

WOORI BANK  
Form 20-F  
April 30, 2018  
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As filed with the Securities and Exchange Commission on April 30, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES  
EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Date of event requiring this shell company report \_\_\_\_\_

Commission file number 001-31811

**Woori Bank**

**(Exact name of Registrant as specified in its charter)**

**Woori Bank**

**(Translation of Registrant's name into English)**

**The Republic of Korea**

**(Jurisdiction of incorporation or organization)**

**51, Sogong-ro, Jung-gu, Seoul 04632, Korea**

**(Address of principal executive offices)**

**Jeong Soo Lee**

**51, Sogong-ro, Jung-gu, Seoul 04632, Korea**

**Telephone No.: +82-2-2125-2110**

**Facsimile No.: +82-2-0505002-3080**

**(Name, telephone, e-mail and/or facsimile number and address of company contact person)**

**Securities registered or to be registered pursuant to Section 12(b) of the Act.**

<b><u>Title of each class</u></b>	<b><u>Name of each exchange on which registered</u></b>
<b>American Depositary Shares, each representing</b>	<b>New York Stock Exchange</b>
<b>three shares of Common Stock</b>	
<b>Common Stock, par value 5,000 per share</b>	<b>New York Stock Exchange*</b>

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

None

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**673,271,226 shares of Common Stock, par value 5,000 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated Filer

Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued

Other

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by the International Accounting Standards Board

If  other  has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.       Item 17       Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).       Yes       No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.       Yes       No

\* Not for trading, but only in connection with the registration of the American Depositary Shares.

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**PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

The financial statements included in this annual report are prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB.

Unless expressly stated otherwise, all financial data included in this annual report are presented on a consolidated basis.

In this annual report:

unless otherwise indicated or required by the context, we, us, our and similar terms refer to Woori Bank and its subsidiaries and, for periods prior to the merger of Woori Finance Holdings Co., Ltd. with and into Woori Bank in November 2014, refer to Woori Finance Holdings and its subsidiaries for such periods (including Woori Bank), but excluding those accounted for as discontinued operations;

references to Korea are to the Republic of Korea;

references to the government are to the government of the Republic of Korea;

references to Won or are to the currency of Korea;

references to U.S. dollars, \$ or US\$ are to the currency of the United States; and

references to Euros or EUR are to the currency of the European Economic and Monetary Union.

Discrepancies between totals and the sums of the amounts contained in any table may be a result of rounding.

For your convenience, this annual report contains conversions of Won amounts into U.S. dollars at the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 31, 2017, which was 1,067.4 = US\$1.00.



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**FORWARD-LOOKING STATEMENTS**

The U.S. Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This annual report contains forward-looking statements.

Words and phrases such as aim, anticipate, assume, believe, contemplate, continue, estimate, expect, intend, may, objective, plan, positioned, predict, project, risk, seek to, shall, should, will like words and terms of similar substance used in connection with any discussion of future operating or financial performance or our expectations, plans, projections or business prospects identify forward-looking statements. In particular, the statements under the headings Item 3.D. Risk Factors, Item 4.B. Business Overview and Item 5. Operating and Financial Review and Prospects regarding our financial condition and other future events or prospects are forward-looking statements. All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

In addition to the risks related to our business discussed under Item 3.D. Risk Factors, other factors could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to:

a change or delay in, or cancellation of, the Korean government's privatization plan with respect to us;

our ability to successfully implement our strategy;

future levels of non-performing loans;

our growth and expansion;

the adequacy of allowances for credit and other losses;

technological changes;

interest rates;

investment income;

availability of funding and liquidity;

our exposure to market risks; and

adverse market and regulatory conditions.

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

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

general economic and political conditions in Korea or other countries that have an impact on our business activities or investments;

the monetary and interest rate policies of Korea;

inflation or deflation;

unanticipated volatility in interest rates;

foreign exchange rates;

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prices and yields of equity and debt securities;

the performance of the financial markets in Korea and globally;

changes in domestic and foreign laws, regulations and taxes;

changes in competition and the pricing environment in Korea; and

regional or general changes in asset valuations.

For further discussion of the factors that could cause actual results to differ, see the discussion under Item 3.D. Risk Factors contained in this annual report. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this annual report. Except as required by law, we are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this annual report.

**Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

**Not Applicable**

**Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

**Not Applicable**

**Item 3. KEY INFORMATION**

**Item 3.A. *Selected Financial Data***

The selected consolidated financial and operating data set forth below as of and for the years ended December 31, 2013, 2014, 2015, 2016 and 2017 have been derived from our audited consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB. Our consolidated financial statements as of and for the years ended December 31, 2013, 2014, 2015, 2016 and 2017 have been audited by Deloitte Anjin LLC, an independent registered public accounting firm.

The Korean government, which currently owns 18.43% of our outstanding common stock through the KDIC, has been implementing a privatization plan with respect to Woori Finance Holdings and its former subsidiaries, including us. As a result of the dispositions of Woori Finance Holdings' ownership interests in Kwangju Bank, Kyongnam Bank, Woori Investment & Securities, Woori Aviva Life Insurance, Woori Asset Management, Woori Financial, Woori FG

Savings Bank and Woori F&I in 2014, these former subsidiaries of Woori Finance Holdings were classified as a disposal group held for distribution or sale in our consolidated statement of financial position as of December 31, 2013 and have been accounted for as discontinued operations in our consolidated statements of comprehensive income for the years ended December 31, 2013 and 2014. See Item 4.A. History and Development of the Company Privatization Plan.

You should read the following data together with the more detailed information contained in Item 5. Operating and Financial Review and Prospects and our consolidated financial statements included elsewhere in this annual report. Historical results do not necessarily predict future results.

**Table of Contents****Consolidated Statement of Comprehensive Income Data**

	Year ended December 31,					2017 <sup>(2)</sup> (in millions of US\$ except per share data)
	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>	2015	2016	2017	
	(in billions of Won except per share data)					
Interest income	9,493	9,211	8,698	8,512	8,551	US\$ 8,011
Interest expense	(5,001)	(4,718)	(3,936)	(3,492)	(3,330)	(3,120)
<b>Net interest income</b>	<b>4,492</b>	<b>4,493</b>	<b>4,762</b>	<b>5,020</b>	<b>5,221</b>	<b>4,891</b>
Fees and commissions income	1,565	1,598	1,757	1,865	2,069	1,939
Fees and commissions expense	(639)	(681)	(781)	(928)	(999)	(936)
<b>Net fees and commissions income</b>	<b>926</b>	<b>917</b>	<b>976</b>	<b>937</b>	<b>1,070</b>	<b>1,003</b>
Dividend income	88	97	103	185	125	117
Net gain (loss) on financial assets at fair value through profit or loss	124	190	240	114	(105)	(98)
Net gain (loss) on available-for-sale financial assets	(85)	(69)	(3)	(1)	193	180
Impairment losses due to credit loss	(2,277)	(1,097)	(966)	(834)	(785)	(736)
Net other operating expenses <sup>(3)</sup>	(3,028)	(3,633)	(3,761)	(3,847)	(3,562)	(3,337)
<b>Operating income</b>	<b>240</b>	<b>898</b>	<b>1,351</b>	<b>1,574</b>	<b>2,157</b>	<b>2,020</b>
Share of loss of joint ventures and associates	(1)	(68)	(70)	(20)	(101)	(95)
Other net non-operating income (expense)	49	4	171	(1)	(106)	(99)
<b>Non-operating income (loss)</b>	<b>48</b>	<b>(64)</b>	<b>101</b>	<b>(21)</b>	<b>(207)</b>	<b>(194)</b>
<b>Net income before income tax expense</b>	<b>288</b>	<b>834</b>	<b>1,452</b>	<b>1,553</b>	<b>1,950</b>	<b>1,826</b>
Income tax expense	(35)	(288)	(377)	(276)	(420)	(393)
<b>Net income from continuing operations</b>	<b>253</b>	<b>546</b>	<b>1,075</b>	<b>1,277</b>	<b>1,530</b>	<b>1,433</b>
<b>Net income (loss) from discontinued operations</b>	<b>(966)</b>	<b>662</b>				
<b>Net income (loss)</b>	<b>(713)</b>	<b>1,208</b>	<b>1,075</b>	<b>1,277</b>	<b>1,530</b>	<b>US\$ 1,433</b>
Remeasurement of the net defined benefit liability	9	(52)	(78)	34	10	10
	9	(52)	(78)	34	10	10

**Items that will not be reclassified to profit or loss**

Gain (loss) on available-for-sale financial assets	(51)	(75)	72	13	(85)	(79)
Share of other comprehensive income (loss) of joint ventures and associates	(6)	(2)	3	(8)	1	1
Gain (loss) on foreign currency translation of foreign operations	(60)	48	34	29	(208)	(196)
Gain (loss) on valuation of cash flow hedge	(2)	(27)		10	1	1
Equity related to assets held for sale					4	4

**Items that may be reclassified to profit or loss**

	(119)	(56)	109	44	(287)	(269)
<b>Other comprehensive gain (loss), net of tax</b>	(110)	(108)	31	78	(277)	(259)

**Total comprehensive income (loss)**

	(823)	1,100	1,106	1,355	1,253	US\$	1,174
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Net income (loss) attributable to owners	(538)	1,214	1,059	1,261	1,512	US\$	1,417
Income from continuing operations	162	435	1,059	1,261	1,512		1,417
Income (loss) from discontinued operations	(700)	779					
Net income (loss) attributable to non-controlling interests	(175)	(6)	16	16	18	US\$	16
Income from continuing operations	91	111	16	16	18		16
Loss from discontinued operations	(266)	(117)					
Comprehensive income (loss) attributable to owners	(623)	1,192	1,095	1,332	1,249		1,170
Comprehensive income (loss) attributable to non-controlling interests	(200)	(92)	11	23	4		4
Basic and diluted earnings (loss) from continuing and discontinued operations per share	(704)	1,621	1,301	1,567	1,999	US\$	1,873
Basic and diluted earnings from continuing operations per share	165	536	1,301	1,567	1,999		1,873
Per common share data:							
Net income (loss) per share basic	(704)	1,621	1,301	1,567	1,999	US\$	1,873
Weighted average common shares outstanding basic (in thousands)	806,013	718,265	673,271	673,271	673,271		673,271
Net income (loss) per share diluted	(704)	1,621	1,301	1,567	1,999	US\$	1,873
Weighted average common shares outstanding diluted (in thousands)	806,013	718,265	673,271	673,271	673,271		673,271
Cash dividends paid per share		500	500	400	500	US\$	0.47

- (1) The amounts for 2013 and 2014 reflect the classification of certain former subsidiaries as discontinued operations.
- (2) Won amounts are expressed in U.S. dollars at the rate of 1,067.4 to US\$1.00, the noon buying rate in effect on December 31, 2017 as quoted by the Federal Reserve Bank of New York in the United States.
- (3) Includes general and administrative expenses. For a description of net other operating expenses, see Note 40 of the notes to our consolidated financial statements.

