1,469,219			
Other financial liabilities(*1)	3,074,598	—	3,074,598	4,078,423	—	465,394
Bonds sold under repurchase agreements (Borrowings)(*2)	282,276	—	282,276	282,276	—	—
Domestic exchange settlement payables(*3)	24,333,577	21,490,097	2,843,480	2,599,705	—	243,775
Payables from purchase of securities(*4)	1,718	1,718	—	—	—	—
	₩29,161,388	21,491,815	7,669,573	6,960,404	—	709,169

(*1) The Group has certain derivative transactions subject to the ISDA (International Derivatives Swaps and Dealers Association) agreement. According to the ISDA agreement, when credit events (e.g. default) of counterparties occur, all derivative agreements are terminated and set off.

(*2) Resale and repurchase agreement, securities borrowing and lending agreement are also similar to ISDA agreement with respect to enforceable netting agreements.

(*3) The Group has legally enforceable right to set off and settles financial assets and liabilities on a net basis. Therefore, domestic exchanges settlement receivables (payables) are recorded on a net basis in the consolidated statements of financial position.

(*4) Receivables and payables related to settlement of purchase and disposition of enlisted securities are offset and the net amount is presented in the consolidated statement of financial position because the Group currently has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis.

5. Significant estimates and judgments

The preparation of consolidated financial statements requires the application of certain critical estimates and judgments relative to the future. Management's estimated outcomes may differ from actual outcomes. The change in an accounting estimate is recognized prospectively in profit or loss in the period of the change, if the change affects that period only, or the period of the change and future periods, if the change affects both.

(a) Goodwill

The Group assesses annually whether any objective evidence of impairment on goodwill exists in accordance with the accounting policy as described in Note 3. The recoverable amount of an asset or cash-generating unit is the greater of its value-in-use and its fair value less costs to sell. Value-in-use is measured based on estimates.

(b) Income taxes

The Group is subject to tax laws from various countries. In the normal course of business, there are various types of transactions and different accounting methods that may add uncertainties to the decision of the final income taxes. The Group has recognized current and deferred taxes that reflect tax consequences based on the best estimates in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. However, actual income taxes in the future may not be identical to the recognized deferred tax assets and liabilities, and this difference can affect current and deferred tax at the period when the final tax effect is determined.

(c) Fair value of financial instruments

The fair values of financial instruments which are not actively traded in the market are determined by using valuation techniques. The Group determines valuation techniques and assumptions based on significant market conditions at the end of each reporting period. Diverse valuation techniques are used to determine the fair value of financial instruments, from generic valuation techniques to internally developed valuation models that incorporate various types of assumptions and variables.

(d) Allowances for loan losses, guarantees and unused loan commitments

The Group determines and recognizes allowances for losses on loans through impairment testing and recognizes a provision for guarantees and unused loan commitments. The accuracy of provisions of credit losses is determined by the methodology and assumptions used for expected cash flows for individually assessed allowances and collectively assessed allowances for groups of loans, guarantees and unused loan commitments.

(e) Defined benefit obligations

The present value of a defined benefit obligation that is measured by actuarial valuation methods uses various assumptions which can change according to various elements. 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. Other significant assumptions related to defined benefit obligations are based on current market situations.

(f) Impairment of available-for-sale equity investments

When there is a significant or prolonged decline in the fair value of an investment in an equity instrument below its original cost, there is objective evidence that available-for-sale equity investments are impaired. Accordingly, the Group considers the decline in the fair value of more than 30% against the original cost as "significant decline" and the status when the market price for marketable equity less than the carrying amounts of instruments for a six consecutive months as a "prolonged decline".

6. Operating segments

(a) The general descriptions of the Group's operating segments as of December 31, 2013 and 2012 were as follows:

The Group has 4 reportable segments which are strategic business units. Each of these segments is providing different services and managed separately.

Description	Area of business
Retail banking	Loans to or deposits from individual customers, wealth management customers, and institutions such as hospitals, airports and schools.
Corporate banking and treasury	Loans to or deposits from corporations, including small or medium sized companies and businesses related to investment banking. Treasury management, trading of securities and derivatives, investment portfolio management and other related businesses.
International group	Supervision of overseas subsidiaries and branch operations and other international businesses.
Other	Administration of bank operations and Merchant Banking Account.

The Group revised comparative information of the prior year, as a result of changes in accounting policies described in Note 3 and the discontinued operations described in Note 37.

(b) The following table provides information of financial performance of each operating segment for the years ended December 31, 2013 and 2012.

	2013					
	Retail	**Corporate and treasury**	**International group**	**Other**	**Consolidation adjustments**	**Total**
Net interest income	₩ 2,263,135	936,884	272,513	865,486	12,530	4,350,548
Net fees and commission income (expense)	548,278	232,673	49,547	(83,585)	1,987	748,900
Net other expense	(2,376,509)	(181,966)	(199,254)	(553,045)	(68,702)	(3,379,476)
Operating income	434,904	987,591	122,806	228,856	(54,185)	1,719,972
Other non-operating income (expenses), net	6,837	5,053	(3,266)	(17,913)	(5,118)	(14,407)
Equity in income of associates	—	—	—	—	22,448	22,448
Profit before income taxes	441,741	992,644	119,540	210,943	(36,855)	1,728,013
Income tax expense	(97,740)	(198,408)	(23,893)	(42,163)	7,367	(354,837)
Profit for the year	₩ 344,001	794,236	95,647	168,780	(29,488)	1,373,176
Attributable to:						
Equity holder of the Group	₩ 344,001	794,236	95,647	168,780	(29,647)	1,373,017
Non-controlling interests	—	—	—	—	159	159
	₩ 344,001	794,236	95,647	168,780	(29,488)	1,373,176

	2012 (Restated)					
	Retail	**Corporate and treasury**	**International group**	**Other**	**Consolidation adjustments**	**Total**
Net interest income	₩ 2,428,399	1,049,015	288,671	987,583	14,771	4,768,439
Net fees and commission income (expense)	589,043	275,065	47,578	(83,305)	(12,517)	815,864
Net other expense	(2,349,673)	(435,250)	(125,543)	(504,149)	(91,565)	(3,506,180)
Operating income	667,769	888,830	210,706	400,129	(89,311)	2,078,123
Other non-operating income (expenses), net	(13,414)	5,501	(1,692)	49,952	(59,182)	(18,835)
Equity in income of associates	—	—	—	—	21,897	21,897
Profit before income taxes	654,355	894,331	209,014	450,081	(126,596)	2,081,185
Income tax expense	(138,842)	(179,849)	(42,033)	(90,511)	25,458	(425,777)
Profit from continuing operations	515,513	714,482	166,981	359,570	(101,138)	1,655,408
Profit from discontinued operation	—	—	—	7,311	—	7,311
Profit for the year	₩ 515,513	714,482	166,981	366,881	(101,138)	1,662,719
Attributable to:						
Equity holder of the Group	₩ 515,513	714,482	166,981	366,881	(101,311)	1,662,546
Non-controlling interests	—	—	—	—	173	173
	₩ 515,513	714,482	166,981	366,881	(101,138)	1,662,719

(c) The following table provides information of the main assets of each operating segment as of December 31, 2013 and 2012.

	December 31, 2013					
	Retail	Corporate and treasury	International group	Other	Consolidated adjustment	Total
Trading assets	₩ —	5,525,821	—	2,918,422	(924,478)	7,519,765
Loans	105,427,593	58,927,881	9,667,785	1,888,357	(1,222,272)	174,689,344
Available-for-sale financial assets	—	21,365,262	1,106,929	1,953,003	(332,108)	24,093,086
Held-to-maturity financial assets	—	7,046,218	387,402	—	—	7,433,620
	₩105,427,593	92,865,182	11,162,116	6,759,782	(2,478,858)	213,735,815

	December 31, 2012 (Restated)					
	Retail	Corporate and treasury	International group	Other	Consolidated adjustment	Total
Trading assets	₩ —	5,606,443	—	2,964,627	(576,199)	7,994,871
Loans	101,709,757	58,446,332	8,975,232	2,159,083	(1,591,205)	169,699,199
Available-for-sale financial assets	—	25,030,962	871,999	2,664,564	(250,777)	28,316,748
Held-to-maturity financial assets	—	8,789,842	434,486	—	—	9,224,328
	₩101,709,757	97,873,579	10,281,717	7,788,274	(2,418,181)	215,235,146

(d) Financial information of geographical area

(i) The following table provides information of operating income from external consumers by geographical area for the years ended December 31, 2013 and 2012.

	Operating revenue		Operating expense		Operating income	
	2013	2012	2013	2012	2013	2012
Domestic	₩14,701,712	17,526,812	13,101,685	15,639,267	1,600,027	1,887,545
Overseas	753,137	1,188,409	633,192	997,831	119,945	190,578
	₩15,454,849	18,715,221	13,734,877	16,637,098	1,719,972	2,078,123

(ii) The following table provides information of non-current assets by geographical area as of December 31, 2013 and 2012.

	December 31, 2013	December 31, 2012
Domestic	₩2,964,970	2,889,489
Overseas	58,862	51,554
	₩3,023,832	2,941,043

(*) Non-current assets as of December 31, 2013 and 2012 include property and equipment, intangible assets and investment properties.

7. Cash and due from banks

(a) Cash and due from banks as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012 (Restated)
Cash	₩ 2,589,117	2,938,070
Deposits in won:		
Reserve deposits	3,161,035	2,731,008
Others	1,688,503	827,767
	4,849,538	3,558,775
Deposits in foreign currency:		
Deposits	2,710,857	1,555,138
Time deposits	1,888,172	1,147,638
Others	403,923	152,181
	5,002,952	2,854,957
Allowance for impairment	(11,644)	(4,455)
	₩12,429,963	9,347,347

(b) Restricted due from banks as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012
Deposits in won:		
Reserve deposits	₩3,161,035	2,731,008
Others	1,610,611	740,738
	4,771,646	3,471,746
Deposits in foreign currency:		
Deposits	745,730	403,370
Time deposits	11,608	14,101
Others	3,100	70,116
	760,438	487,587
	₩5,532,084	3,959,333

8. Trading assets

Trading assets as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012 (Restated)
Debt securities:		
Government bonds	₩ 256,077	159,928
Financial institutions	1,595,176	1,365,639
Corporate bonds	1,040,152	1,066,894
Bills bought	2,539,322	2,766,861
CMA	1,043,266	1,018,520
	6,473,993	6,377,842
Equity securities:		
Stocks	58,761	168,624
Beneficiary certificates	910,674	1,010,477
	969,435	1,179,101
Other:		
Gold deposits	76,337	437,928
	₩7,519,765	7,994,871

9. Derivatives

(a) The notional amounts of derivatives as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012
Foreign currency related		
Over the counter:		
Currency forwards	₩ 27,784,868	32,294,582
Currency swaps	14,293,641	11,688,685
Currency options	120,281	366,153
	42,198,790	44,349,420
Exchange traded:		
Currency futures	—	87,295
	42,198,790	44,436,715
Interest rates related		
Over the counter:		
Interest rate swaps	67,212,192	77,650,591
Interest rate options	3,146,156	5,776,662
	70,358,348	83,427,253
Exchange traded:		
Interest rate futures	203,906	—
	70,562,254	83,427,253
Equity related		
Over the counter:		
Equity options	1,103,702	571,079
Exchange traded:		
Equity futures	11,821	64,529
Equity options	2,675	2,606
	14,496	67,135
	1,118,198	638,214
Commodity related		
Over the counter:		
Commodity swaps and forwards	399,814	—
Commodity options	6,054	27,995
	405,868	27,995
Hedge		
Fair value hedge:		
Interest rate swaps	8,451,250	8,264,998
Net investment hedge:		
Currency forwards	105,530	—
	8,556,780	8,264,998
	₩122,841,890	136,795,175