**Table of Contents****Consolidated Statement of Financial Position Data**

	2013 <sup>(1)</sup>	2014	As of December 31, 2015      2016 (in billions of Won)		2017	2017 <sup>(2)</sup> (in millions of US\$)
<b>Assets</b>						
Cash and cash equivalents	5,478	5,963	6,644	7,591	6,908	US\$ 6,472
Financial assets at fair value through profit or loss	4,806	4,554	5,133	5,651	5,843	5,474
Available-for-sale financial assets	17,085	18,811	17,171	20,818	15,353	14,383
Held-to-maturity financial assets	12,039	13,044	13,622	13,910	16,749	15,691
Loans and receivables	211,912	223,370	244,842	258,393	267,106	250,235
Investments in joint ventures and associates	618	648	644	439	417	391
Investment properties	341	358	351	358	371	348
Premises and equipment	2,536	2,501	2,471	2,458	2,478	2,321
Intangible assets and goodwill	269	296	420	484	519	486
Assets held for sale	1	8	18	2	49	46
Current tax assets	143	5	7	6	5	4
Deferred tax assets	155	258	210	232	280	263
Derivative assets	131	196	183	141	59	56
Other assets <sup>(3)</sup>	179	145	143	200	158	148
Disposal group held for sale	34,685					
Disposal group held for distribution to owners	50,312					
<b>Total assets</b>	<b>340,690</b>	<b>270,157</b>	<b>291,859</b>	<b>310,683</b>	<b>316,295</b>	<b>US\$ 296,318</b>
<b>Liabilities</b>						
Financial liabilities at fair value through profit or loss	2,507	2,675	3,461	3,803	3,428	US\$ 3,211
Deposits due to customers	175,324	188,516	209,142	221,020	234,695	219,871
Borrowings	18,232	17,708	20,034	18,770	14,785	13,851
Debentures	21,678	24,796	21,899	23,566	27,869	26,110
Provisions	685	692	517	429	410	385
Net defined benefit liability	72	75	99	65	43	41
Current tax liabilities	10	299	109	171	233	218
Deferred tax liabilities	49	22	19	22	23	21
Derivative liabilities	2			7	68	63
Other financial liabilities <sup>(4)</sup>	19,914	16,890	16,964	21,985	13,892	13,015
Other liabilities <sup>(5)</sup>	410	391	305	299	284	266
Liabilities directly associated with disposal group held for sale	32,048					
	46,882					



Liabilities directly associated with  
disposal group held for distribution to  
owners

<b>Total liabilities</b>	317,813	252,064	272,549	290,137	295,730	US\$ 277,052
<b>Equity</b>						
Owners equity						
Capital stock	4,030	3,381	3,381	3,381	3,381	US\$ 3,168
Hybrid securities	498	2,539	3,334	3,575	3,018	2,827
Capital surplus	177	291	294	286	286	268
Other equity <sup>(6)</sup>	(35)	(2,393)	(1,547)	(1,468)	(1,939)	(1,817)
Retained earnings	13,113	14,165	13,726	14,612	15,620	14,633
Equity directly associated with disposal group held for sale	30					
Equity directly associated with disposal group held for distribution to owners	36					
Non-controlling interests	5,028	110	122	160	199	187
<b>Total equity</b>	22,877	18,093	19,310	20,546	20,565	US\$ 19,266
<b>Total liabilities and equity</b>	340,690	270,157	291,859	310,683	316,295	US\$ 296,318

- (1) The amounts as of December 31, 2013 reflect the classification of certain former subsidiaries as a disposal group held for distribution or sale.
- (2) Won amounts are expressed in U.S. dollars at the rate of 1,067.4 to US\$1.00, the noon buying rate in effect on December 31, 2017 as quoted by the Federal Reserve Bank of New York in the United States.
- (3) For a description of other assets, see Notes 19 and 24 of the notes to our consolidated financial statements.
- (4) For a description of other financial liabilities, see Note 25 of the notes to our consolidated financial statements.
- (5) For a description of other liabilities, see Note 25 of the notes to our consolidated financial statements.
- (6) For a description of other equity, see Note 30 of the notes to our consolidated financial statements.

**Table of Contents****Profitability Ratios and Other Data**

	<b>Year ended December 31,</b>				
	<b>2013<sup>(1)</sup></b>	<b>2014<sup>(1)</sup></b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>(in billions of Won except percentages)</b>				
Return on average assets <sup>(2)</sup>	(0.22)%	0.47%	0.37%	0.41%	0.49%
Return on average equity <sup>(3)</sup>	(3.45)	6.74	5.62	6.26	7.25
Net interest spread <sup>(4)</sup>	1.83	1.72	1.67	1.65	1.69
Net interest margin <sup>(5)</sup>	1.94	1.82	1.74	1.71	1.74
Cost-to-income ratio <sup>(6)</sup>	59.30	68.38	66.22	66.48	60.79
Average equity as a percentage of average total assets	6.50	7.03	6.63	6.60	6.71
Total revenue <sup>(7)</sup>	11,185	11,027	10,795	10,675	10,833
Operating expense <sup>(8)</sup>	8,668	9,032	8,478	8,267	7,891
Operating margin <sup>(9)</sup>	2,517	1,995	2,317	2,408	2,942
Operating margin as a percentage of total revenue	22.50%	18.09%	21.46%	22.56%	27.16%

(1) The amounts for 2013 and 2014 exclude certain former subsidiaries classified as discontinued operations.

(2) Represents net income attributable to owners as a percentage of average total assets. Average balances are based on daily balances for us and on quarterly balances for all of our subsidiaries and our structured companies.

(3) Represents net income attributable to owners as a percentage of average equity. Average balances are based on daily balances for us and on quarterly balances for all of our subsidiaries and our structured companies.

(4) Represents the difference between the yield on average interest-earning assets and cost of average interest-bearing liabilities.

(5) Represents the ratio of net interest income to average interest-earning assets.

(6) Represents the ratio of non-interest expense (excluding impairment losses due to credit loss) to the sum of net interest income and non-interest income.

(7) Represents the sum of interest income, dividend income, fees and commissions income, net gain (loss) on financial assets at fair value through profit or loss and net gain (loss) on available-for-sale financial assets.

The following table shows how total revenue is calculated:

	<b>Year ended December 31,</b>				
	<b>2013<sup>(a)</sup></b>	<b>2014<sup>(a)</sup></b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>(in billions of Won)</b>				
Interest income	9,493	9,211	8,698	8,512	8,551
Fees and commissions income	1,565	1,598	1,757	1,865	2,069
Dividend income	88	97	103	185	125
Net gain (loss) on financial assets at fair value through profit or loss	124	190	240	114	(105)
Net gain (loss) on available-for-sale financial assets	(85)	(69)	(3)	(1)	193

<b>Total revenue</b>	11,185	11,027	10,795	10,675	10,833
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(a) The amounts for 2013 and 2014 exclude certain former subsidiaries classified as discontinued operations.

(8) Represents interest expense, fees and commissions expense and net other operating expense, excluding impairment losses due to credit loss of 2,277 billion, 1,097 billion, 966 billion, 834 billion and 785 billion for 2013, 2014, 2015, 2016 and 2017, respectively.

The following table shows how operating expense is calculated:

	<b>Year ended December 31,</b>				
	<b>2013<sup>(a)</sup></b>	<b>2014<sup>(a)</sup></b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>(in billions of Won)</b>				
Interest expense	5,001	4,718	3,936	3,492	3,330
Fees and commissions expense	639	681	781	928	999
Net other operating expenses	3,028	3,633	3,761	3,847	3,562
<b>Operating expense</b>	<b>8,668</b>	<b>9,032</b>	<b>8,478</b>	<b>8,267</b>	<b>7,891</b>

(a) The amounts for 2013 and 2014 exclude certain former subsidiaries classified as discontinued operations.

(9) Represents total revenue less operating expense.

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	2013 <sup>(1)</sup>	2014	As of December 31,		2017
			2015	2016	
	(in billions of Won, except percentages)				
Total loans <sup>(2)</sup>	193,766	207,077	227,169	236,801	252,793
Total non-performing loans <sup>(3)</sup>	4,996	3,818	2,909	2,080	1,853
Other impaired loans not included in non-performing loans	690	692	339	335	374
Total non-performing loans and other impaired loans	5,685	4,510	3,248	2,415	2,227
Total allowance for credit losses	3,337	2,609	2,051	1,851	1,770
Non-performing loans as a percentage of total loans	2.58%	1.84%	1.28%	0.88%	0.73%
Non-performing loans as a percentage of total assets	1.47	1.41	1.00	0.67	0.59
Total non-performing loans and other impaired loans as a percentage of total loans	2.93	2.18	1.43	1.02	0.88
Allowance for credit losses as a percentage of total loans	1.72	1.26	0.90	0.78	0.70

- (1) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.
- (2) Not including due from banks and other receivables, and prior to deducting allowance for credit losses and present value discount or reflecting deferred origination costs.
- (3) Defined as those loans that are past due by 90 days or more or classified as substandard or below based on the Financial Services Commission's asset classification criteria. See Item 4.B. Business Overview Assets and Liabilities Asset Quality of Loans Loan Classifications.