(b) Fair values of derivative instruments as of December 31, 2013 and 2012 were as follows:

	December 31, 2013		December 31, 2012	
	Assets	Liabilities	Assets	Liabilities
Foreign currency related				
Over the counter:				
Currency forwards	₩ 411,267	494,113	507,243	611,723
Currency swaps	428,257	351,547	360,967	256,162
Currency options	1,721	1,504	24,955	11
	841,245	847,164	893,165	867,896
Interest rates related				
Over the counter:				
Interest rate swaps	440,518	357,062	652,262	541,396
Interest rate options	12,824	16,932	23,921	33,297
	453,342	373,994	676,183	574,693
Equity related				
Over the counter:				
Equity options	11,185	11,113	13,842	6,026
Exchange traded:				
Equity options	10	—	16	—
	11,195	11,113	13,858	6,026
Commodity related				
Over the counter:				
Commodity swaps and forwards	—	10,380	—	—
Commodity options	—	—	371	371
	—	10,380	371	371
Hedge				
Fair value hedge:				
Interest rate swaps	152,212	235,387	260,137	88,836
Net investment hedge:				
Currency forwards	—	141	—	—
	152,212	235,528	260,137	88,836
	₩1,457,994	1,478,179	1,843,714	1,537,822

(c) Gain or loss on valuation of derivatives for the years ended December 31, 2013 and 2012 were as follows:

	2013		2012	
	Gain	Loss	Gain	Loss
Foreign currency				
Over the counter:				
Currency forwards	₩326,769	453,822	532,047	698,367
Currency swaps	233,965	248,272	385,063	199,370
Currency options	1,357	855	1,320	10,727
	562,091	702,949	918,430	908,464
Interest rates				
Over the counter:				
Interest rate swaps	250,983	290,400	230,915	242,750
Interest rate options	6,856	3,313	10,347	9,362
	257,839	293,713	241,262	252,112
Equity				
Over the counter:				
Equity options	8,222	13,557	9,801	2,802
Exchange traded:				
Equity options	—	—	—	6
	8,222	13,557	9,801	2,808
Commodity				
Over the counter:				
Commodity swaps and forwards	—	10,380	—	—
Commodity options	103	90	229	183
	103	10,470	229	183
Hedge				
Fair value hedge:				
Interest rate swaps	25,699	279,400	81,775	62,573
Net investment hedge:				
Currency forwards	—	141	—	—
	25,699	279,541	81,775	62,573
	₩853,954	1,300,230	1,251,497	1,226,140

(d) Gain or loss on fair value hedges for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Hedged items	₩ 257,544	(18,662)
Hedging instruments	(263,204)	19,840
	₩ (5,660)	1,178

(e) Hedge of net investment in foreign operations

For some of net investments in foreign operations, the hedge accounting is applied. The gain or loss on the hedging instruments which is reflected to overseas operations translation for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Borrowings in foreign currency	₩65,567	56,314
Debt securities issued in foreign currency	5,366	25,782
Currency forwards	98	—
	₩71,031	82,096

10. Loans

(a) Details of loans as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012 (Restated)
Household loans	₩ 73,031,842	70,933,181
Corporate loans	94,415,522	92,749,489
Public and other	2,479,154	3,061,975
Loans to banks	6,078,034	4,477,129
Card receivables	39,531	2,474
	176,044,083	171,224,248
Deferred loan origination costs and fees	253,290	235,483
	176,297,373	171,459,731
Allowance for impairment	(1,608,029)	(1,760,532)
	₩174,689,344	169,699,199

(b) Changes in the allowance for impairment for the years ended December 31, 2013 and 2012 were as follows:

	2013					
	Due from banks	Loans			Other assets	Total
		Household	Corporate	Other		
Beginning balance	₩ 4,455	267,176	1,468,188	25,168	61,944	1,826,931
Provision for (reversal of) allowance	7,189	136,515	536,185	(9,853)	3,708	673,744
Write-offs	—	(182,012)	(582,502)	—	(735)	(765,249)
Effect of discounting	—	—	(45,023)	—	—	(45,023)
Allowance related to loans transferred	—	(53,731)	(63,255)	—	—	(116,986)
Recoveries	—	25,294	127,668	—	132	153,094
Others(*)	—	—	(41,789)	—	(6,623)	(48,412)
Ending balance	₩11,644	193,242	1,399,472	15,315	58,426	1,678,099

	2012 (Restated)					
	Due from banks	Loans: Household	Loans: Corporate	Loans: Other	Other assets	Total
Beginning balance	₩ 32,163	205,158	1,451,673	32,061	76,673	1,797,728
Provision for (reversal of) allowance	(27,708)	158,238	698,012	(6,893)	(3,577)	818,072
Write-offs	—	(109,108)	(604,851)	—	(590)	(714,549)
Effect of discounting	—	—	(60,341)	—	—	(60,341)
Allowance related to loans transferred	—	(17,222)	(83,212)	—	—	(100,434)
Recoveries	—	30,110	65,635	—	93	95,838
Others(*)	—	—	1,272	—	(10,655)	(9,383)
Ending balance	₩ 4,455	267,176	1,468,188	25,168	61,944	1,826,931

(*) Other changes were due to debt restructuring, debt-equity swap, foreign exchange rate, etc.

(c) Changes in deferred loan origination costs for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Beginning balance	₩ 235,483	175,056
Loan originations	180,698	185,247
Amortization	(162,891)	(124,820)
Ending balance	₩ 253,290	235,483

11. Available-for-sale financial assets and held-to-maturity financial assets

(a) Details of available-for-sale financial assets and held-to-maturity financial assets as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012
Available-for-sale financial assets:		
Debt securities:		
Government bonds	₩ 2,828,023	3,951,526
Financial institutions bonds	10,983,739	11,849,658
Corporate bonds and others	7,420,991	9,013,452
	21,232,753	24,814,636
Equity securities(*):		
Stocks	2,156,523	2,879,823
Equity investments	385,708	402,837
Beneficiary certificates	192,767	195,778
Others	125,335	23,674
	2,860,333	3,502,112
	₩ 24,093,086	28,316,748
Held-to-maturity financial assets:		
Debt securities:		
Government bonds	₩ 4,259,467	4,981,642
Financial institutions bonds	653,277	1,101,275
Corporate bonds and others	2,520,876	3,141,411
	₩ 7,433,620	9,224,328

(*) Equity securities with no quoted market prices in active markets and for which the fair value cannot be measured reliably are recorded at cost of ₩27,606 million and ₩44,539 million as of December 31, 2013 and 2012, respectively.

(b) Gain or loss on sale of available-for-sale financial assets for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Gain on sale of available-for-sale financial assets	₩551,362	327,680
Loss on sale of available-for-sale financial assets	(65,529)	(14,041)
	₩485,833	313,639

12. Property and equipment

(a) Details of property and equipment as of December 31, 2013 and 2012 were as follows:

	December 31, 2013			
	Acquisition cost	Accumulated depreciation	Accumulated impairment	Book value
Land	₩1,262,137	—	—	1,262,137
Buildings	806,523	(110,996)	—	695,527
Others	1,417,580	(1,174,126)	(85)	243,369
	₩3,486,240	(1,285,122)	(85)	2,201,033

	December 31, 2012		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩1,267,928	—	1,267,928
Buildings	727,692	(80,980)	646,712
Others	1,445,690	(1,145,282)	300,408
	₩3,441,310	(1,226,262)	2,215,048

(b) Changes in property and equipment for the years ended December 31, 2013 and 2012 were as follows :

	2013			
	Land	Buildings	Others	Total
Beginning balance	₩1,267,928	646,712	300,408	2,215,048
Acquisitions(*1,2)	368	144,434	184,753	329,555
Disposals and write-off(*3,4)	(2,672)	(2,127)	(138,923)	(143,722)
Impairment	—	—	(85)	(85)
Depreciation	—	(30,047)	(106,883)	(136,930)
Amounts transferred from (to) investment properties	456	(59,827)	—	(59,371)
Amounts transferred to assets held for sale	(3,752)	(2,526)	—	(6,278)
Effects of foreign currency movements	(191)	(1,092)	4,099	2,816
Ending balance	₩1,262,137	695,527	243,369	2,201,033

(*1) ₩131,541 million transferred from construction-in progress was included.

(*2) ₩2,075 million of provision for the asset retirement related to newly acquired assets was included.

(*3) ₩489 million of loss on write-off was included.

(*4) ₩132,758 million transferred from construction-in progress and intangible assets was included.

	2012			
	Land	Buildings	Other	Total
Beginning balance	₩1,264,745	646,108	255,234	2,166,087
Acquisitions(*1,2,4)	1,700	40,957	174,773	217,430
Disposals and write-off(*1,3)	(180)	(7,191)	(12,449)	(19,820)
Depreciation(*4)	—	(28,360)	(113,243)	(141,603)
Amounts transferred from (to) assets held for sale	3,241	(682)	—	2,559
Effects of foreign currency movements	(180)	(1,401)	(2,724)	(4,305)
Disposal of subsidiary	(1,398)	(2,719)	(1,183)	(5,300)
Ending balance	₩1,267,928	646,712	300,408	2,215,048

(*1) ₩13,651 million transferred from construction-in progress was included.

(*2) ₩960 million of provision for the asset retirement related to newly acquired assets was included.

(*3) ₩513 million of loss on write-off was included.

(*4) With respect to discontinued operation, ₩1,025 million of acquisitions and ₩636 million of depreciation were included.

(c) Insured assets and liability insurance as of December 31, 2013 were as follows:

Type of insurance	Insured assets	Amount covered	Insurance company
Comprehensive insurance for financial institutions	Cash	₩ 20,000	Samsung Fire & Marine Insurance Co., Ltd., etc.
Property insurance	Buildings & properties for business purpose	1,084,666	Samsung Fire & Marine Insurance Co., Ltd., etc.
Theft insurance	Cash & securities	55,000	Dongbu Insurance Co., Ltd., etc.
Compensation liability insurance for officers	—	50,000	Samsung Fire & Marine Insurance Co., Ltd., etc.
Compensation liability insurance for gas accident	—	500	Meritz Fire & Marine Insurance Co., Ltd., etc.
Total		₩1,210,166	

(*) Besides the insurances listed above, the Group also maintained automobile liability insurance, medical insurance for employees, and casualty insurance protecting property and employees.

13. Intangible assets

Changes in intangible assets for the years ended December 31, 2013 and 2012 were as follows:

	2013				
	Software	Development cost	Memberships	Others(*4)	Total
Beginning balance	₩ 41,087	38,071	45,585	55,820	180,563
Acquisitions(*1)	21,164	222	4,875	89,687	115,948
Disposals and write-off(*2)	(600)	—	(1,417)	(8)	(2,025)
Impairment(*3)	—	—	(1,648)	—	(1,648)
Amortization	(15,629)	(15,371)	—	(35,657)	(66,657)
Effects of foreign currency movements	(308)	—	(32)	4	(336)
Ending balance	₩ 45,714	22,922	47,363	109,846	225,845

(*1) ₩1,217 million transferred from construction-in-progress was included

(*2) ₩2 million of loss on write-off was included.

(*3) Memberships are intangible assets with indefinite useful lives, which consist of golf and resort memberships. The Group recognizes an impairment loss when the carrying amount is less than the quoted price in the relevant markets.

(*4) Others consist of certain servicing rights relating to local government or public organization.

	2012					
	Goodwill	Software	Development cost	Member -ships	Others(*4)	Total
Beginning balance	₩ 61,574	41,747	39,471	44,352	72,789	259,933
Acquisitions(*2)	—	15,285	14,657	3,833	3,983	37,758
Disposals and write-off(*3)	—	—	—	(1,258)	(231)	(1,489)
Impairment(*1)	(43,840)	—	—	(665)	—	(44,505)
Amortization(*2)	—	(14,290)	(16,057)	—	(20,681)	(51,028)
Effects of foreign currency movements	—	(590)	—	(133)	(40)	(763)
Disposal of subsidiary	(17,734)	(1,065)	—	(544)	—	(19,343)
Ending balance	₩ —	41,087	38,071	45,585	55,820	180,563

(*1) The Group recognized impairment losses from golf and condominium memberships with indefinite useful life by comparing its recoverable amount with its carrying amount.

(*2) With respect to discontinued operations, ₩588 million of acquisitions and ₩261 million of depreciation were included.

(*3) ₩61 million of write-off was included.

(*4) Others consist of certain servicing rights relating to local government or public organization.

14. Investments in associates

(a) Investments in associates as of December 31, 2013 and 2012 were as follows:

Investees	Country	Reporting date	Ownership (%) December 31, 2013	Ownership (%) December 31, 2012
Aju Capital Co., Ltd.(*1,2,6)	Korea	September 30	12.85	12.85
Cardif Life Insurance(*1,3)	Korea	September 30	14.99	14.99
UAMCO., Ltd.	Korea	December 31	17.50	17.50
Shinhan Corporate Restructuring Fund 7th(*4)	Korea	December 31	—	58.82
Pohang TechnoPark 2PFV(*2)	Korea	December 31	14.90	14.90
Daewontos Co., Ltd.(*1,5)	Korea	September 30	36.33	36.33
Inhee Co., Ltd.(*1,5)	Korea	September 30	15.36	12.84

(*1) Financial statements as of September 30, 2013 were used for the equity method and significant transactions or events between September 30, 2013 and December 31, 2013 were properly considered.

(*2) Although the ownership interests in Aju Capital Co., Ltd. and Pohang TechnoPark2PFV are less than 15%, the Group used the equity method of accounting as the Group has significant influence on electing board members who are able to influence the entities' financial and operating policy decisions.

(*3) Although the ownership interest in Cardif Life Insurance Co., Ltd. was less than 15%, the Group used the equity method of accounting as the Group has significant influence through substantive operating transactions. The Group additionally invested in the shares amounting to ₩8,999 million during the 4th quarter of 2013.

(*4) Shinhan Corporate Restructuring Fund 7th was liquidated for the year ended December 31, 2013

(*5) The Group previously acquired the shares of Inhee Co., Ltd. & Daewontos Co., Ltd. by debt-equity swap as a part of reorganization procedures where the Group's voting right is restricted. As the reorganization procedures for Inhee Co., Ltd. & Daewontos Co., Ltd. were completed and and voting right were restored during 2013 and 2012, respectively.

(*6) The shares of Aju Capital Co., Ltd. were marketable investment securities and their market value was ₩37,049 million as of December 30, 2013 based on the quoted market price (₩5,010 per share) at that date.

(b) Changes in investments in associates for the years ended December 31, 2013 and 2012 were as follows:

Investees	2013 Acquisition cost	Beginning balance	Acquisition (Redemption)	Equity method income (loss)	Changes in accumulated other comprehensive income	Dividends received	Ending balance
Aju Capital Co., Ltd.	₩ 36,971	29,654	—	568	(149)	(1,845)	28,228
Cardif Life Insurance Co., Ltd.	35,279	43,625	8,999	3,294	(4,284)	—	51,634
UAMCO., Ltd.	85,050	120,915	—	18,373	(19)	—	139,269
Shinhan Corporate Restructuring Fund 7th	—	13	(13)	—	—	—	—
Pohang TechnoPark 2PFV	4,470	2,895	—	(48)	—	—	2,847
Daewontos CO., LTD.	—	122	—	(122)	—	—	—
Inhee Co., Ltd.	—	—	—	383	(21)	—	362
	₩161,770	197,224	8,986	22,448	(4,473)	(1,845)	222,340

Investees	2012 Acquisition cost	Beginning balance	Acquisition (Redemption)	Equity method income (loss)	Changes in accumulated other comprehensive income	Impairment loss	Dividends received	Ending balance
Macquarie Shinhan Infrastructure Management	₩ —	3,248	(2,742)	—	(401)	—	(105)	—
Aju Capital Co., Ltd.	36,971	33,946	—	5,506	492	(8,441)	(1,849)	29,654
Cardif Life Insurance Co., Ltd.	26,280	26,801	9,750	421	6,705	—	(52)	43,625
UAMCO., Ltd	85,050	104,240	—	16,650	25	—	—	120,915
Shinhan Corporate Restructuring Fund 7th	—	13	—	—	—	—	—	13
Pohang TechnoPark 2PFV	4,470	3,697	—	(802)	—	—	—	2,895
Daewontos CO., LTD.	—	—	—	122	—	—	—	122
	₩152,771	171,945	7,008	21,897	6,821	(8,441)	(2,006)	197,224

(c) The condensed financial statements of associates as of December 31, 2013 and 2012 were as follows:

Investees	December 31, 2013 Assets	Liabilities	Operating revenue	Net income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Aju Capital Co., Ltd.	₩ 6,044,214	5,349,045	790,073	2,232	1,324	3,556
Cardif Life Insurance Co., Ltd.	3,466,657	3,184,257	682,100	18,295	(28,557)	(10,262)
UAMCO., Ltd	4,363,884	3,568,061	708,035	105,013	(107)	104,906
Pohang TechnoPark 2PFV	20,783	1,676	—	(322)	—	(322)
Daewontos CO., LTD.	6,536	7,740	17,313	(873)	—	(873)
Inhee Co., Ltd.	16,481	14,127	5,866	662	(18,156)	(17,494)
	₩13,918,555	12,124,906	2,203,387	125,007	(45,496)	79,511

Investees	December 31, 2012 Assets	Liabilities	Operating revenue	Net income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Aju Capital Co., Ltd.	₩ 5,876,091	5,183,205	775,227	40,353	(96)	40,257
Cardif Life Insurance Co., Ltd.	2,993,361	2,765,496	798,918	2,497	44,709	47,206
UAMCO., Ltd	4,906,006	4,215,063	599,570	95,828	(422)	95,406
Pohang TechnoPark 2PFV	22	—	—	—	—	—
Daewontos CO., LTD	20,993	1,564	10,603	(5,440)	—	(5,440)
Inhee Co., Ltd.	5,314	4,979	—	243	—	243
	₩13,801,787	12,170,307	2,184,318	133,481	44,191	177,672

(d) The reconciliation of associates' financial information presented to the carrying amount of the Group's interest in the associates as of December 31, 2013 and 2012 were as follows:

	December 31, 2013					
Associates	**Net assets (A)**	**Proportion of ownership interest (B)**	**(A) x (B)**	**Intragroup transactions**	**Other adjustments**	**Carrying amount**
Aju Capital Co., Ltd.(*1)	₩ 651,747	12.85	83,751	—	(55,523)	28,228
Cardif Life Insurance Co., Ltd.(*2)	282,400	14.99	42,332	(171)	9,473	51,634
UAMCO., Ltd	795,823	17.50	139,269	—	—	139,269
Pohang TechnoPark 2PFV	19,107	14.90	2,847	—	—	2,847
Daewontos CO., LTD.(*3,4)	(1,204)	36.33	(437)	—	437	—
Inhee Co., Ltd.	2,354	15.36	362	—	—	362
	₩1,750,227		268,124	(171)	(45,613)	222,340

(*1) Net assets do not include non-controlling interests. Other adjustments represent cumulative impairment losses recognized in prior periods.

(*2) Other adjustments represent the increase in net assets due to paid-in capital increase occurred between the end of the reporting period of the associate and the Group.

(*3) Other adjustments represent the unrecognized share of losses of an associate because the Group has stopped recognizing its share of losses of the associate due to cumulative losses.

(*4) The unrecognized share of losses of an associate for the reporting period, and cumulatively, as the Group had stopped using equity method was ₩437 million.

	December 31, 2012					
Associates	**Net assets (A)**	**Proportion of ownership interest (B)**	**(A) x (B)**	**Intragroup transactions**	**Other adjustments**	**Carrying amount**
Aju Capital Co., Ltd.(*1)	₩ 662,870	12.85	85,177	—	(55,523)	29,654
Cardif Life Insurance Co., Ltd.(*2)	227,865	14.99	34,157	(304)	9,772	43,625
UAMCO., Ltd	690,943	17.50	120,915	—	—	120,915
Pohang TechnoPark 2PFV	22	58.82	13	—	—	13
Daewontos CO., LTD.	19,429	14.90	2,895	—	—	2,895
Inhee Co., Ltd.	335	36.33	122	—	—	122
	₩1,601,464		243,279	(304)	(45,751)	197,224

(*1) Net assets do not include non-controlling interests. Other adjustments represent cumulative impairment losses recognized in prior periods.

(*2) Other adjustments represent the increase in net assets due to paid-in capital increase occurred between the end of the reporting period of the associate and the Group.

15. Investment properties

(a) Investment properties as of December 31, 2013 and 2012 were as follows:

	December 31, 2013		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩436,046	—	436,046
Buildings	181,884	(20,976)	160,908
	₩617,930	(20,976)	596,954

	December 31, 2012		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩437,301	—	437,301
Buildings	123,684	(15,553)	108,131
	₩560,985	(15,553)	545,432

(b) The fair value of investment properties as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012
Land and buildings(*)	₩633,516	559,714

(*) Fair value of investment properties is estimated based on the recent market transactions and certain significant unobservable inputs. Accordingly, fair value of investment properties is classified as level 3.

(c) Changes in investment properties for the years ended December 31, 2013 and 2012 were as follows:

	2013		
	Land	Buildings	Total
Beginning balance	₩437,301	108,131	545,432
Disposals	(799)	(638)	(1,437)
Depreciation	—	(6,416)	(6,416)
Amounts transferred from (to) property and equipment	(456)	59,827	59,371
Effects of foreign currency movements	—	4	4
Ending balance	₩436,046	160,908	596,954

	2012		
	Land	Buildings	Total
Beginning balance	₩440,542	112,770	553,312
Depreciation	—	(5,306)	(5,306)
Amounts transferred from (to) property and equipment	(3,241)	682	(2,559)
Effects of foreign currency movements	—	(15)	(15)
Ending balance	₩437,301	108,131	545,432

(d) Income and expenses on investment properties for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Rental Income	₩21,462	21,170
Direct operating expenses for investment properties that generated rental income	5,957	4,643
Gain from disposal of investment property	248	—

16. Other assets

Other assets as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012 (Restated)
Unsettled trades and other financial assets	₩2,413,770	3,356,235
Domestic exchange settlement receivables	2,361,995	1,981,228
Guarantee deposits	1,220,377	1,216,501
Accrued income	923,332	1,070,960
Prepaid expense	74,614	86,459
Suspense payments	68,015	83,463
Sundry assets	169,739	135,928
Others	235	194
Present value discount	(66,156)	(78,796)
Allowances for impairment	(58,426)	(61,944)
	₩7,107,495	7,790,228

17. Pledged assets

(a) Assets pledged as collateral as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012
Loans	₩ 115,927	127,589
Securities(*1):		
Available-for-sale financial assets	1,178,428	465,267
Held-to-maturity financial assets	4,858,521	5,528,274
	6,036,949	5,993,541
Real estate(*2)	6,488	7,249
	₩6,159,364	6,128,379

(*1) The carrying amounts of assets pledged as collateral that the transferees had the right to sell or repledge regardless of the Group's default as of December 31, 2013 and 2012 were ₩483,371 million and ₩370,501 million, respectively.