**Average InterestAverage Average InterestAverage Average InterestAverage**  
**Balance<sup>(1)</sup> Expense Cost Balance<sup>(1)</sup> Expense Cost Balance<sup>(1)</sup> Expense Cost**  
**(in billions of Won, except percentages)**

<b>Liabilities</b>									
<b>Interest-bearing liabilities</b>									
Deposits due to customers									
Demand deposits	8,376	43	0.51%	9,742	76	0.78%	8,319	52	0.63%
Time and savings deposits	168,212	2,573	1.53	181,073	2,166	1.20	186,277	2,008	1.08
Certificates of deposit	1,880	36	1.91	3,476	59	1.70	4,553	78	1.71
Other deposits	19,294	236	1.22	23,405	246	1.05	24,444	242	0.99
<b>Total deposits</b>	<b>197,762</b>	<b>2,888</b>	<b>1.46</b>	<b>217,696</b>	<b>2,547</b>	<b>1.17</b>	<b>223,593</b>	<b>2,380</b>	<b>1.06</b>
Borrowings	20,269	217	1.07	20,054	215	1.07	17,669	238	1.35
Debentures	23,232	708	3.05	22,988	619	2.69	25,865	639	2.47
Other	19,283	123	0.64	19,994	111	0.56	19,037	73	0.38
<b>Total average interest-bearing liabilities</b>	<b>260,546</b>	<b>3,936</b>	<b>1.51</b>	<b>280,732</b>	<b>3,492</b>	<b>1.24</b>	<b>286,164</b>	<b>3,330</b>	<b>1.16</b>
<b>Total average non-interest-bearing liabilities</b>	<b>4,787</b>			<b>4,663</b>			<b>3,767</b>		
<b>Total average liabilities</b>	<b>265,333</b>	<b>3,936</b>	<b>1.48</b>	<b>285,395</b>	<b>3,492</b>	<b>1.22</b>	<b>289,931</b>	<b>3,330</b>	<b>1.15</b>
<b>Total average equity</b>	<b>18,834</b>			<b>20,158</b>			<b>20,864</b>		
<b>Total average liabilities and equity</b>	<b>284,167</b>	<b>3,936</b>	<b>1.39%</b>	<b>305,553</b>	<b>3,492</b>	<b>1.14%</b>	<b>310,795</b>	<b>3,330</b>	<b>1.07%</b>

(1) Average balances are based on daily balances for us and on quarterly balances for all of our subsidiaries and our structured companies.

(2) Interest income from credit cards is derived from interest on credit card loans and credit card installment purchases.

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- (3) Not including other receivables, and prior to deducting allowance for credit losses and present value discount or reflecting deferred origination costs.
- (4) Includes automobile lease financing to consumer borrowers.
- (5) Includes home equity loans.
- (6) Includes available-for-sale financial assets and held-to-maturity financial assets.

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

The following table provides an analysis of changes in interest income, interest expense and net interest income based on changes in volume and changes in rate for 2016 compared to 2015 and 2017 compared to 2016. Information is provided with respect to: (1) effects attributable to changes in volume (changes in volume multiplied by prior rate) and (2) effects attributable to changes in rate (changes in rate multiplied by prior volume). Changes attributable to the combined impact of changes in rate and volume have been allocated proportionately to the changes due to volume changes and changes due to rate changes.

	2016 vs. 2015			2017 vs. 2016		
	Increase/(decrease) due to changes in			Increase/(decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
	(in billions of Won)					
<b>Interest-earning assets</b>						
Due from banks	15	(21)	(6)	4	4	8
<b>Loans<sup>(1)</sup></b>						
Commercial and industrial	109	(391)	(282)	(94)	15	(79)
Trade financing	(9)	22	13	(16)	43	27
Lease financing <sup>(2)</sup>				1		1
Other commercial	(5)	(15)	(20)	(14)	4	(10)
General purpose household <sup>(3)</sup>	106	(142)	(36)	154	22	176
Mortgage	328	(118)	210	75	7	82
Credit cards	67	(17)	50	41	(37)	4
<b>Securities</b>						
Trading	8	(8)		1	(11)	(10)
Investment <sup>(4)</sup>	50	(158)	(108)	34	(186)	(152)
Other	2	(9)	(7)		(8)	(8)
<b>Total interest income</b>	<b>671</b>	<b>(857)</b>	<b>(186)</b>	<b>186</b>	<b>(147)</b>	<b>39</b>
<b>Interest-bearing liabilities</b>						
<b>Deposits due to customers</b>						
Demand deposits	7	26	33	(11)	(13)	(24)
Time and savings deposits	197	(604)	(407)	62	(220)	(158)
Certificates of deposit	30	(7)	23	18	1	19
Other deposits	50	(40)	10	11	(15)	(4)
Borrowings	(2)		(2)	(26)	49	23
Debentures	(7)	(82)	(89)	77	(57)	20
Other	5	(17)	(12)	(5)	(33)	(38)

<b>Total interest expense</b>	280	(724)	(444)	126	(288)	(162)
<b>Net interest income</b>	391	(133)	258	60	141	201

- (1) Not including other receivables and prior to deducting allowance for credit losses and present value discount or reflecting deferred origination costs.
- (2) Includes automobile lease financing to consumer borrowers.
- (3) Includes home equity loans.
- (4) Includes available-for-sale financial assets and held-to-maturity financial assets.



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The table below sets forth, for the periods and dates indicated, information concerning the noon buying rate for Won, expressed in Won per one U.S. dollar. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, translations of Won amounts into U.S. dollars in this annual report were made at the noon buying rate in effect on December 31, 2017, which was 1,067.4 to US\$1.00. We do not intend to imply 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. On April 20, 2018, the noon buying rate was 1,071.0 = US\$1.00.

	Won per U.S. dollar (noon buying rate)			
	Low	High	Average <sup>(1)</sup>	Period-End
2013	1,050.1	1,161.3	1,094.7	1,055.3
2014	1,008.9	1,117.7	1,052.3	1,090.9
2015	1,063.0	1,196.4	1,131.0	1,169.3
2016	1,090.0	1,242.6	1,159.3	1,203.7
2017	1,067.4	1,207.2	1,129.0	1,067.4
October	1,115.7	1,146.2	1,130.9	1,115.7
November	1,079.3	1,120.0	1,099.8	1,084.8
December	1,067.4	1,094.6	1,082.9	1,067.4
2018 (through April 20)	1,054.6	1,093.0	1,070.0	1,071.0
January	1,057.6	1,073.6	1,065.6	1,068.3
February	1,065.3	1,093.0	1,078.5	1,082.1
March	1,060.3	1,081.3	1,069.9	1,061.0
April (through April 20)	1,054.6	1,071.6	1,065.2	1,071.0

Source: Federal Reserve Bank of New York

<sup>(1)</sup> The average of the daily noon buying rates of the Federal Reserve Bank in effect during the relevant period (or portion thereof).

**Item 3.B. Capitalization and Indebtedness**

Not Applicable

**Item 3.C. Reasons for the Offer and Use of Proceeds**

Not Applicable

**Item 3.D. Risk Factors**

Risks relating to our corporate credit portfolio

***The largest portion of our exposure is to small- and medium-sized enterprises, and financial difficulties experienced by companies in this segment may result in a deterioration of our asset quality and have an adverse impact on us.***

Our loans to small- and medium-sized enterprises amounted to 67,115 billion, or 29.5% of our total loans, as of December 31, 2015, 68,434 billion, or 28.9% of our total loans, as of December 31, 2016 and 74,906 billion, or 29.6% of our total loans, as of December 31, 2017. As of December 31, 2017, Won-denominated loans to small- and medium-sized enterprises that were classified as substandard or below were 595 billion, representing 0.8% of such loans to those enterprises. See Item 4.B. Business Overview Corporate Banking Small and Medium-Sized Enterprise Banking. We recorded charge-offs of 325 billion in respect of our Won-denominated loans to small- and medium-sized enterprises in 2017, compared to charge-offs of 469 billion in 2016 and 472 billion in 2015. According to data compiled by the Financial Supervisory Service, the industry-wide delinquency ratios for Won-denominated loans to small- and medium-sized enterprises decreased in 2016 and 2017. The delinquency ratio for small- and medium-sized enterprises is calculated as the ratio of (1) the

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outstanding balance of such loans in respect of which either principal or interest payments are overdue by one month or more to (2) the aggregate outstanding balance of such loans. Our delinquency ratio for such loans denominated in Won was 1.4% as of December 31, 2015, 0.9% as of December 31, 2016 and 0.5% as of December 31, 2017. Our delinquency ratio may increase in 2018 as a result of, among other things, adverse changes in economic conditions in Korea and globally. See Other risks relating to our business Unfavorable changes in the global financial markets could adversely affect our results of operations and financial condition. Accordingly, we may be required to take measures to decrease our exposures to these customers.

In light of the deteriorating financial condition and liquidity position of small- and medium-sized enterprises in Korea as a result of the global financial crisis commencing in the second half of 2008, the Korean government introduced measures intended to encourage Korean banks to provide financial support to small- and medium-sized enterprise borrowers. For example, the Korean government requested Korean banks, including us, to establish a fast track program to provide liquidity assistance to small- and medium-sized enterprises on an expedited basis. Under the fast track program we established, liquidity assistance is provided 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. The overall prospects for the Korean economy in 2018 and beyond remain uncertain, and the Korean government may extend or renew existing or past policies and initiatives or introduce new policies or initiatives to encourage Korean banks to provide financial support to small- and medium-sized enterprises. We believe that, to date, our participation in such government-led initiatives (primarily through the fast track program) has not caused us to extend a material amount of credit that we would not have otherwise extended nor materially impacted our results of operations and financial condition in general. The aggregate amount of outstanding small- and medium-sized enterprise loans made by us under the fast track program was 126 billion as of December 31, 2017, which represented 0.17% of our total small- and medium-sized enterprise loan portfolio as of such date. Furthermore, loans made by us under the fast track program are partially guaranteed by the Korean government's public financial institutions, including the Korea Credit Guarantee Fund and the Korea Technology Finance Corporation. However, there can be no assurance that our future participation in such government-led initiatives would not lead us to extend credit to small- and medium-sized enterprise borrowers that we would not otherwise extend, or offer terms for such credit that we would not otherwise offer, in the absence of such initiatives. Furthermore, there is no guarantee that the financial condition and liquidity position of our small- and medium-sized enterprise borrowers benefiting from such initiatives will improve sufficiently for them to service their debt on a timely basis, or at all. Accordingly, increases in our exposure to small- and medium-sized enterprises resulting from such government-led initiatives may have a material adverse effect on our results of operations and financial condition.

Many small- and medium-sized enterprises represent sole proprietorships or very small businesses dependent on a relatively limited number of suppliers or customers and tend to be affected by fluctuations in the Korean and global economy to a greater extent than large corporate borrowers. In addition, small- and medium-sized enterprises often maintain less sophisticated financial records than large corporate borrowers. Therefore, it is generally more difficult for us 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 have close 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 we have exposure, also resulting in an impairment of their ability to repay loans.