(*2) The amounts were based on the notification amount of pledge.

(b) The fair value of collateral held that the Group has the right to sell or repledge regardless of pledger's default as of December 31, 2013 and 2012 was as follows:

	December 31, 2013		December 31, 2012	
	Collateral held	Collateral sold or repledged	Collateral held	Collateral sold or repledged
Securities	₩2,759,192	—	2,679,618	—

18. Deposits

Deposits as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012 (Restated)
Demand deposits:		
Korean won	₩ 52,499,442	47,134,850
Foreign currency	6,007,426	4,586,777
	58,506,868	51,721,627
Time deposits:		
Korean won	101,137,384	103,327,575
Foreign currency	9,230,994	9,010,546
Gain on fair value hedge	(102,849)	(18,136)
	110,265,529	112,319,985
Negotiable certificates of deposits	1,781,684	1,273,333
Note discount deposits	3,132,185	3,013,376
CMA(*)	1,291,588	1,626,061
Others	42,578	54,624
	₩175,020,432	170,009,006

19. Trading liabilities

Trading liabilities as of December 31, 2013 and 2012 were as follows:

	December 31, 2013		December 31, 2012	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Securities borrowed	—	₩398,596	—	₩484,061

20. Borrowings

(a) Borrowings as of December 31, 2013 and 2012 were as follows:

	December 31, 2013		December 31, 2012	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Call money:				
Korean won	2.32~2.32	₩ 3,700	2.57~2.70	₩ 16,600
Foreign currency	0.10~5.08	314,660	0.07~9.00	257,235
		318,360		273,835
Bill sold	1.50~2.93	28,631	1.70~3.80	55,397
Bonds sold under repurchase agreements:				
Korean won	2.27~2.55	13,121	2.50~2.50	24,262
Foreign currency	0.66~3.34	331,511	1.02~3.65	282,276
		344,632		306,538
Borrowings in won:				
Borrowings from Bank of Korea	0.50~1.00	1,269,610	1.25~1.50	1,321,751
Others	0.00~5.05	3,307,945	0.00~5.68	3,011,571
		4,577,555		4,333,322
Borrowings in foreign currency:				
Overdraft due to banks	0.73~0.78	225,689	0.63~0.63	155,212
Borrowings from banks	0.05~1.83	2,640,072	0.08~3.88	3,045,123
Others	0.55~1.85	1,842,079	0.30~1.86	2,523,782
		4,707,840		5,724,117
Due to Bank of Korea in foreign currency	0.10~0.10	94,315	0.10~0.10	156,150
Deferred origination costs		(1,994)		(2,841)
		₩10,069,339		₩10,846,518

(b) Borrowings from other financial institutions as of December 31, 2013 and 2012 were as follows:

	December 31, 2013			
	Bank of Korea	Commercial banks	Other financial institution	Total
Call money	₩ —	315,960	2,400	318,360
Bonds sold under repurchase agreements	—	91,391	240,120	331,511
Borrowings in won	1,269,610	443,110	109,015	1,821,735
Borrowings in foreign currency	—	3,018,779	1,689,061	4,707,840
Due to Bank of Korea in foreign currency	94,315	—	—	94,315
	₩1,363,925	3,869,240	2,040,596	7,273,761

	December 31, 2012 (Restated)			
	Bank of Korea	Commercial banks	Other financial institution	Total
Call money	₩ —	3,600	270,235	273,835
Bonds sold under repurchase agreements	—	68,056	214,220	282,276
Borrowings in won	1,321,751	341,797	210,174	1,873,722
Borrowings in foreign currency	—	3,200,335	2,523,782	5,724,117
Due to Bank of Korea in foreign currency	156,150	—	—	156,150
	₩1,477,901	3,613,788	3,218,411	8,310,100

21. Debt securities issued

Debt securities issued as of December 31, 2013 and 2012 were as follows:

	December 31, 2013		December 31, 2012	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Debt securities issued in won:				
Debt securities issued	0.00~8.36	₩ 8,956,923	0.00~9.00	₩ 9,537,969
Subordinated debt securities issued	3.41~7.70	5,060,630	3.41~7.70	5,030,290
Loss on fair value hedges		(24,853)		107,559
Discount on debt securities issued		(37,752)		(22,205)
		13,954,948		14,653,613
Debt securities issued in foreign currency:				
Debt securities issued	0.74~8.13	3,729,625	0.72~8.13	3,745,525
Loss on fair value hedges		70,163		117,097
Discount on debt securities issued		(15,081)		(15,596)
		3,784,707		3,847,026
		₩17,739,655		₩18,500,639

22. Employee benefits

(a) Defined benefit plan assets and liabilities

The Group provides a defined benefit plan for qualified employees. Plan assets are managed by trust companies, funds, and other similar companies that are subject to local regulations and each country's business environment.

Defined benefit plan assets and liabilities as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012
Present value of defined benefit obligation	₩ 737,773	748,324
Fair value of plan assets	(670,335)	(583,656)
Recognized liabilities for defined benefit obligation	₩ 67,438	164,668

(b) Changes in the present value of defined benefit obligation for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Beginning balance	₩748,324	644,814
Current service cost	105,065	99,752
Interest expense	31,998	33,072
Remeasurements(*1)	(24,976)	399
Past service cost(*2)	(96,779)	—
Effects of foreign currency movements	(92)	46
Benefits paid by the plan	(27,942)	(31,519)
Others	2,175	1,760
Ending balance	₩737,773	748,324

(*1) Remeasurements for the year ended December 31, 2013 consist of ₩2,330 million of actuarial loss arising from changes in demographic assumptions and ₩3,872 million of actuarial loss arising from changes in financial assumptions, ₩26,518 of gain arising experience adjustments.

(*2) As a result of a plan curtailment during the year, the Group's defined benefit obligation decreased by ₩96,779 million and related negative past service cost was recognized as profit or loss.

(c) Changes in the fair value of plan assets for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012 (Restated)
Beginning balance	₩ 583,657	445,806
Interest income	26,117	24,379
Remeasurements	(7,566)	(5,545)
Contributions paid into the plan	90,000	124,000
Benefits paid by the plan	(21,873)	(4,984)
Ending balance	₩ 670,335	583,656

(d) Actuarial assumptions as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012	Descriptions
Discount rate	4.98%	4.44%	AA0 Corporate bond yields
Future salary increasing rate	2.44% + Upgrade rate	1.88% + Upgrade rate	Average for last 5 years

(e) Sensitivity analysis

Sensitivity analysis of the present value of defined benefit obligation as of December 31, 2013 and 2012 was as follows:

(i) *2013*

	Present value	Present value when the rate rises by 100 basis points	Present value when the rate falls by 100 basis points
Discount rate	₩737,773	652,611	839,290
Future salary increasing rate	737,773	840,998	649,864

(ii) *2012*

	Present value	Present value when the rate rises by 100 basis points	Present value when the rate falls by 100 basis points
Discount rate	₩748,324	666,186	845,561
Future salary increasing rate	748,324	847,149	663,555

(f) The weighted average durations of the defined benefit obligation are 16.11 and 14.12 years.

23. Provisions

(a) Changes in provisions for the years ended December 31, 2013 and 2012 were as follows:

	2013					
	Asset retirement	Litigation(*1)	Unused credit	Guarantee(*1)	Others(*2)	Total
Beginning balance	₩23,023	97,041	85,930	76,891	48,742	331,627
Provision (reversal)	545	(2,149)	4,344	21,909	39,776	64,425
Provision used	(189)	—	—	—	(25,569)	(25,758)
Foreign exchange translation	—	(157)	1,141	2,240	(41)	3,183
Others(*3)	1,985	—	—	(8,479)	(2,967)	(9,461)
Ending balance	₩25,364	94,735	91,415	92,561	59,941	364,016

	2012 (Restated)					
	Asset retirement	Litigation(*1)	Unused credit	Guarantee(*1)	Others(*2)	Total
Beginning balance	₩21,470	181,254	98,757	84,377	54,506	440,364
Provision (reversal)	681	4,121	(10,177)	7,960	11,116	13,701
Provision used	(88)	(87,874)	—	—	(16,236)	(104,198)
Foreign exchange translation	—	(460)	(2,650)	(2,429)	(644)	(6,183)
Others(*3)	960	—	—	(13,017)	—	(12,057)
Ending balance	₩23,023	97,041	85,930	76,891	48,742	331,627

(*1) Details of litigation and guarantee are described in note 39.

(*2) Other provisions include provisions for constructive obligations related to potential contributions to certain foundation and dormant deposits.

(*3) Other changes were due to originations and maturities of financial guarantees recognized initially at their fair value, effect of discount rate change and acquisition cost of new leased properties relating to asset retirement.

(b) Asset retirement obligation liabilities represent the estimated cost to restore the existing leased properties which were discounted to the present value using the appropriate discount rate at the end of the reporting period. Disbursements of such costs were expected to incur at the end of the lease contract. Such costs were reasonably estimated using the average lease period and the average restoration expenses. The average lease period was calculated based on the past ten-year historical data of the expired leases. The average restoration expense was calculated based on the actual costs incurred for the past three years using the three-year average inflation rate.

24. Other liabilities

Other liabilities as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012 (Restated)
Unsettled trades and other financial liabilities	₩ 2,360,850	3,300,080
Borrowing from trust account	2,298,642	2,156,569
Accrued expenses	2,714,427	2,996,355
Domestic exchange settlement payables	945,959	2,843,480
Due to agencies	2,338,951	1,950,737
Account for agency business of other institutions	581,158	650,667
Security deposits received	351,733	397,319
Foreign exchange settlement payables	206,341	208,782
Suspense payable	70,374	98,684
Unearned income	75,613	75,108
Withholding value-added tax and other taxes	107,316	89,975
Dividend payable	18,545	18,131
Sundry liabilities	145,933	154,781
Present value discount	(2,642)	(4,173)
	₩12,213,200	14,936,495

25. Equity

(a) Equity as of December 31, 2013 and 2012 was as follows:

	December 31, 2013	December 31, 2012 (Restated)
Capital stock:		
Common stock	₩ 7,928,078	7,928,078
Other equity instruments:		
Hybrid bonds	2,099,350	2,329,760
Capital surplus:		
Share premium	398,080	398,080
Others	5,084	5,084
	403,164	403,164
Capital adjustments:		
Stock options	25	2,011
Accumulated other comprehensive income:		
Net change in fair value of available-for-sale financial assets	564,023	868,708
Equity in other comprehensive income of associates, net	3,441	7,868
Foreign currency translation differences for foreign operations	(157,229)	(94,943)
Remeasurements of defined benefit obligations	(113,833)	(127,030)
	296,402	654,603
Retained earnings:		
Legal reserve(*1)	1,098,257	933,299
Voluntary reserve(*2,3)	7,159,989	6,275,187
Other reserve(*4)	51,400	55,579
Retained earnings(*5)	1,496,698	1,752,552
	9,806,344	9,016,617
Non-controlling interests	2,718	2,628
	₩20,536,081	20,336,861

(*1) According to the article 40 of the Banking Act, the Bank was required to appropriate a legal reserve in an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 100% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to common stocks in connection with a free issue of shares.

(*2) The amounts include a regulatory reserve for loan losses of ₩1,693,255 million and ₩1,677,061 million as of December 31, 2013 and 2012, respectively.

(*3) The amounts include asset revaluation surplus of ₩355,898 million as of December 31, 2013 and 2012.

(*4) Other reserve was established according to the oversea branch's laws and it may be used only to reduce overseas branch's deficit.

(*5) The amounts include differences between a regulatory reserve for loan loss based on separate financial statement and consolidated financial statement of ₩25,090 million and reversal of regulatory reserve for loan loss of ₩67 million as of December 31, 2013 and provision for regulatory reserve for loan loss of ₩41,254 million as of December 31, 2012.

(b) Capital stock

Capital stock of the Bank as of December 31, 2013 and 2012 were as follows:

Number of authorized shares	2,000,000,000
Par value per share in won	₩ 5,000
Number of issued shares outstanding	1,585,615,506 shares

(c) Hybrid bonds

Hybrid bonds as of December 31, 2013 and 2012 were as follows:

Date of issue	Date of maturity	Book Value December 31, 2013	Book Value December 31, 2012	Interest rate (%)
Hybrid bonds issued in foreign currency:				
March 2, 2005	March 2, 2035	₩ 298,951	298,951	5.66
September 20, 2006	September 20, 2036	94,761	94,761	6.82
September 20, 2006	September 20, 2036	237,144	237,144	6.82
Hybrid bonds issued in won:				
March 21, 2008	March 21, 2038	—	19,978	6.83
March 21, 2008	March 21, 2038	119,878	119,878	7.30
March 25, 2008	March 25, 2038	49,948	49,948	7.30
March 28, 2008	March 28, 2038	—	510,000	7.02
June 5, 2009	June 5, 2039	699,370	699,370	5.95
June 29, 2009	June 29, 2039	299,730	299,730	5.95
June 7, 2013	June 7, 2043	299,568	—	4.63
		₩2,099,350	2,329,760	
Dividends on hybrid bond holders		₩ 133,290	153,990	
Weighted average interest rate (%)		6.35	6.61	

(*) The above hybrid bonds are subject to early redemption option after 5 years or 10 years from the date of issuance, and the maturity can be extended under the same condition at the maturity date. In addition, if no dividend is paid for common shares, the agreed interest is also not paid.

(d) Changes in accumulated other comprehensive income for the years ended December 31, 2013 and 2012 were as follows:

	2013				
	Net change in fair value of available-for-sale financial assets	Equity in the other comprehensive income of associates, net	Foreign currency translation differences for foreign operations	Remeasurement	Total
Beginning balance	₩ 868,708	7,868	(94,943)	(127,030)	654,603
Change due to fair value	56,366	—	—	—	56,366
Change due to other comprehensive income of associates	—	(4,473)	—	—	(4,473)
Change due to impairment	10,832	—	—	—	10,832
Change due to disposal	(472,352)	—	—	—	(472,352)
Effect of hedge accounting	4,170	—	71,031	—	75,201
Effect of foreign currency movements	(978)	—	(122,511)	—	(123,489)
Remeasurements gain	—	—	—	17,410	17,410
Effect of tax	97,275	47	(10,805)	(4,213)	82,304
Ending balance	₩ 564,021	3,442	(157,228)	(113,833)	296,402

	2012 (Restated)				
	Net change in fair value of available-for-sale financial assets	Equity in the other comprehensive income of associates, net	Foreign currency translation differences for foreign operations	Remeasurement	Total
Beginning balance	₩ 915,895	1,042	(3,775)	(122,525)	790,637
Change due to fair value	143,795	—	—	—	143,795
Change due to other comprehensive income of associates	—	7,225	—	—	7,225
Change due to impairment	(365)	—	—	—	(365)
Change due to disposal	(200,345)	(404)	—	—	(200,749)
Effect of hedge accounting	(3,861)	—	82,096	—	78,235
Effect of foreign currency movements	(841)	—	(158,210)	—	(159,051)
Remeasurements loss	—	—	—	(5,944)	(5,944)
Effect of tax	14,430	5	(15,054)	1,439	820
Ending balance	₩ 868,708	7,868	(94,943)	(127,030)	654,603

(e) Appropriation of retained earnings

Appropriation of retained earnings for the years ended December 31, 2013 and 2012 are as follows:

	2013 Date of appropriation: March 25, 2014	2012 Date of disposition: March 27, 2013(*)
Unappropriated retained earnings:		
Balance at beginning of year	₩ —	—
Changes of in accounting policies	127,030	122,524
Interest on hybrid bond	(133,290)	(153,990)
Net income	1,341,431	1,654,077
	1,335,171	1,622,611
Transfer from reserves:		—
Other reserve	—	13,171
Voluntary reserve	4,832,017	3,963,379
	4,832,017	3,976,550
	6,167,188	5,599,161
Appropriation of retained earnings:		
Legal reserve	134,143	164,958
Regulatory reserve for loan loss	2,291	16,164
Other reserve	11,098	8,992
Voluntary reserves	5,659,656	4,832,017
Dividends		
Dividends on common stock	360,000	450,000
Dividends per share in won:		
Current year ₩227.04 (4.54%)		
Last year ₩283.80 (5.68%)		
	6,167,188	5,472,131
Unappropriated retained earnings to be carried over to subsequent year	₩ —	127,030

(*) These statements of appropriation of retained earnings were based on the separate financial statements of the Bank.

(f) Dividends

Dividends of common stock for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Number of issued shares outstanding	1,585,615,506	1,585,615,506
Par value per share in won	₩ 5,000	5,000
Dividend rate per share (%)	4.54%	5.68%
Dividend per share in won	₩ 227.04	283.80

(g) Dividends payout ratio

Dividends payout ratio for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Dividends	₩ 360,000	450,000
Net income(*1)	1,373,017	1,662,546
Dividends payout ratio to net income	26.22%	27.07%
Net income adjusted for regulatory reserve(*2)	₩1,373,084	1,621,292
Dividends to net income	26.22%	27.76%

(*1) Net income and net income adjusted for regulatory reserve are calculated on the basis of the amount attributable to equity holder of the Bank.

(*2) The amounts are recalculated to reflect the impact of changes in accounting policies described in Note 3.

26. Regulatory reserve for loan loss

The Group should calculate and disclose regulatory reserve for loan loss, in accordance with Article 29-1 and 29-2 of Regulation on Supervision of Banking Business.

(a) The regulatory reserve for loan loss as of December 31, 2013 and 2012 was as follows:

	December 31, 2013	December 31, 2012(*) (Restated)
Regulatory reserve for loan loss	₩1,718,315	1,677,061
Provision for (reversal of) regulatory reserve for loan loss	(67)	41,254
	₩1,718,248	1,718,315

(*) The amounts are restated to reflect the impact of changes of accounting policies described in Note 3.

(b) Net income adjusted for regulatory reserve for loan loss and earnings per share adjusted for regulatory reserve for loan loss for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012 (Restated)
Required provision for regulatory reserve for loan loss	₩ (67)	41,254
Net income adjusted for regulatory reserve	1,373,243	1,621,465
Earnings per share adjusted for regulatory reserve in won	₩ 782	925

27. Net interest income

(a) Net interest income for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012 (Restated)
Interest income:		
Cash and due from banks	₩ 92,416	101,349
Trading assets	214,490	256,089
Available-for-sale financial assets	756,983	925,744
Held-to-maturity financial assets	380,286	471,881
Loans	7,530,975	8,562,229
Others	112,223	138,646
	9,087,373	10,455,938
Interest expense:		
Deposits	(3,816,612)	(4,544,761)
Borrowings	(207,298)	(279,625)
Debt securities issued	(658,004)	(796,761)
Others	(54,911)	(66,352)
	(4,736,825)	(5,687,499)
Net interest income	₩ 4,350,548	4,768,439

(b) Interest income recognized on impaired financial assets for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012 (Restated)
Interest income	₩45,023	60,341

28. Net fees and commission income

Net fees and commission income for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012 (Restated)
Fees and commission income:		
Credit placement fees	₩ 56,620	52,202
Commission received as electronic charge receipt	130,982	132,699
Brokerage fees	118,318	122,606
Commission received as agency	318,223	368,462
Investment banking fees	38,335	55,346
Commission received in foreign exchange activities	132,422	143,255
Asset management fee from trust accounts	42,241	40,635
Guarantee fees	55,512	52,812
Others	52,450	47,732
	945,103	1,015,749
Fees and commission expense:		
Credit-related fee	(29,781)	(26,351)
Brand-related fee	(83,599)	(84,360)
Service-related fees	(14,962)	(13,636)
Trading and brokerage fees	(5,251)	(5,584)
Commission paid in foreign exchange activities	(20,046)	(20,048)
Others	(42,564)	(49,906)
	(196,203)	(199,885)
Net fees and commission income	₩ 748,900	815,864

29. Dividend income

Dividend income for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Trading assets	₩ 1,733	1,847
Available-for-sale financial assets	63,909	79,048
	₩65,642	80,895

30. Net trading income (loss)

Net trading income (loss) for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012 (Restated)
Trading assets and trading liabilities		
Debt:		
Gain on valuation of debt securities	₩ 1,736	15,568
Gain on sale of debt securities	7,953	22,417
Loss on valuation of debt securities	(17,262)	(4,111)
Loss on sale of debt securities	(12,085)	(20,881)
	(19,658)	12,993
Equity:		
Gain on valuation of equity securities	9,396	27,822
Gain on sale of equity securities	32,868	52,053
Loss on valuation of equity securities	(1,559)	(2,502)
Loss on sale of equity securities	(16,198)	(25,746)
	24,507	51,627
Gold:		
Gain on valuation of gold deposit	157,548	4,978
Gain on sale of gold deposit	2,941	3,299
Loss on valuation of gold deposit	(91,523)	(6,228)
Loss on sale of gold deposit	(586)	(355)
	68,380	1,694
	73,229	66,314
Derivatives		
Foreign exchange:		
Gain on valuation and transaction, net	(82,758)	44,208
Interest rates:		
Gain on valuation and transaction, net	(3,796)	4,090
Equity:		
Gain on valuation and transaction, net	(1,948)	1,993
Commodity:		
Gain on valuation and transaction, net	(27,969)	49
	(116,471)	50,340
Net trading income (loss)	₩ (43,242)	116,654

31. Net impairment loss on financial assets

Net impairment loss on financial assets for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012 (Restated)
Impairment loss:		
Due from banks and loans	₩673,744	818,142
Available-for-sale financial assets	203,584	75,742
	₩877,328	893,884

32. General and administrative expenses

General and administrative expenses for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012 (Restated)
Employee benefits:		
Short and long term employee benefits	₩1,438,523	1,381,070
Post-employee benefits	14,167	108,444
Termination benefits	56,184	43,100
	1,508,874	1,532,614
Depreciation and amortization:		
Depreciation	136,930	140,967
Amortization of intangible assets	66,657	50,767
	203,587	191,734
Other general and administrative: expenses:		
Employee fringe benefits	113,234	103,813
Rent	253,990	254,301
Service contract expenses	243,294	234,058
Taxes and dues	83,193	93,496
Advertising	51,912	57,805
Electronic data processing expenses	62,739	60,559
Others	172,059	172,363
	980,421	976,395
	₩2,692,882	2,700,743

33. Share based payments

(a) Cash-settled stock options as of December 31, 2013 were as follows:

	4th grant	5th grant	6th grant	7th grant
Grant date	March 30, 2005	March 21, 2006	March 20, 2007	March 19, 2008
Exercise price in won	₩28,006	₩38,829	₩54,560	₩49,053
Number of shares granted	1,871,400	2,143,800	715,500 Executive 197,500 Employee 518,000	314,700 Executive 314,700
Contractual exercise period	Within 4 years after 3 years from grant date(*2)	Within 4 years after 3 years from grant date(*2)	Within 4 years after 3 years from grant date	Within 4 years after 3 years from grant date
Changes in number of shares granted:				
Outstanding at December 31, 2012	477,431	1,208,643	542,161	247,873
Exercised	(384,005)	(1,106,680)	—	—
Outstanding at December 31, 2013(*1)	93,426	101,963	542,161	247,873
Exercisable at December 31, 2013	93,426	101,963	542,161	247,873
Valuation method for the liability:	Fair value	Fair value	Fair value	Fair value
Valuation model	Black-Scholes Model	Black-Scholes Model	Black-Scholes Model	Black-Scholes Model
Stock price in won	₩47,300	₩47,300	₩47,300	₩47,300
Expected stock price volatility	—	—	16.91%	19.76%
Expected exercise period	—	—	0.11 years	0.61 years
Expected dividends rate	—	—	1.80%	1.80%
Risk-free interest rate	—	—	2.64%	2.64%
Fair value in won:	₩19,294	₩8,471	₩5	₩2,228

(*1) The weighted average exercise price for 985,423 options outstanding as of December 31, 2013 was ₩49,030.