Financial difficulties experienced by small- and medium-sized enterprises as a result of, among other things, adverse changes in domestic and global economic conditions, as well as aggressive marketing and competition among banks to lend to this segment, may lead to a deterioration in the asset quality of our loans to this segment in the future. Any

such deterioration would result in increased charge-offs, higher provisioning and reduced interest and fee income from this segment, which would have an adverse impact on our financial condition and results of operations.

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*We have exposure to Korean construction, shipbuilding and shipping companies, and financial difficulties of these companies may adversely impact us.*

As of December 31, 2017, the total amount of loans provided by us to construction, shipbuilding and shipping companies in Korea amounted to 4,154 billion, 513 billion and 452 billion, or 1.6%, 0.2% and 0.2% of our total loans, respectively. We also have other exposures to Korean construction, shipbuilding and shipping companies, including in the form of guarantees extended for the benefit of such companies and debt and equity securities of such companies held by us. In the case of construction companies, we have potential exposure in the form of guarantees provided to us by general contractors with respect to financing extended by us for residential and commercial real estate development projects, as well as commitments to purchase asset-backed securities secured by the assets of companies in the construction industry and other commitments we enter into relating to project financing for such real estate projects which may effectively function as guarantees. In the case of shipbuilding companies, such exposures include refund guarantees extended by us on behalf of shipbuilding companies to cover their obligation to return a portion of the ship order contract amount to customers in the event of performance delays or defaults under shipbuilding contracts.

Although the construction industry in Korea has shown signs of recovery since 2015, excessive investment in residential property development projects, the recent strengthening of mortgage lending regulations by the Korean government, stagnation of real property prices and reduced demand for residential property in areas outside of Seoul, are expected to continue to negatively impact the construction industry. The shipbuilding industry in Korea has experienced a severe downturn in recent years reflecting a significant decrease in ship orders, primarily due to adverse conditions in the global economy and the resulting slowdown in global trade. In the case of shipping companies in Korea, reduced shipping rates and high chartering costs, together with the slowdown in global trade, have contributed to the deterioration of their financial condition, requiring some of them to file for bankruptcy or pursue voluntary restructuring of their debt.

In response to the deteriorating financial condition and liquidity position of borrowers in the Korean construction, shipbuilding and shipping industries, which were disproportionately impacted by adverse domestic and global economic developments, the Korean government implemented a program in 2009 to promote expedited restructuring of such borrowers by their Korean creditor financial institutions, under the supervision of major commercial banks. In accordance with such program, 24 construction companies and five shipbuilding companies became subject to workout in 2009, following review by their creditor financial institutions (including us) and the Korean government. Each year since 2009, the Financial Services Commission and the Financial Supervisory Service have announced the results of subsequent credit risk evaluations conducted by creditor financial institutions (including us) of companies in Korea with outstanding debt of 50 billion or more, pursuant to which a number of companies were selected by such financial institutions for restructuring in the form of workout, liquidation or court receivership. Most recently, in 2017, 25 companies with outstanding debt of 50 billion or more (eight of which were construction companies and three of which were shipbuilding companies) were selected by such financial institutions for restructuring. There is no assurance, however, that these measures will be successful in stabilizing the Korean construction, shipbuilding and shipping industries.

The allowance for credit losses that we have established against our credit exposures to Korean construction, shipbuilding and shipping companies may not be sufficient to cover all future losses arising from these and other exposures. If the credit quality of our exposures to such companies declines further, we may incur substantial additional provisions for credit loss, which could adversely impact our results of operations and financial condition. Furthermore, although a portion of our loans to construction, shipbuilding and shipping companies are secured by collateral, such collateral may not be sufficient to cover uncollectible amounts in respect of such loans.

***A large portion of our exposure is concentrated in a relatively small number of large corporate borrowers, which increases the risk of our corporate credit portfolio.***

As of December 31, 2017, our 20 largest exposures to corporate borrowers (including loans, debt and equity securities, credit-related commitments and other exposures) totaled 47,540 billion, which represented 12.5% of

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our total exposures. As of that date, our single largest corporate exposure was to the Bank of Korea, to which we had outstanding credits in the form of debt securities of 6,610 billion and loans in Won of 1,420 billion, representing 2.1% of our total exposures in the aggregate. Aside from exposure to the Korean government and government-related agencies, our next largest exposure was to Samsung Electronics, to which we had outstanding exposure of 2,479 billion representing 0.7% of our total exposures. Any deterioration in the financial condition of our large corporate borrowers may require us to record substantial additional allowances and may have a material adverse impact on our results of operations and financial condition.

***We have exposure to the largest Korean commercial conglomerates, known as chaebols, and, as a result, financial difficulties of chaebols may have an adverse impact on us.***

Of our 20 largest corporate exposures as of December 31, 2017, five were to companies that were members of the 24 largest *chaebols* in Korea. As of that date, the total amount of our exposures to the 24 largest *chaebols* was 25,092 billion, or 6.6% of our total exposures. If the credit quality of our exposures to *chaebols* declines as a result of financial difficulties they experience or for other reasons, we could incur additional provisions for credit loss, which would hurt our results of operations and financial condition. See Item 4.B. Business Overview Assets and Liabilities Loan Portfolio Exposure to *Chaebols*.

The allowances we have established against these exposures may not be sufficient to cover all future losses arising from these exposures. In addition, in the case of companies that are in or in the future enter into workout, restructuring, reorganization or liquidation proceedings, our recoveries from those companies may be limited. We may, therefore, experience future losses with respect to these exposures.

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

As of December 31, 2017, our credit exposures to companies that were in workout or corporate restructuring amounted to 648 billion or 0.2% of our total credit exposures, of which 528 billion or 81.5% was classified as substandard or below and substantially all of which was classified as impaired. As of the same date, our allowance for credit losses on these credit exposures amounted to 249 billion, or 38.4% of these exposures. These allowances may not be sufficient to cover all future losses arising from our credit exposure to these companies. Furthermore, we have other exposure to such companies in the form of debt and equity securities of such companies held by us (including equity securities we acquired as a result of debt-to-equity conversions). Including such securities, our exposures as of December 31, 2017 to companies in workout or restructuring amounted to 656 billion, or 0.2% of our total exposures. Our exposures to such companies may also increase in the future, including as a result of adverse conditions in the Korean economy. In addition, in the case of borrowers that are or become subject to workout, we may be forced to restructure our credits pursuant to restructuring plans approved by other creditor financial institutions of the borrower, or to dispose of our credits to other creditors on unfavorable terms, which may adversely affect our results of operations and financial condition.

**Risks relating to our consumer credit portfolio**

***We may experience increases in delinquencies in our consumer loan and credit card portfolios.***

In recent years, consumer debt has increased rapidly in Korea. Our portfolio of consumer loans amounted to 93,448 billion as of December 31, 2015, 104,484 billion as of December 31, 2016 and 109,290 billion as of December 31, 2017. Our credit card portfolio amounted to 6,099 billion as of December 31, 2015, 6,674 billion as of December 31,

2016 and 6,827 billion as of December 31, 2017. As of December 31, 2017, our consumer loans and credit card receivables represented 43.2% and 2.7% of our total lending, respectively. See Item 4.B. Business Overview Consumer Banking Lending Activities and Item 4.B. Business Overview Credit Cards Products and Services.



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The growth in our consumer loan portfolio in recent years, together with adverse changes in economic conditions in Korea and globally, may lead to increasing delinquencies and a deterioration in asset quality. The amount of our consumer loans classified as substandard or below was 345 billion (or 0.4% of our consumer loan portfolio) as of December 31, 2015, 305 billion (or 0.3% of our consumer loan portfolio) as of December 31, 2016 and 276 billion (or 0.3% of our consumer loan portfolio) as of December 31, 2017. We charged off consumer loans amounting to 147 billion in 2017, as compared to 155 billion in 2016 and 240 billion in 2015, and recorded provisions for credit loss in respect of consumer loans of 152 billion in 2017, as compared to 77 billion in 2016 and 103 billion in 2015. Within our consumer loan portfolio, the outstanding balance of general purpose household loans, which, unlike mortgage or home equity loans, are often unsecured and therefore tend to carry a higher credit risk, amounted to 24,179 billion, or 25.9% of our total outstanding consumer loans, as of December 31, 2015, 27,113 billion, or 25.9% of our total outstanding consumer loans, as of December 31, 2016 and 31,108 billion, or 28.5% of our total outstanding consumer loans, as of December 31, 2017.

In our credit card segment, outstanding balances overdue by more than one month amounted to 97 billion, or 1.6% of our credit card receivables, as of December 31, 2015, 80 billion, or 1.2% of our credit card receivables, as of December 31, 2016 and 88 billion, or 1.3% of our credit card receivables, as of December 31, 2017. In line with industry practice, we have restructured a portion of our delinquent credit card account balances as loans. As of December 31, 2017, these restructured loans amounted to 131 billion, or 1.9% of our credit card balances. Because these restructured loans are not initially recorded as being delinquent, our delinquency ratios do not fully reflect all delinquent amounts relating to our credit card balances. Including all restructured loans, outstanding balances overdue by more than one month accounted for 3.1% of our credit card balances as of December 31, 2017. We charged off credit card balances amounting to 228 billion in 2017, as compared to 242 billion in 2016 and 198 billion in 2015, and recorded provisions for credit loss in respect of credit card balances of 204 billion in 2017, as compared to 207 billion in 2016 and 181 billion in 2015. Delinquencies may increase in the future as a result of, among other things, adverse economic conditions in Korea, additional government regulation or the inability of Korean consumers to manage increased household debt.

A deterioration of the asset quality of our consumer loan and credit card portfolios would require us to record increased provisions for credit loss and charge-offs and adversely affect our financial condition and results of operations. In addition, our large exposure to consumer debt means that we are exposed to changes in economic conditions affecting Korean consumers. Accordingly, economic difficulties in Korea that hurt those consumers could result in further deterioration in the credit quality of our consumer loan and credit card portfolios. For example, a rise in unemployment or an increase in interest rates in Korea could adversely affect the ability of consumers to make payments and increase the likelihood of potential defaults. See Risks relating to Korea Unfavorable financial and economic developments in Korea may have an adverse effect on us.