(*2) Rights of exercise for 4th grant and 5th grant are suspended as of December 31, 2013.

(b) Equity-settled share based payments

i) Equity-settled share based payments as of December 31, 2013 were as follows:

	Content
Type	Equity-settled share based payment
Service period	Upon appointment and promotion since April 1, 2010 (Within 3 years from grant date)
Performance conditions	Increase rate of stock price and achievement of target ROE(*)

(*) ROE: Return on equity

ii) Granted shares and the fair value of grant date as of December 31, 2013 were as follows:

Grant date	Grant shares	Fair value(*1) (in won)	Estimated shares(*2)
April 1, 2010	306,400	₩45,150	131,227
July 21, 2010	3,800	46,800	1,921
August 30, 2010	12,400	46,500	8,125
November 4, 2010	3,800	44,000	2,245
December 30, 2010	42,800	52,900	28,192
January 11, 2011	65,200	51,500	42,628
January 28, 2011	49,500	50,700	43,042
February 10, 2011	3,300	49,700	2,051
April 18, 2011	15,400	46,800	11,932
January 26, 2012	49,200	44,300	30,936
February 8, 2012	30,900	46,650	19,086
March 27, 2012	4,100	44,550	2,362
August 24, 2012	10,800	36,150	4,547
October 15, 2012	4,100	37,200	1,645
January 1, 2013	183,100	40,050	60,120
March 21, 2013	4,400	37,750	1,148
May 27, 2013	14,500	40,250	2,898
August 1, 2013	4,400	41,250	613
	808,100		394,718

(*1) The fair value per share was evaluated based on the closing price of Shinhan Financial Group at each grant date.

(*2) Grant shares at grant date were adjusted pursuant to increase rate of stock price (33.4%) and achievement of target ROE (66.6%) based on standard quantity applicable to the days of service among specified period of service, which allows for the determination of acquired quantity at the end of the operation period.

(*3) The amount that the Bank must pay to the Shinhan Financial Group according to commitment was recognized in liabilities after directly deducting the fair value evaluated by Shinhan Financial Group from equity. As of December 31, 2013, the fair value per share data evaluated by Shinhan Financial Group amounted to ₩47,300.

(c) Stock compensation costs calculated for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Compensation costs recorded for the period	₩7,964	473

(d) Accrued expenses of the stock compensation costs and residual compensation costs as of December 31, 2013 and 2012 were as follows:

	2013	2012
Accrued expenses	₩21,427	16,338
Residual compensation costs recorded after the period	7,704	6,104

34. Net other operating expenses

Net other operating expenses for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012 (Restated)
Other operating income		
Gain on sale of assets:		
Loans	₩ 8,348	28,205
Written off loans	76,713	33,682
	85,061	61,887
Others:		
Gain on hedge activity from hedged items	285,995	85,745
Gain on hedge activity from hedging instruments	28,610	102,311
Others	17,481	19,076
	332,086	207,132
	417,147	269,019
Other operating expenses		
Loss on sale of assets:		
Loans	(28,982)	(40,271)
Others:		
Loss on hedge activity from hedged items	(28,451)	(104,407)
Loss on hedge activity from hedging instruments	(291,814)	(82,471)
Loss on allowance for acceptances and guarantee	(21,909)	(7,960)
Loss on other allowance	(42,516)	(5,741)
Contribution to fund	(244,521)	(247,113)
Insurance fee	(239,257)	(229,099)
Others(*)	(92,640)	(83,865)
	(961,108)	(760,656)
	(990,090)	(800,927)
Net other operating expenses	₩(572,943)	(531,908)

(*) Others include fees from the Korean court system in exchange for obtaining deposits from court cases at lower interest rates.

35. Non-operating income (expense), net

Non-operating income (expense), net for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Non-operating income		
Gain on sales of assets:		
Property and equipment	₩ 1,036	359
Intangible assets	179	3
Investment properties	248	—
	1,463	362
Investments in associates:		
Gain from dispositions	57	25,258
Others:		
Rental income on investment property	21,462	21,170
Others(*1)	43,739	81,032
	65,201	102,202
	66,721	127,822
Non-operating expenses		
Loss on sales of assets:		
Property and equipment	(306)	(61)
Intangible assets	(71)	(17)
	(377)	(78)
Investments in associates:		
Impairment losses	—	(8,441)
Others:		
Investment properties depreciation	(6,416)	(5,306)
Donations	(35,745)	(56,546)
Property and equipment impairment losses	(85)	—
Intangible assets impairment losses	(1,649)	(44,504)
Others(*2)	(36,856)	(31,782)
	(80,751)	(138,138)
	(81,128)	(146,657)
Net non-operating expenses	₩(14,407)	(18,835)

(*1) Others include gains from dormant deposits.

(*2) Others include expenses and commissions related to collecting charge-offs and direct operating expenses for investment properties that generate rental income.

36. Income tax expense

(a) The components of income tax expense of the Group for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012 (Restated)
Current income tax expense	₩ 390,972	546,535
Changes in deferred tax arising from temporary differences	(119,072)	(120,569)
Tax adjustment charged or credited directly to equity	82,937	508
Income tax expenses from discontinued operation	—	(697)
Income tax expense	₩ 354,837	425,777

(b) The income tax expense calculated by applying statutory tax rates to the Group's taxable income differs from the actual tax expense in the consolidated statements of income for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012 (Restated)
Income before income taxes	₩1,728,013	2,081,185
Statutory tax rate	24.20%	24.20%
Income taxes at statutory tax rates	417,717	503,185
Adjustments:		
Non-taxable income	(34,915)	(40,564)
Non-deductible expense	8,947	4,235
Tax credit	(1,384)	(1,093)
Decrease resulting from consolidated corporate tax system	(26,090)	(38,062)
Others	(9,438)	(1,924)
Income tax expense	₩ 354,837	425,777
Effective tax rate	20.53%	20.46%

(c) Changes in temporary differences and deferred tax assets (liabilities) for the years ended December 31, 2013 and 2012 were as follows:

	2013				
	Beginning balance	Decreases	Increases	Ending balance	Deferred tax assets (liabilities)(*1)
Accrued income	₩ (508,335)	(508,335)	(441,833)	(441,833)	(106,923)
Accounts receivable	(53,882)	(80,536)	(34,787)	(8,133)	(1,968)
Trading assets	(14,401)	(3,871)	(57,405)	(67,935)	(16,440)
Available-for-sale financial assets	1,295,094	559,161	994,551	1,730,484	418,777
Investments in associates(*2)	(42,909)	—	(16,238)	(59,147)	(14,313)
Deferred loan origination costs and fee	(33,263)	(44,110)	(57,399)	(46,552)	(11,266)
Revaluation and depreciation on property and equipment	(438,627)	11,747	3,933	(446,441)	(108,039)
Derivative assets (liabilities)	(98,600)	(156,551)	(58,921)	(970)	(234)
Deposits	132,232	167,214	141,141	106,159	25,690
Accrued expenses	182,339	183,063	201,368	200,644	48,556
Defined benefit obligations	711,245	21,872	(87,087)	602,286	145,753
Plan assets	(472,230)	(21,873)	(151,929)	(602,286)	(145,753)
Other provisions	254,688	254,688	299,765	299,765	72,543
Allowance for guarantees and acceptance	76,891	76,891	92,561	92,561	22,400
Allowance for advanced depreciation	(181,096)	(151)	—	(180,945)	(43,789)
Allowance for expensing depreciation	(3,082)	(232)	—	(2,850)	(690)
Deemed dividends	5,513	—	—	5,513	1,334
Net change in fair value of available-for-sale financial assets	(1,146,055)	(1,146,055)	(744,094)	(744,094)	(180,071)
Donation payables	54,925	54,925	50,306	50,306	12,174
Allowance and bad debt	152,851	152,851	159,419	159,419	42,321
Compensation expenses associated with stock option	2,740	2,662	3,221	3,299	798
Fictitious dividends	3,953	9	22	3,966	960
Others	(245,310)	294,195	21,064	(518,441)	(125,464)
	(365,319)	(182,436)	317,658	134,775	36,356
Temporary differences not qualified for deferred tax assets or liabilities:					
Investments in associates(*2)	(11,346)	—	990	(10,356)	(2,506)
	₩ (353,973)	(182,436)	316,668	145,131	38,862

(*1) Deferred tax assets from international subsidiaries have increased by ₩65 million

(*2) The effect of income taxes by the valuation of equity method was reasonably estimated based on the both plausibility and the applicable amount of deferred income tax belonging to each associate investee.

	2012 (Restated)				
	Beginning balance	Decreases	Increases	Ending balance	Deferred tax assets (liabilities)(*1)
Accrued income	₩ (415,834)	(415,834)	(508,335)	(508,335)	(123,017)
Accounts receivable	(74,850)	(74,850)	(53,882)	(53,882)	(13,040)
Trading assets	(1,186)	(1,186)	(14,401)	(14,401)	(3,485)
Available-for-sale financial assets	1,068,957	119,490	345,627	1,295,094	313,413
Investments in associates(*2)	(23,714)	(3,634)	(22,829)	(42,909)	(10,384)
Deferred loan origination costs and fee	69,561	2,269	(100,555)	(33,263)	(8,050)
Revaluation and depreciation on Property and equipment	(495,963)	(49,164)	8,172	(438,627)	(106,148)
Derivative assets (liabilities)	(155,151)	(228,845)	(172,294)	(98,600)	(23,861)
Deposits	154,993	154,993	132,232	132,232	32,000
Accrued expenses	197,134	197,134	182,339	182,339	44,126
Defined benefit obligations	374,224	—	337,021	711,245	172,121
Plan assets	(374,224)	—	(98,006)	(472,230)	(114,280)
Other provisions	318,701	318,701	254,688	254,688	61,634
Allowance for guarantees and acceptance	109,458	109,458	76,891	76,891	18,608
Allowance for advanced depreciation	(181,096)	—	—	(181,096)	(43,825)
Allowance for expensing depreciation	(3,314)	(232)	—	(3,082)	(746)
Deemed dividends	5,513	—	—	5,513	1,334
Net change in fair value of available-for-sale financial assets	(1,196,487)	(1,196,487)	(1,146,055)	(1,146,055)	(277,345)
Donation payables	82,185	82,185	54,925	54,925	13,292
Allowance and bad debt	(181,851)	(181,851)	152,851	152,851	42,507
Compensation expenses associated with stock option	9,975	9,897	2,662	2,740	663
Fictitious dividends	3,990	37	—	3,953	957
Others	(80,503)	(136,658)	(301,465)	(245,310)	(59,365)
	(789,482)	(1,294,577)	(870,414)	(365,319)	(82,891)
Temporary differences not qualified for deferred tax assets or liabilities:					
Investments in associates(*2)	(42,822)	—	31,476	(11,346)	(2,746)
	₩ (746,660)	(1,294,577)	(901,890)	(353,973)	(80,145)

(*1) Deferred tax assets from international subsidiaries have increased by ₩244 million due to the effect of foreign currency differences, and deferred tax liabilities have decreased by ₩85 million due to disposal of Shinhan Aitas.

(*2) The effect of income taxes by the valuation of equity method was reasonably estimated based on the both plausibility and the applicable amount of deferred income tax belonging to each associate investee.

(d) Changes in tax effects that were directly charged or credited to equity for the years ended December 31, 2013 and 2012 were as follows:

	December 31, 2013		December 31, 2012 (Restated)		
	Amount before tax	Tax effects	Amount before tax	Tax effects	Changes in Tax effects
Net change in fair value of available-for-sale financial assets	₩ 744,094	(180,071)	1,146,053	(277,345)	97,275
Equity in other comprehensive income of associates	3,390	51	7,863	5	46
Foreign currency translation differences for foreign operations	(136,020)	(21,209)	(84,539)	(10,404)	(10,805)
Remeasurements of defined benefit obligations	(150,176)	36,343	(167,586)	40,556	(4,213)
Other (stock option)	33	(8)	2,653	(642)	634
	₩ 461,321	(164,894)	904,444	(247,830)	82,937

	December 31, 2012 (Restated)		January 1, 2012 (Restated)		
	Amount before tax	Tax effects	Amount before tax	Tax effects	Changes in Tax effects
Net change in fair value of available-for-sale financial assets	₩1,146,053	(277,345)	1,207,670	(291,775)	14,430
Equity in other comprehensive income of associates	7,863	5	1,042	—	5
Foreign currency translation differences for foreign operations	(84,539)	(10,404)	(8,425)	4,650	(15,054)
Remeasurements of defined benefit obligations	(167,586)	40,556	(161,642)	39,117	1,439
Other (stock option)	2,653	(642)	1,364	(330)	(312)
	₩ 904,444	(247,830)	1,040,009	(248,338)	508

(e) The current tax assets and liabilities as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012
Current tax assets :		
Income taxes paid	₩ 5,224	13,673
Current tax liabilities :		
Payable due to consolidated tax system	134,344	142,930
Income taxes payables	13,941	7,673
	₩148,285	150,603

(f) The deferred tax assets (liabilities) and current tax assets (liabilities) presented on a gross basis prior to any offsetting as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012 (Restated)
Deferred tax assets	₩1,167,231	1,113,523
Deferred tax liabilities	1,128,369	1,193,668
Current tax assets	255,123	336,593
Current tax liabilities	398,184	473,523

37. Discontinued operations

During the prior year, the Group disposed its investment in Shinhan Aitas to improve management efficiency controlled by Shinhan Financial Group. As such, Shinhan Aitas results are presented as discontinued operations.

(a) Income from discontinued operations

Income from discontinued operations for the year ended December 31, 2012 was as follows:

	2012
Net interest income	₩ 514
Net fees and commission income	20,425
Net foreign currency transaction loss	(6)
General and administrative expenses	(18,049)
Non-operating income	112
Income before income tax expenses	2,996
Income tax expense	(697)
Gain on the sale of Shinhan Aitas	5,012
	₩ 7,311

(b) Cash flows from discontinued operations

Cash flows from discontinued operations for the year ended December 31, 2012 were as follows:

	2012
Net cash flows from operating activities	₩ 7,628
Net cash flows from investing activities	44,928
Net cash flows from financing activities	(1,580)
	₩50,976

38. Earnings per share

Earnings per share for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Net income for the year	₩ 1,373,017	1,662,546
Less: dividends on other capital instruments	(133,290)	(153,990)
Net income available for common stock	1,239,727	1,508,556
Weighted average number of common shares outstanding	1,585,615,506	1,585,615,506
Earnings per share in won	₩ 782	951

Considering that the Group had no dilutive potential ordinary shares and that stock options were not included in the calculation of diluted earnings per share because they were anti-dilutive for the reporting periods presented, diluted earnings per share equal basic earnings per share for the years ended December 31, 2013 and 2012.

39. Commitments and contingencies

(a) Guarantees, acceptances and credit commitments as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012 (Restated)
Guarantees:		
Guarantee outstanding	₩10,499,522	9,483,301
Contingent guarantees	5,052,394	5,201,326
	15,551,916	14,684,627
Commitments to extend credit:		
Loan commitments in won	52,863,179	51,247,590
Loan commitments in foreign currency	20,119,314	19,264,249
ABS and ABCP purchase commitments(*)	1,415,531	1,527,404
Others	1,174,291	1,160,421
	75,572,315	73,199,664
Endorsed bills:		
Secured endorsed bills	54,460	3,946
Unsecured endorsed bills	11,327,272	11,519,392
	11,381,732	11,523,338
Loans sold with repurchase agreement	2,099	2,099

(b) Provision for acceptances and guarantees

Allowance for acceptances and guarantees, as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012
Guarantees outstanding	₩10,499,522	9,483,301
Contingent guarantees	5,052,394	5,201,326
ABS and ABCP purchase commitments(*)	1,415,531	1,527,404
Secured endorsed bills	54,460	3,946
	17,021,907	16,215,977
Allowance for acceptances and guarantees	₩ 92,561	76,891
Ratio (%)	0.54	0.47

(*) ABS: Asset Backed Securities

ABCP: Asset Backed Commercial Paper

(c) Legal contingencies

Pending litigations in which the Group was involved as a defendant as of December 31, 2013 were as follows:

Case	Number of claims	Claim amount	Description
Claimed for principal and interest of the ABCP	1	₩ 65,000	A holder of an Asset Backed Commercial Paper ("ABCP") has claimed for principal and interest of the ABCP against the Group, the broker of the ABCP deal, as the Group had refused to pay insisting the line of credit was provided illegally by their employee. As of December 31, 2013, the Group believes that there are remote possibilities of resource outflows in respect of the lawsuit, considering other similar litigations. The Group has not recorded a provision or a liability related to this claim.
Compensation for a loss	1	53,069	The plaintiff has filed a lawsuit against the Group claiming that the Group should compensate for a loss of the damaged right of management insisting the Group had purchased the shares of Shinho Paper Co., Ltd. (currently known as Artone Paper Co., Ltd.) while being aware that the sale had been executed against the will of the members of Aram Corporate Restructuring Association. The first appeal has been ruled in favor of the plaintiff. The Group has appealed and such appeal is currently pending at the second appeal. As of December 31, 2013, the Group believes that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The Group has recorded a provision or a liability related to this claim.
Claimed uncollected receivables of goods	1	43,362	A plaintiff claimed uncollected receivables of goods against the Group since the plaintiff had delivered goods based on a bank guarantee forged by the Group issued. The case is currently pending at the first appeal and the Group recorded a provision based on similar litigations.
Refund a cost of the fixed collateral establishment	86	11,436	The plaintiffs have filed the lawsuits against the Group claiming that the Group should refund a cost of the fixed collateral establishment insisting a loan agreement was unfair and invalid since it prescribed that the cost should be paid by the borrower. As of December 31, 2013, the Group believes that there are remote possibilities of resource outflows due to the lawsuits. The Group has not recorded a provision or a liability related to this claim.

Case	Number of claims	Claim amount	Description
Contract void check and the return of unfair profits........	35	164,865	As of December 31, 2013, the Group provided provision for the lawsuits that had been filed to nullify investor's obligations under the KIKO contracts. The cases are currently pending at the second appeal or the final appeal. As of December 31, 2013, the Group believes that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The Group has recorded a provision or a liability related to this claim.
Other................................	137	239,426	It includes various cases, such as compensation for a loss claim. The Group recognizes provisions based on the progress of relevant lawsuits.
	261	₩577,158	

As of December 31, 2013, the Group recorded a provision of ₩94,735 million for litigation for certain of the above lawsuits. Additional losses may be incurred from these legal actions besides the current provision established by the Group, but the amount of loss is not expected to have a material adverse effect on the Group's consolidated financial position or results of operations.

(d) The maturity structure of operating leases

The future minimum lease payments under non-cancellable operating leases were payable as of December 31, 2013 and 2012 were as follows:

	2013			
	Within 1 year	1~5 years	Over 5 years	Total
Minimum lease payments	₩82,162	107,071	12,238	201,471

	2012			
	Within 1 year	1~5 years	Over 5 years	Total
Minimum lease payments	₩99,545	115,869	5,665	221,079

40. Cash flows

(a) Cash and cash equivalents reported in the accompanying consolidated statements of cash flows as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012
Cash and cash equivalents	₩2,589,117	2,938,070
Due from other financial institutions	2,402,244	1,268,860
	₩4,991,361	4,206,930

(*) Cash and cash equivalents in the accompanying consolidated statements of cash flows include unrestricted due from other financial institutions with original maturities of less than three months.

(b) Significant non-cash activities for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Dividend payable of hybrid bonds	₩ 414	(885)
Debt-equity swap	158,754	56,408
Payable of purchased intangible assets	36,260	—

41. Related parties

(a) Significant balances with the related parties as of December 31, 2013 and 2012 were as follows:

Related party	Account	December 31, 2013	December 31, 2012 (Restated)
The Parent company			
Shinhan Financial Group	Deposits	₩ 385	216,577
	Current tax liabilities	134,344	142,930
	Other liabilities	34,997	78,053
Other related parties			
Shinhan Card Co., Ltd.	Derivative assets	2,820	4,076
	Other assets	1,575	1,434
	Deposits	21,081	73,811
	Derivative liabilities	1,849	875
	Other liabilities	32,500	40,128
Shinhan Life Insurance	Derivative assets	25	1
	Other assets	5	5
	Deposits	33,310	61,595
	Derivative liabilities	7,326	290
	Other liabilities	41,652	46,397
Shinhan Investment Corp.	Due from banks	8	105
	Derivative assets	2,001	146
	Loans	9,801	10,549
	Allowances	71	84
	Other assets	18,771	23,633
	Deposits	56,429	297,654
	Derivative liabilities	3,540	695
	Provisions	—	39
	Other liabilities	34,543	36,274
Shinhan Capital Co., Ltd.	Deposits	18,166	11,777
	Borrowings	1,788	1,788
	Other liabilities	1,403	1,314
Jeju Bank	Loans	9,797	9,326
	Allowances	2	2
	Other assets	56	85
	Deposits	1,368	3,264
	Other liabilities	1,140	1,140
Shinhan Credit Information Co., Ltd.	Deposits	11,119	9,418
	Other liabilities	1,455	1,405
Shinhan Private Equity, Inc	Loans	1,701	18,632
	Allowances	36	12,422
	Other assets	3	94
	Deposits	36	7,349
	Other liabilities	1	124
Shinhan BNP Paribas AMC	Deposits	109,561	97,819
	Other liabilities	1,265	985
Shinhan Data system	Deposits	843	1,191
	Other liabilities	4,114	—
SHC Management Co., Ltd.	Deposits	100	100
	Other liabilities	3	3
Shinhan Savings Bank	Other liabilities	90	—
Shinhan Aitas	Deposits	10,171	10,504
	Other liabilities	183	298
Private KREDIT Real Estate 1	Deposits	1,701	1,546
	Other liabilities	25	30