In addition, we are exposed to changes in regulations and policies on consumer lending by the Korean government, which may adopt measures to restrict consumer lending or encourage financial institutions to provide financial support to certain types of retail borrowers. In 2014 and 2015, the Korean government implemented several measures to encourage consumer spending and revive the housing market in Korea, including loosening regulations on mortgage lending, which contributed to an increase in our portfolio of consumer loans. However, the Korean government introduced measures in the second half of 2016 and 2017 to tighten regulations on mortgage lending and housing subscription in response to the rapid growth in consumer debt and concerns over speculative investments in real estate in certain areas. A decrease in housing prices as a result of the implementation of such measures, together with the high level of consumer debt and rising interest rate levels, could result in declines in consumer spending and reduced economic growth, which may lead to increases in delinquency levels of our consumer loan and credit card portfolios.

In light of adverse conditions in the Korean economy affecting consumers, in March 2009, the Financial Services Commission requested Korean banks, including us, to establish a pre-workout program, including a credit counseling and recovery service, for retail borrowers with outstanding short-term debt. Under the pre-workout program, which has been in operation since April 2009, maturity extensions and/or interest reductions

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are provided to retail borrowers with total loans of less than 1.5 billion (consisting of no more than 500 million of unsecured loans and 1 billion of secured loans) who are in arrears on their payments for more than 30 days but less than 90 days or for retail borrowers with an annual income of 40 million or less who have been in arrears on their payments for 30 days or more on an aggregate basis for the 12 months prior to their application, among others. The aggregate amount of consumer credit (including credit card receivables) we provided which became subject to the pre-workout program in 2017 was 32 billion. While we believe that our operation of the pre-workout program has not had a material impact on the overall credit quality of our consumer loan and credit card portfolios to date, our participation in such government-led initiatives to provide financial support to retail borrowers may lead us to offer credit terms for such borrowers that we would not otherwise offer in the absence of such initiatives, which may have an adverse effect on our results of operations and financial condition.

***A decline in the value of the collateral securing our consumer loans and our inability to realize full collateral value may adversely affect our consumer credit portfolio.***

A substantial portion of our consumer loans is secured by real estate, the values of which have fluctuated significantly in recent years. Although it is our general policy to lend up to 70% of the appraised value of collateral (except in areas of high speculation designated by the government where we generally limit our lending to 40% of the appraised value of collateral) and to periodically re-appraise our collateral, a downturn in the real estate markets in Korea may result in a decline in the value of the collateral securing our mortgage and home equity loans. If collateral values decline in the future, they may not be sufficient to cover uncollectible amounts in respect of our secured loans. Any declines in the value of the real estate or other collateral securing our consumer loans, or our inability to obtain additional collateral in the event of such declines, could result in a deterioration in our asset quality and may require us to record additional allowances for credit losses.

In Korea, foreclosure on collateral generally requires a written petition to a court. An application, when made, may be subject to delays and administrative requirements that may decrease the value of such collateral. We cannot guarantee that we will be able to realize the full value on our collateral as a result of, among other factors, delays in foreclosure proceedings and defects in the perfection of our security interest in collateral. Our failure to recover the expected value of collateral could expose us to potential losses.

**Risks relating to our structure and strategy**

***The implementation of the Korean government's privatization plan may have an adverse effect on us and your interests as a shareholder.***

In June 2013, the Korean government, through the Public Funds Oversight Committee of the Financial Services Commission, announced an updated plan to privatize Woori Finance Holdings and its former subsidiaries, including us. The privatization plan provided for the segregation of such entities into three groups and the disposal of the Korean government's interest in these entities held through the KDIC in a series of transactions, many of which have been completed. Such transactions included the following:

*Kwangju Bank and Kyongnam Bank.* In May 2014, Woori Finance Holdings established KJB Financial Group and KNB Financial Group through a spin-off of its businesses related to the holding of the shares and thereby controlling the business operations of Kwangju Bank and Kyongnam Bank, respectively. As a result of such spin-off, KJB Financial Group became the owner of the shares of Kwangju Bank previously held by Woori Finance Holdings and KNB Financial Group became the owner of the shares of Kyongnam Bank previously

held by Woori Finance Holdings. Woori Finance Holdings no longer owned any shares of Kwangju Bank or Kyongnam Bank, and neither they nor their new holding companies were its subsidiaries, after the spin-off. Following such spin-off, each of these banks was merged with its holding company, and in October 2014, the KDIC sold its 56.97% ownership interest in Kwangju Bank and Kyongnam Bank to JB Financial Group and BS Financial Group, respectively.

*Woori Investment & Securities and Other Subsidiaries.* In March 2014, Woori Finance Holdings sold its 52.0% ownership interest in Woori Financial to KB Financial Group. In May 2014, Woori Finance

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Holdings sold its 100.0% ownership interest in Woori Asset Management to Kiwoom Securities and sold its 100.0% ownership interest in Woori F&I to Daishin Securities. In June 2014, Woori Finance Holdings sold its 37.9% ownership interest in Woori Investment & Securities, its 51.6% ownership interest in Woori Aviva Life Insurance and its 100.0% ownership interest in Woori FG Savings Bank to NongHyup Financial Group in a collective sale. As a result of such sales, Woori Investment & Securities, Woori Asset Management, Woori Aviva Life Insurance, Woori FG Savings Bank, Woori F&I and Woori Financial were no longer subsidiaries of Woori Finance Holdings, and it no longer owned any shares in such former subsidiaries.

*Woori Bank.* In November 2014, Woori Finance Holdings merged with and into us. As a result of the merger, the other former subsidiaries of Woori Finance Holdings, including Woori Card, Woori Private Equity, Woori FIS, Woori Investment Bank and Woori Finance Research Institute, became our subsidiaries. In December 2014, the KDIC sold 40,143,022 shares of our common stock (representing 5.9% of our outstanding common stock) in a private sale in Korea. In addition, in December 2016 and January 2017, the KDIC sold an aggregate of 200,685,395 shares of our common stock (representing 29.7% of our outstanding common stock) in stakes ranging from 3.7% to 6.0% to seven financial companies through a bidding process. Pursuant to a commitment made by the KDIC in connection with such bidding process, five persons, each nominated by one of the winning bidders, were elected as new outside directors at an extraordinary general meeting of our shareholders held in December 2016. See Item 6.A. Directors and Senior Management Board of Directors Outside Directors. In 2017, pursuant to a series of transactions related to call options previously granted in connection with the KDIC's sale of our common stock in December 2014, the KDIC sold an aggregate of 19,852,364 shares of our common stock (representing 2.94% of our outstanding common stock). As a result of such transactions, the KDIC's ownership interest in us was reduced to 18.43%. We expect the KDIC to sell all or a portion of the remaining shares of our common stock it owns to one or more purchasers in the future.

See Item 4.A. History and Development of the Company Privatization Plan.

The implementation of the Korean government's privatization plan, including the merger of Woori Finance Holdings with and into us, the KDIC's sale of a combined 29.7% ownership interest in us to seven financial companies and the expected sale of the KDIC's remaining ownership interest in us to third parties, is likely to have a significant impact on us. For example, the loss of the Korean government as our indirect controlling shareholder, the spin-off of Kwangju Bank and Kyongnam Bank and the loss of our former affiliates such as Woori Investment & Securities that had complementary businesses may have a material adverse effect on our credit profile and credit ratings, as well as our business, financial condition and results of operations. Furthermore, the KDIC's sale of its ownership interest in us to a small number of third parties may affect our business, management, strategy, capital structure and assets and liabilities and lead to diversion of management attention, a loss of customers and labor unrest. There is also no guarantee that the various transactions completed under the privatization plan will not result in unintended adverse tax consequences for us and our subsidiaries, as well as our shareholders. Accordingly, the implementation of the privatization plan may have a material adverse effect on the trading price of our common stock and American depositary shares, or ADSs, and your interests as a shareholder.

***We may not be able to successfully execute our overseas expansion strategy.***

As part of our business strategy, we have been seeking opportunities to expand our operations in markets outside Korea, including through the opening of additional overseas branches and offices as well as strategic acquisitions and investments, particularly in South and Southeast Asia. For example, in October 2016, we acquired a 51% equity interest in Wealth Development Bank Corp., a thrift bank in the Philippines. In November 2016, we established a local subsidiary in Vietnam, Woori Bank Vietnam, which commenced operations in January 2017 and currently

operates the branches in Hanoi, Bac Ninh and Ho Chi Minh City that we previously operated directly. In July 2017, we expanded our network of branches to India, where we established branches in Gurgaon and Mumbai. Notwithstanding the foregoing, the expansion of our operations abroad may be difficult

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due to the presence of established competitors in the relevant local markets. In addition, overseas expansion and the management of international operations may require significant financial expenditures as well as management attention, and will subject us to the challenges of operating in an unfamiliar business environment with different regulatory, legal and taxation systems and political, economic and social risks. Accordingly, there is no guarantee that we will be successful in executing our overseas expansion strategy. The failure of our overseas expansion strategy could have an adverse impact on our business, results of operations and financial condition.

***We may not generate sufficient additional fees to achieve our revenue diversification strategy.***

An important element of our overall strategy is increasing our fee income in order to diversify our revenue base, in anticipation of greater competition and declining lending margins. Historically, our primary source of revenues has been net interest income from our banking operations. To date, except for credit card, trust management, bancassurance and currency transfer fees (including foreign exchange-related commissions), and fees collected in connection with the operation of our investment funds, we have not generated substantial fee income. We intend to develop new sources of fee income as part of our business strategy, including through our investment banking and asset management businesses. Although we, like many other Korean financial institutions, have begun to charge fees to our customers more regularly, customers may prove unwilling to pay additional fees, even in exchange for more attractive value-added services, and their reluctance to do so would adversely affect the implementation of our strategy to increase our fee income. Furthermore, the fees that we charge to customers are subject to regulation by Korean financial regulatory authorities, which may seek to implement regulations or measures that may have an adverse impact on our ability to achieve this aspect of our strategy.

**Risks relating to competition*****Competition in the Korean financial industry is intense, and we may lose market share and experience declining margins as a result.***

Competition in the Korean financial market has been and is likely to remain intense. Some of the financial institutions that we compete with are larger in terms of asset size and customer base and have greater financial resources or more specialized capabilities than us. In addition, in the area of our core banking operations, most Korean banks have been focusing on retail customers and small- and medium-sized enterprises in recent years, although they have begun to generally increase their exposure to large corporate borrowers, and have been focusing on developing fee income businesses, including bancassurance and investment products, as increasingly important sources of revenue. In the area of credit cards, Korean banks and credit card companies have in the past engaged in aggressive marketing activities and made significant investments, contributing to some extent to lower profitability and asset quality problems previously experienced with respect to credit card receivables. The competition and market saturation resulting from this common focus may make it more difficult for us to secure retail, small- and medium-sized enterprise and large corporate customers with the credit quality and on credit terms necessary to maintain or increase our income and profitability.

In addition, general regulatory reforms in the Korean financial industry have increased competition among banks and other financial institutions in Korea. In the second half of 2015, the Korean government implemented measures to facilitate bank account portability of retail customers by requiring commercial banks to establish systems that allow retail customers to easily switch their bank accounts at one commercial bank to another and automatically transfer the automatic payment settings of their former accounts to the new ones. Such measures are expected to further intensify competition among financial institutions in Korea. Moreover, in March 2016, the Financial Services Commission introduced an individual savings account scheme in Korea, which enables individuals to efficiently manage a wide range of retail investment vehicles, including cash deposits, investment funds and securities investment products, from

a single integrated account with one financial institution and offers tax benefits on investment returns. Since the scheme backed by the Korean government allows only one individual savings account per person, financial institutions have been competing to retain existing customers and attract new customers since the launch of the individual savings account scheme. Over 30 financial



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institutions, including banks, securities companies and insurance companies, have registered with the Financial Services Commission to sell their individual savings account products, and competition among these financial institutions is expected to remain intense.

Furthermore, the introduction of Internet-only banks in Korea is expected to increase competition in the Korean banking industry. Internet-only banks generally operate without branches and conduct most of their operations through electronic means, which enable them to minimize costs and offer customers higher interest rates on deposits or lower lending rates. In April 2017, K bank, the first Internet-only bank in Korea, in which we own 13.8% of the equity with voting rights, commenced operations. Kakao Bank, a mobile-only bank, commenced operations in July 2017.

Moreover, a number of significant mergers and acquisitions in the financial industry have taken place in Korea in recent years, including Hana Financial Group's acquisition of a controlling interest in Korea Exchange Bank in 2012, the subsequent merger of Hana Bank into Korea Exchange Bank in 2015, KB Financial Group's acquisition of Hyundai Securities Co., Ltd. in 2016 and the subsequent merger of Hyundai Securities with and into KB Investment & Securities Co., Ltd. in 2016. In 2016, Mirae Asset Securities Co., Ltd. acquired a 43% interest in KDB Daewoo Securities Co., Ltd., which changed its name to Mirae Asset Daewoo Securities Co., Ltd., and subsequently merged with and into Mirae Asset Daewoo Securities to create the largest securities company in Korea in terms of capital. Furthermore, in 2014, pursuant to the implementation of the Korean government's privatization plan with respect to Woori Finance Holdings and its former subsidiaries, Woori Financial, Woori Asset Management and Woori F&I were acquired by KB Financial Group, Kiwoom Securities and Daishin Securities, respectively, and Woori Investment & Securities, Woori Aviva Life Insurance and Woori FG Savings Bank were acquired by NongHyup Financial Group. In addition, in October 2014, the KDIC's ownership interest in Kwangju Bank and Kyongnam Bank were acquired by JB Financial Group and BS Financial Group, respectively. See Item 4.A. History and Development of the Company Privatization Plan.

We expect that consolidation in the Korean financial industry will continue. Other financial institutions may seek to acquire or merge with other entities, and the financial institutions resulting from such consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for us. We also believe that foreign financial institutions, many of which have greater experience and resources than we do, may seek to compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Increased competition and continuing consolidation may lead to decreased margins, resulting in a material adverse impact on our future profitability. Accordingly, our results of operations and financial condition may suffer as a result of increasing competition in the Korean financial industry.

***Competition for customer deposits may increase, resulting in a loss of our deposit customers or an increase in our funding costs.***

In recent years, we have faced increasing pricing pressure on deposit products from our competitors. If we do not continue to offer competitive interest rates to our deposit customers, we may lose their business. In addition, even if we are able to match our competitors' pricing, doing so may result in an increase in our funding costs, which may have an adverse impact on our results of operations.

**Other risks relating to our business**

***Unfavorable changes in the global financial markets could adversely affect our results of operations and financial condition.***

The overall prospects for the Korean and global economy in 2018 and beyond remain uncertain. In recent years, the global financial markets have experienced significant volatility as a result of, among other things:

the financial difficulties affecting many governments worldwide, in particular in Latin America and Europe;

the slowdown of economic growth in China and other major emerging market economies;

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interest rate fluctuations as well as the possibility of further increases in policy rates by the U.S. Federal Reserve and other central banks; and

political and social instability in various countries in the Middle East, including Syria, Iraq and Egypt, as well as the referendum in the United Kingdom in June 2016, in which a majority of voters voted in favor of an exit from the European Union, or Brexit.

In light of the high level of interdependence of the global economy, unfavorable changes in the global financial markets, including as a result of any of the foregoing developments, could have a material adverse effect on the Korean economy and financial markets, and in turn on our business, financial condition and results of operations.

We are also exposed to adverse changes and volatility in the global and Korean financial markets as a result of our liabilities and assets denominated in foreign currencies and our holdings of trading and investment securities, including structured products. The value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely in recent years. See Item 3.A. Selected Financial Data Exchange Rates. A depreciation of the Won will increase our cost of servicing our foreign currency-denominated debt, while continued exchange rate volatility may also result in foreign exchange losses for us. Furthermore, as a result of changing global and Korean economic conditions, there has been volatility in securities prices, including the stock prices of Korean and foreign companies in which we hold an interest. Such volatility has resulted in and may lead to further trading and valuation losses on our trading and investment securities portfolio as well as impairment losses on our investments in joint ventures and associates.

***Our risk management system may not be effective in mitigating risk and loss.***

We seek to monitor and manage our risk exposure through a standardized risk management system, encompassing a multi-tiered risk management governance structure under our Board Risk Management Committee, our centralized credit risk management system called the CREPIA system, reporting and monitoring systems, early warning systems and other risk management infrastructure, using a variety of risk management strategies and techniques. See Item 11. Quantitative and Qualitative Disclosures about Market Risk. However, such risk management strategies and techniques employed by us and the judgments that accompany their application cannot anticipate the economic and financial outcome in all market environments, and many of our risk management strategies and techniques have a basis in historic market behavior that may limit the effectiveness of such strategies and techniques in times of significant market stress or other unforeseen circumstances. Furthermore, our risk management strategies may not be effective in a difficult or less liquid market environment, as other market participants may be attempting to use the same or similar strategies as us to deal with such market conditions. In such circumstances, it may be difficult for us to reduce our risk positions due to the activity of such other market participants.

***We have provided certain assets as collateral in connection with our secured borrowings and could be required to make payments and realize losses in the future relating to those assets.***

We have provided certain assets as collateral for our secured borrowings in recent years. As of December 31, 2017, the aggregate amount of assets we had provided as collateral for our secured borrowings was 9,693 billion. These secured borrowings may take the form of asset securitization transactions, where we nominally sell our assets to a securitization vehicle that issues securities backed by those assets, although the assets remain on our statements of financial position. These secured borrowings are intended to be fully repaid through recoveries on collateral. Some of these nominal asset sales were with recourse, which means that if delinquencies arise with respect to such assets, we will be required to either repay a proportionate amount of the related secured borrowing (by reversing the nominal sale and repurchasing such assets) or compensate the securitization vehicle for any net shortfalls in its recoveries on such

assets. If we are required to make payments on such assets, or to repay our secured borrowings on those assets and are unable to make sufficient recoveries on them, we may realize further losses on these assets.

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***An increase in interest rates would decrease the value of our debt securities portfolio and raise our funding costs while reducing loan demand and the repayment ability of our borrowers, which could adversely affect us.***

Interest rates in Korea have been subject to significant fluctuations in the past. In an effort to stem inflation amid improved growth prospects, the Bank of Korea gradually increased its policy rate in 2010 and 2011 by a total of 125 basis points to 3.25%. However, the Bank of Korea reduced its policy rate to 2.00% through a series of reductions from 2012 to 2014 to support Korea's economy in light of the slowdown in Korea's growth and uncertain global economic prospects. The Bank of Korea further reduced its policy rate to 1.50% in 2015 and again to an unprecedented 1.25% in June 2016 amid deflationary concerns and interest rate cuts by central banks around the world. However, in November 2017, the Bank of Korea increased its policy rate to 1.50% in light of improved growth prospects in Korea and rising interest rate levels globally. All else being equal, further increases in interest rates in the future could lead to a decline in the value of our portfolio of debt securities, which generally pay interest based on a fixed rate. A sustained increase in interest rates will also raise our funding costs, while reducing loan demand, especially among consumers. Rising interest rates may therefore require us to re-balance our asset portfolio and our liabilities in order to minimize the risk of potential mismatches and maintain our profitability. See Item 11. Quantitative and Qualitative Disclosures about Market Risk. In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of our corporate and consumer borrowers, including holders of our credit cards, which in turn may lead to a deterioration in our credit portfolio. In particular, since most of our consumer and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rates would increase the interest costs of our consumer and corporate borrowers and will adversely affect their ability to make payments on their outstanding loans.

***Our funding is highly dependent on short-term deposits, which dependence may adversely affect our operations.***

We meet a significant amount of our funding requirements through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2017, approximately 95.8% of these deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of these customer deposits have been rolled over upon maturity. We cannot guarantee, however, that depositors will continue to roll over their deposits in the future. In the event that a substantial number of these short-term deposit customers withdraw their funds or fail to roll over their deposits as higher-yielding investment opportunities emerge, our liquidity position could be adversely affected. We may also be required to seek more expensive sources of short-term and long-term funding to finance our operations. See Item 5.B. Liquidity and Capital Resources Financial Condition Liquidity.

***Labor union unrest may disrupt our operations and hinder our ability to continue to reorganize our operations.***

Most financial institutions in Korea have experienced periods of labor unrest. In recent years, we have transferred or merged some of the business operations of our subsidiaries and affiliates into one or more entities and implemented other forms of corporate and operational restructuring, including in connection with the Korean government's privatization plan with respect to Woori Finance Holdings and its former subsidiaries. See Risks relating to our structure and strategy The implementation of the Korean government's privatization plan may have an adverse effect on us and your interests as a shareholder. We may also decide to implement other organizational or operational changes, as well as acquisitions or dispositions, in the future. Such efforts have in the past been met with significant opposition from labor unions in Korea. Actual or threatened labor disputes may in the future disrupt the reorganization process and our business operations, which in turn may hurt our financial condition and results of operations.