Related party	Account	December 31, 2013	December 31, 2012 (Restated)
Investments in associates			
Shinhan Corporate Restructuring fund 7th	Deposits	₩ —	19
Aju Capital Co., Ltd.	Loans	50,000	50,000
	Allowances	275	254
	Deposits	467	20,297
UAMCO., Ltd.	Deposits	1,719	517
Pohang TechnoPark2PFV	Deposits	14,689	14,794
Cardif life insurance	Deposits	231	2,353
Key management personnel	Loans	799	984
	Allowances	1	—
		₩681,341	1,315,185

(b) Significant transactions with the related parties for the years ended December 31, 2013 and 2012 were as follows:

Related party	Account	2013	2012 (Restated)
The Parent company			
Shinhan Financial Group	Other operating income	₩ 1,967	1,873
	Interest expense	(2,892)	(10,694)
	Fees and commission expense	(83,599)	(84,360)
	Other operating expense	(913)	(891)
Other related parties			
Shinhan Card Co., Ltd.	Interest income	533	867
	Fees and commission income	168,824	167,151
	Gain related to derivatives	3,262	7,133
	Other operating income	1,087	1,323
	Interest expense	(814)	(1,567)
	Fees and commission expense	(513)	(1,569)
	Loss related to derivatives	(3,630)	(1,134)
	Other operating expense	(161)	(178)
Shinhan Life Insurance	Interest income	58	57
	Fees and commission income	13,151	22,640
	Gain related to derivatives	388	946
	Other operating income	2,180	1,558
	Interest expense	(1,192)	(8,521)
	Fees and commission expense	(60)	—
	Loss related to derivatives	(7,684)	(1,279)
	Provision for allowance	—	1
	Other operating expense	(681)	(1,155)
Shinhan Investment Corp.	Interest income	1,018	1,262
	Fees and commission income	3,164	1,556
	Gain related to derivatives	4,714	1,061
	Other operating income	2,538	3,243
	Interest expense	(2,925)	(9,955)
	Loss related to derivatives	(5,177)	(1,855)
	Provision for allowance	13	(44)
	Other operating expense	(2,141)	(2,796)
Shinhan Capital Co., Ltd.	Interest income	2	1
	Other operating income	850	732
	Interest expense	(346)	(133)
	Other operating expense	(804)	(686)

Related party	Account	2013	2012 (Restated)
Jeju Bank	Interest income	₩ 125	245
	Other operating income	42	43
	Interest expense	(30)	(40)
	Provision for allowance	—	1
Shinhan Credit Information Co., Ltd.	Other operating income	142	202
	Fees and commission income	2	—
	Interest expense	(331)	(383)
	Fees and commission expense	(5,399)	(5,590)
	Other operating expense	(108)	(165)
Shinhan Private Equity, Inc	Interest income	43	1,467
	Other operating income	1	1
	Interest expense	(21)	(214)
	Provision for allowance	12,386	(11,201)
Shinhan BNP Pribas AMC	Fees and commission income	30	6
	Other operating income	19	7
	Interest expense	(2,871)	(3,499)
	Fees and commission expense	(1,881)	(2,172)
SHC Management Cp., Ltd.	Other operating income	—	2
	Interest expense	(3)	(6)
Shinhan Data System	Other operating income	303	300
	Interest expense	(36)	(97)
	Other operating expense	(34,223)	(32,952)
Shinhan Savings Bank	Other operating income	209	—
	Interest expense	(277)	—
	Other operating expense	(8)	—
Shinhan Aitas Co., Ltd.	Fees and commission income	26	22
	Other operating income	11	8
	Interest expense	(324)	(388)
	Fees and commission expense	(40)	—
Investments in associates			
Aju Capital Co., Ltd.	Interest income	1,059	2,042
	Other operating income	—	11
	Provision for allowance	(21)	—
	Interest expense	(24)	—
UAMCO., Ltd	Interest income	115	311
	Provision for allowance	—	52
	Interest expense	(1)	—
Pohang TechnoPark2PFV	Other operating income	—	286
	Provision for allowance	—	3
	Interest expense	(15)	(17)
Key management personnel	Interest income	40	40
	Provision for allowance	(1)	1
		₩ 59,156	32,913

(c) Details of benefit compensated to the related parties for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012 (Restated)
Short and long term employee benefits	₩ 9,034	9,951
Post-employment benefits	191	190
Share-based payment transactions	2,270	2,072
	₩11,495	12,213

(d) The guarantees provided between the related parties as of December 31, 2013 and 2012 were as follows:

Guarantor	Guaranteed Parties	Amount of guarantees December 31, 2013	December 31, 2012	Account
Shinhan Bank	Shinhan Investment Corp.	₩ 9,498	9,640	Financial guarantee
	Shinhan Capital Co., Ltd.	4,982	1,428	Letter of credit
	Shinhan Private Equity, Inc(*)	—	244	Letter of guarantee
	SHC Management Co., Ltd.	94	94	Performance guarantees
		₩14,574	11,406	

(*) Guarantees for subsidiaries of Shinhan Private Equity, Inc. are included

42. Investment in subsidiaries

(a) Condensed financial positions for the Bank and its subsidiaries as of December 31, 2013 and 2012 were as follows:

	December 31, 2013			December 31, 2012 (Restated)		
	Total assets	Total liabilities	Total equity	Total assets	Total liabilities	Total equity
Shinhan Bank	₩225,735,681	205,263,519	20,472,162	226,773,162	206,516,983	20,256,179
Shinhan Asia	244,278	80,275	164,003	233,385	70,784	162,601
Shinhan America	1,037,819	898,449	139,370	1,026,620	920,862	105,758
Shinhan Europe	427,915	346,418	81,497	384,939	308,668	76,271
Shinhan Khmer	151,343	124,319	27,024	97,198	71,065	26,133
Shinhan Kazakhstan	119,531	42,962	76,569	116,031	41,102	74,929
Shinhan Canada	383,228	341,675	41,553	316,314	271,219	45,095
Shinhan China	3,251,418	2,897,126	354,292	2,339,458	1,981,674	357,784
Shinhan Japan	5,569,999	5,272,990	297,009	6,246,270	5,885,129	361,141
Shinhan Vietnam	1,469,915	1,118,703	351,212	1,170,771	839,017	331,754
Structured Entities	5,352,358	5,535,315	(182,957)	4,475,529	4,622,897	(147,368)

(b) Condensed comprehensive income statements for the Bank and its subsidiaries for the years ended December 31, 2013 and 2012 were as follows:

	2013			2012 (Restated)		
	Operating income	Net Income (loss)	Total comprehensive income (loss)	Operating income	Net Income (loss)	Total comprehensive income (loss)
Shinhan Bank	₩14,882,357	1,341,431	1,031,669	18,146,063	1,654,077	1,595,801
Shinhan Asia	11,623	4,172	1,401	14,023	5,907	(5,609)
Shinhan America	50,123	40,881	33,612	59,459	23,768	15,862
Shinhan Europe	12,748	3,057	5,227	14,382	4,003	(71)
Shinhan Khmer	7,864	1,595	891	5,569	1,577	(372)
Shinhan Kazakhstan	7,408	3,542	1,640	7,099	5,538	(2,553)
Shinhan Canada	12,044	111	(3,541)	11,919	398	(3,060)
Shinhan China	145,600	(8,806)	(3,492)	121,579	30,211	6,094
Shinhan Japan	193,614	12,755	(64,131)	225,720	1,809	(56,906)
Shinhan Vietnam	93,960	31,730	19,458	98,358	31,607	8,882
Structured Entities	204,632	(30,024)	(29,018)	249,253	(10,813)	(10,814)

43. Interests in unconsolidated structured entities

(a) The nature and extent of interests in unconsolidated structured entities

The Group involved in assets-backed securitization, structured financing, beneficiary certificates and other structured entities and characteristics of these structured entities are as follows:

	Description
Assets-backed securitization	Securitization vehicles are established to buy the assets from the originators and issue the asset-backed securities in order to facilitate the originators' funding activities and enhance their financial soundness. The Group is involved in the securitization vehicles by purchasing the asset-backed securities issued, or providing credit enhancement.
Project financing	Structured entities for project financing are established to raise funds and invest in a specific project such as M&A (Mergers and Acquisitions), BTL (Build-Transfer-Lease), shipping finance, etc. The Group is involved in the structured entities by originating loans, investing in equity, or providing credit enhancement
Investment fund	Investment fund is a type of financial instrument where investment funds raise funds from the general public to invest in a group of assets such as stocks or bonds and distribute their income and capital gains to their investors. The Group is involved in investment fund by investing in various investment funds.

i) The size of unconsolidated structured entities as of December 31, 2013 was as follows:

	Assets-backed securitization	Structured financing	Investment fund	Total
Total assets	₩16,901,389	38,920,533	6,338,816	62,160,738

ii) Income and expense from unconsolidated structured entities for the year ended December 31, 2013 was as follows:

	Assets-backed securitization	Structured Financing	Investment fund	Total
Income				
Interest income	₩15,163	149,215	—	164,378
Fees and commission income	7,597	6,857	—	14,454
Dividend income	—	7,075	3,827	10,902
Other	967	92,069	6,701	99,737
	23,727	255,216	10,528	289,471
Expense	₩ —	—	360	360

iii) Book value of the assets the Group has transferred to unconsolidated structured entities is as follows:

Type	December 31, 2013
Korea housing finance corporation MBS2013-05	₩210,300
Korea housing finance corporation MBS2013-09	65,800
Korea housing finance corporation MBS2013-15	42,900
Korea housing finance corporation MBS2013-19	18,100
Korea housing finance corporation MBS2013-29	268,000
Korea happy fund	250
	₩605,350

(b) Nature of risk associated with interests in unconsolidated structured entities

i) The carrying amounts of the assets and liabilities recognized relating to its interests in unconsolidated structured entities as of December 31, 2013 were as follows :

	Assets-backed securitization	Structured Financing	Investment fund	Total
Assets:				
Loans	₩ 140,575	2,962,626	—	3,103,201
Trading assets	230,729	—	—	230,729
Derivative assets	884	1,075	—	1,959
Available for sale Financial assets	719,755	84,291	405,485	1,209,531
	₩1,091,943	3,047,992	405,485	4,545,420

ii) Exposure to risk relating to interests in unconsolidated structured entities as of December 31, 2013 was as follows :

	Assets-backed securitization	Structured Financing	Investment fund	Total
Assets owned	₩1,091,943	3,047,992	405,485	4,545,420
Purchase commitments	157,000	—	18,913	175,913
Providing unused credit	1,258,531	168,520	—	1,427,051
Guarantees	—	5,410	—	5,410
	₩2,507,474	3,221,922	424,398	6,153,794

44. Information of trust business

(a) The trust accounts of the Group as of and for the years ended December 31, 2013 and 2012 were follows:

	December 31, 2013		December 31, 2012	
	Total Assets	Operating revenue	Total Assets	Operating revenue
Consolidated	₩ 3,667,084	143,885	3,509,396	165,879
Unconsolidated	22,674,439	581,492	25,733,580	529,582

(b) Significant balances with trust business as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012 (Restated)
Borrowings from trust accounts	₩2,298,642	2,156,569
Accrued revenues from asset management fee from trust accounts	15,206	17,335
Interest payable	665	706

(c) Significant transactions with trust business for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012 (Restated)
Asset management fee from trust accounts	₩42,241	40,635
Commissions received from cancellation of commodities	—	24
Interest on borrowings from trust accounts	50,043	44,219

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