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***The secondary market for corporate bonds in Korea is not fully developed, and, as a result, we may not be able to realize the full marked-to-market value of debt securities we hold when we sell any of those securities.***

As of December 31, 2017, we held debt securities issued by Korean companies and financial institutions (other than those issued by government-owned or -controlled enterprises or financial institutions, which include the Bank of Korea, the Korea Development Bank, the Korea Housing Finance Corporation and the Industrial Bank of Korea, among others) with a total book value of 2,008 billion in our trading and investment securities portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates or a deterioration in the financial and economic condition of any particular issuer or of Korea in general. Any of these factors individually or a combination of these factors would require us to write down the fair value of these debt securities, resulting in impairment losses. Because the secondary market for corporate bonds in Korea is not fully developed, the market value of many of these securities as reflected on our consolidated statements of financial position is determined by references to suggested prices posted by Korean rating agencies, which measure prices based on observable market data. These valuations, however, may differ significantly from the actual value that we could realize in the event we elect to sell these securities. As a result, we may not be able to realize the full marked-to-market value at the time of any such sale of these securities and thus may incur additional losses.

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

Under the capital adequacy requirements of the Financial Services Commission, as of December 31, 2017, we were required to maintain a total minimum Tier I common equity capital adequacy ratio of 6.25%, Tier I capital adequacy ratio of 7.75% and combined Tier I and Tier II capital adequacy ratio of 9.75%, on a consolidated basis (including applicable additional capital buffers and requirements as described below). As of December 31, 2017, our Tier I common equity capital, Tier I capital and combined Tier I and Tier II capital ratios were 10.95%, 13.03% and 15.40%, respectively, which exceeded the minimum levels required by the Financial Services Commission. However, our capital base and capital adequacy ratio may deteriorate in the future if our results of operations or financial condition deteriorates for any reason, or if we are not able to deploy our funding into suitably low-risk assets. To the extent that we fail to maintain our capital adequacy ratios in the future, Korean regulatory authorities may impose penalties on us ranging from a warning to suspension or revocation of our licenses.

The current capital adequacy requirements of the Financial Services Commission are derived from a new set of bank capital measures, referred to as Basel III, which the Basel Committee on Banking Supervision initially introduced in 2009 and began phasing in starting from 2013. Commencing in July 2013, the Financial Services Commission promulgated a series of amended regulations implementing Basel III, pursuant to which Korean banks and bank holding companies were required to maintain a minimum ratio of Tier I common equity capital (which principally includes equity capital, capital surplus and retained earnings) to risk-weighted assets of 3.5% and Tier I capital to risk-weighted assets of 4.5% from December 1, 2013, which minimum ratios were increased to 4.0% and 5.5%, respectively, from January 1, 2014 and increased further to 4.5% and 6.0%, respectively, from January 1, 2015. Such requirements are in addition to the pre-existing requirement for a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8.0%, which remains unchanged. The amended regulations also require an additional capital conservation buffer of 1.25% in 2017 and 1.875% in 2018, with such buffer to increase to 2.5% in 2019, as well as a potential counter-cyclical capital buffer of up to 2.5%, which is determined on a quarterly basis by the Financial Services Commission. Furthermore, we were designated as one of six domestic systemically important banks for 2017 by the Financial Services Commission and were subject to an additional capital requirement of 0.5% in 2017. In June 2017, we were again designated as a domestic systemically important bank for 2018, which would subject us to an additional capital requirement of 0.75% in 2018, with such potential requirement to increase to 1.0% in 2019. The implementation of Basel III in Korea may have a significant effect on the capital requirements of

Korean financial institutions, including us. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Capital Adequacy.

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We may be required to obtain additional capital in the future in order to remain in compliance with more stringent capital adequacy and other regulatory requirements. However, we may not be able to obtain additional capital on favorable terms, or at all. Our ability to obtain additional capital at any time may be constrained to the extent that banks or other financial institutions in Korea or from other countries are seeking to raise capital at the same time. Depending on whether we are obtaining any necessary additional capital, and the terms and amount of any additional capital obtained, holders of our common stock or ADSs may experience a dilution of their interest.

***The application of IFRS 9 Financial Instruments commencing in 2018 could adversely impact our reported results of operations and financial condition.***

IFRS 9 *Financial Instruments*, or IFRS 9, issued by the IASB in July 2014, is a new IFRS accounting standard aimed at improving and simplifying the accounting treatment of financial instruments and is effective for annual periods beginning on or after January 1, 2018. IFRS 9, which replaces International Accounting Standard 39, *Financial Instruments: Recognition and Measurement*, requires financial assets to be classified and measured on the basis of an entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model is introduced which requires the calculation of allowance for credit losses based on expected credit losses instead of incurred losses by assessing changes in expected credit losses and recognizing such changes as impairment loss (or reversal of impairment loss) in profit or loss. Also, hedge accounting rules are amended to extend to more hedging relationships and to allow more hedging instruments and hedged items to qualify for hedge accounting. The impact on our financial statements due to the application of IFRS 9 will depend on judgments made by us in applying the new standard, the nature of financial instruments held by us and macroeconomic variables.

We have performed an assessment of the financial impact of IFRS 9 on our consolidated financial statements. The application of IFRS 9 will result in higher impairment loss allowances that are recognized earlier, on a more forward-looking basis and on a broader scope of financial instruments than is the case under International Accounting Standard 39 and, as a result, will have a material impact on our reported financial condition. In addition, the move from incurred to expected credit losses will have the potential to impact our performance under stressed economic conditions or regulatory stress tests. In particular, the application of IFRS 9 will result in increases in allowance for credit losses and corresponding decreases in our retained earnings in our consolidated statement of financial position, which could also negatively impact our regulatory capital position. Measurement will require increased complexity in our impairment modeling as it will involve a greater degree of management judgment with respect to forward-looking information. We expect that impairment charges will tend to be more volatile as a result.

An effective implementation of IFRS 9 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and system stabilization, and we have taken measures to enhance our financial analysis and impact assessment capabilities in preparation for IFRS 9. Nevertheless, the application of IFRS 9, as well as any other new or revised accounting standards we are required to adopt in the future, could result in significant additional costs and may have a material adverse effect on our reported results of operations and financial condition. For further information regarding IFRS 9, see Note 2-(1)-2) of the notes to our consolidated financial statements.

***We engage in limited activities relating to Iran and may become subject to sanctions under relevant laws and regulations of the United States and other jurisdictions as a result of such activities, which may adversely affect our business and reputation.***

The U.S. Department of the Treasury's Office of Foreign Assets Control, or OFAC, administers and enforces certain laws and regulations (which we refer to as OFAC sanctions) that impose restrictions upon activities or transactions



within U.S. jurisdiction with certain countries, governments, entities and individuals that are the subject of OFAC sanctions, including Iran. Non-U.S. persons generally are not automatically bound by OFAC sanctions, but to the extent they engage in transactions completed in part in the United States or through U.S. persons (such as, for example, wiring an international payment that clears through a bank branch in New York), they are required to comply with U.S. sanctions. The European Union also enforces certain laws and

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regulations that impose restrictions upon nationals and entities of, and business conducted in, member states with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of such laws and regulations, including with respect to targeted entities in Iran. The United Nations Security Council and other governmental entities also impose similar sanctions.

The United States also maintains indirect sanctions, which we refer to collectively as U.S. secondary sanctions, which provide authority for the imposition of U.S. sanctions on foreign parties that engage in targeted transactions with no connection to U.S. jurisdiction. Secondary sanctions have been of increasing importance in recent years, particularly (but not only) with respect to Russia and Iran. Although many U.S. secondary sanctions (including those focused on the energy and banking sectors generally) were suspended following implementation of the 2015 Joint Comprehensive Plan of Action, or the JCPOA, between the five permanent United Nations Security Council members, Germany, and Iran, pursuant to which Iran agreed to limits on its nuclear program in return for sanctions relief, a number of U.S. secondary sanctions programs targeting Iran remain in place, as does a comprehensive ban on dealings with Iran under direct sanctions. Iran has also been designated as a jurisdiction of primary money laundering concern under Section 311 of the USA PATRIOT Act, potentially subjecting banks dealing with Iranian financial institutions to increased regulatory scrutiny.

Violations of OFAC sanctions via transactions with a U.S. jurisdictional nexus can result in substantial civil or criminal penalties. A range of sanctions may be imposed on companies that engage in sanctionable activities within the scope of the remaining U.S. secondary sanctions, including, among other things, the blocking of any property subject to U.S. jurisdiction in which the sanctioned company has an interest, which would include a prohibition on transactions or dealings within U.S. jurisdiction involving securities of the sanctioned company. Financial institutions engaging in targeted activity could in some instances be sanctioned by termination or restriction of their ability to maintain correspondent accounts in the United States. The imposition of sanctions against foreign financial institutions pursuant to the remaining U.S. secondary sanctions is not automatic, requiring further action by the U.S. administration.

In 2017, we engaged in the following activities relating to Iran:

We operate certain accounts for CBI, which were opened by CBI pursuant to a service agreement entered into by us and CBI in September 2010, as amended from time to time, to facilitate trade between Korea and Iran. The accounts opened by CBI consist of Won-denominated accounts that are used for the settlement of exports of goods produced or substantially transformed in Korea to Iran by Korean exporters and Won, U.S. dollar, euro and Japanese Yen-denominated accounts (of which only the Won accounts are in use) that are used for the settlement of imports of crude oil and natural gas from Iran by Korean importers. By the terms of the service agreement between us and CBI, settlement of export and import transaction payments due from Iranian entities to Korean exporters or from Korean importers to Iranian entities through such accounts opened by CBI are effected by crediting or debiting the relevant amount to or from the applicable accounts while a corresponding payment of funds is made to or from an Iranian bank by CBI. Any funds deposited for the account of Iranian entities as a result of Korean imports of crude oil and natural gas may only be used by transferring them to the Won-denominated account and then making payment to accounts of Korean persons and entities opened at financial institutions in Korea in respect of Korean exports to Iran. No transfers of funds may be made from these accounts to Iran, to Iranian accounts in any third country, or for any use other than those described above. In 2017, the total fee revenue from maintaining the CBI accounts amounted to approximately 168 million (which represented approximately 0.002% of our total revenue). As there were no expenses directly applicable to such activities under our internal management accounts, we estimate that our

net income before tax from maintaining the CBI accounts also amounted to approximately 168 million (which represented approximately 0.009% of our total net income before tax). We intend to continue maintaining the accounts opened by CBI, and in light of the lifting of certain sanctions against Iran, including U.S. secondary sanctions, the scope of our services provided to CBI may be adjusted to reflect such change in circumstances.

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We also provide limited export-import financing services to Korean exporters and importers in connection with their trade transactions with Iran that were permitted under the relevant Korean sanctions and were not subject to U.S. secondary sanctions, primarily by discounting, advising on or issuing letters of credit, and to a lesser extent, issuing performance bonds on behalf of Korean contractors with respect to Iranian construction projects permitted under the relevant Korean sanctions and not subject to U.S. secondary sanctions. All such transactions are settled through the accounts opened by CBI with us as described above. In 2017, our total fee revenue from such export-import financing services amounted to approximately 13.6 billion (which represented approximately 0.13% of our total revenue), while our net income before tax from such activities (net of expenses directly applicable to such activities based on our internal management accounts) amounted to approximately 4.4 billion (which represented approximately 0.23% of our total net income before tax). We intend to continue providing the export-import financing services with its current scope, to the extent U.S. secondary sanctions or other applicable sanctions remain lifted.

We also maintain a limited number of deposit accounts in Korea for an Iranian financial institution that the U.S. government has historically viewed as controlled by the government of Iran. These accounts were opened with us before the institution was designated for U.S. sanctions. Under Korean customer protection requirements, we are unable to provide specific information identifying this Iranian financial institution or the volume of its deposits. In 2017, there were nominal fee revenues from maintaining such deposit accounts, and there were no expenses directly applicable to such activities under our internal management accounts.

In May 2016, we established a new representative office in Tehran, Iran, which only engages in the collection of local market information and did not generate any revenue in 2017.

In addition, pursuant to requests from the U.S. government received in 2015, and authorization from the competent Korean authorities, we released US\$490 million each on four different occasions, or a total of US\$1,960 million, from the Won-denominated accounts of CBI maintained by us to the accounts of CBI located outside Korea. We understand that such requests were in furtherance of an interim Joint Plan of Action agreed between the five permanent United Nations Security Council members and Germany, and Iran in November 2013.

We do not believe that our activities relating to Iran violate OFAC sanctions or are sanctionable under U.S. secondary sanctions. Nevertheless, there is no guarantee that our activities relating to Iran will not be found to violate OFAC sanctions or involve sanctionable activity under the remaining U.S. secondary sanctions, or that any other government will not determine that our activities violate applicable sanctions of other countries. The Trump Administration has threatened to abandon the JCPOA, and the re-imposition or snap-back of previous U.S. sanctions (or imposition of new sanctions) could occur. While we do not expect that sanctions would be retroactively applied to activities properly engaged in while sanctions relief was in effect, it is possible that we would be forced to choose between breaching ongoing commitments or engaging in sanctionable activity. Sanctions against Iran are evolving rapidly, and future changes in law could also adversely affect us.

Our business and reputation could be adversely affected if the U.S. government were to determine that our activities relating to Iran violate OFAC sanctions or involve sanctionable activity under the U.S. secondary sanctions, or if any other government were to determine that our activities violate applicable sanctions of other countries. Any prohibition or conditions placed on our use of U.S. correspondent accounts could effectively eliminate our access to the U.S. financial system, including U.S. dollar clearing transactions, which would adversely affect our business, and any other sanctions or civil or criminal penalties imposed could also adversely affect our business. If the U.S. government were to challenge the compatibility of our activities relating to Iran with the OFAC sanctions or the U.S. secondary sanctions, while no assurances can be given that any such measures would be successful, we intend to take all

necessary measures to the extent possible to ensure that prohibitions or conditions are not placed on our use of U.S. correspondent accounts, including closing the accounts opened by CBI with us, if required.

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We are cooperating with an investigation led by the U.S. Attorney's Office for the Southern District of New York and the New York State Office of the Attorney General on certain of our transactions involving sanctioned countries under the U.S. sanctions and other U.S. laws, by producing information and documents pursuant to the applicable laws and regulations. It is not possible to predict the outcome of such investigation at this time, and there can be no assurance that such investigation will not result in an unfavorable outcome or adversely affect our business or reputation. Furthermore, beginning in October 2014, the Prosecutors' Office of Korea investigated a scheme by which the representative director of a Korean company and one of our employees engaged in fraudulent trade transactions involving our Won-denominated settlement activities through the CBI accounts. These individuals were arrested for, charged with and convicted of violations of the Foreign Exchange Transactions Law. The Prosecutors' Office of Korea completed its investigation in connection with this incident and concluded that neither we nor our executive officers engaged in any wrongdoing. However, the fraudulent transactions in question did not meet the conditions attached to operation of the CBI accounts, and there can be no assurances that U.S. authorities would agree that we were not culpable or that the transactions would not be considered sanctionable.

Furthermore, some of our U.S. investors may be required to divest their investments in us under the laws of certain U.S. states or under internal investment policies relating to companies doing business with Iran or may decide for reputational reasons to divest such investments, and some U.S. institutional investors may forego the purchase of our securities. We are aware of initiatives by U.S. governmental entities and U.S. institutional investors, such as pension funds, to adopt or consider adopting laws, regulations or policies prohibiting transactions with or investment in, or requiring divestment from, entities doing business with countries identified as state sponsors of terrorism. There can be no assurance that the foregoing will not occur or that such occurrence will not have a material adverse effect on the value of our common stock and ADSs.

***Our operations may be subject to increasing and continually evolving cybersecurity and other technological risks.***

With the proliferation of new technologies and the increasing use of the Internet and mobile devices to conduct financial transactions, our operations as a financial institution have been, and will continue to be, subject to an increasing risk of cyber incidents relating to these activities, the nature of which is continually evolving. Our computer systems, software and networks are subject to cyber incidents, such as disruptions, delays or other difficulties affecting our information technology systems, computer viruses or other malicious codes, loss or destruction of data (including confidential client information), unauthorized access, account takeover attempts and cyber attacks. A significant portion of our daily operations relies on our information technology systems, including customer service, billing, the secure processing, storage and transmission of confidential and other information as well as the timely monitoring of a large number of complex transactions. Although we have made substantial and continuous investments to build systems and defenses to address cybersecurity and other technological risks, there is no guarantee that such measures or any other measures can provide adequate security and stability. In addition, because methods used to cause cyber attacks change frequently or, in some cases, are not recognized until launched, we may be unable to implement effective preventive measures or proactively address these methods. Furthermore, these cyber threats may arise from human error, accidental technological failure and third parties with whom we do business. If we were to be subject to a system failure or other cyber incident, it could result in the disclosure of confidential client information, damage to our reputation with our customers and in the market, customer dissatisfaction, additional costs to us, regulatory penalties, exposure to litigation and other financial losses to both us and our customers, which could have an adverse effect on our business and results of operations.

***Our business may be adversely affected by legal claims and regulatory actions against us.***

We are subject to the risk of legal claims and regulatory actions, which may expose us to monetary damages and legal costs, injunctive relief, criminal and civil penalties, sanctions against our management and employees and regulatory

restrictions on our operations, as well as reputational harm. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings.

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We are unable to predict the outcome of many of the legal claims and regulatory actions in which we are involved, and the scope of the claims or actions or the total amount in dispute in such matters may increase. Furthermore, adverse decisions, findings or resolutions in such matters could encourage other parties, including governmental authorities in other jurisdictions, to bring similar claims and actions against us. Accordingly, the outcome of current and future legal claims and regulatory actions, particularly those for which it is difficult to assess the maximum potential exposure or the ultimate adverse impact with any degree of certainty, may materially and adversely impact our business, reputation, results of operations and financial condition.

***We are generally subject to Korean corporate governance and disclosure standards, which differ in significant respects from those in other countries.***

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies which differ in many respects from standards applicable in other countries, including the United States. As a reporting company registered with the U.S. Securities and Exchange Commission and listed on the New York Stock Exchange, we are subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002. However, foreign private issuers, including us, are exempt from certain corporate governance requirements under the Sarbanes-Oxley Act or under the rules of the New York Stock Exchange. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information could result in less than satisfactory corporate governance practices or disclosure to investors in certain countries.

***The Korean regulatory authorities have imposed sanctions against Deloitte Anjin LLC, which may adversely affect its ability to continue to provide audit and related services to us and to satisfy any claims that may arise in relation to such services.***

On April 5, 2017, the Financial Services Commission imposed sanctions against Deloitte Anjin LLC in connection with its role as the independent auditor for Daewoo Shipbuilding & Marine Engineering Co., Ltd., which was under investigation for alleged accounting irregularities. The sanctions included a prohibition against entering into new audit engagements for the year ending December 31, 2017 until April 5, 2018, a period of one year from the date of final determination of such sanctions. There are currently no restrictions on Deloitte Anjin's ability to bid for and enter into audit engagements for the fiscal year beginning January 1, 2018. We are not in a position to assess whether any additional damages will be imposed, including those resulting from related on-going civil proceedings against Deloitte Anjin LLC.

Our access to the capital markets and our ability to make timely filings with the U.S. Securities and Exchange Commission and the Financial Supervisory Service (including the filing of annual and quarterly business reports and any registration statements for public offerings of securities) could be impaired if, for whatever reason, Deloitte Anjin LLC is unable to perform required audit and related services for us. It is possible that events arising out of the aforementioned legal proceedings may adversely affect the ability of Deloitte Anjin LLC to complete its audit engagement with us or to satisfy any claims relating to its provision of audit and related services to us, including claims that may arise out of Deloitte Anjin LLC's audit of our consolidated financial statements included elsewhere in this annual report.

**Risks relating to government regulation and policy**

***Strengthening of consumer protection laws applicable to financial institutions could adversely affect our operations.***



As a financial service provider, we are subject to a variety of regulations in Korea that are designed to protect financial consumers. In recent years, in light of heightened public concern regarding privacy issues, the Korean government has placed greater emphasis on protection of personal information by financial institutions and has implemented a number of measures to enhance consumer protection. Under the Personal Information Protection Act, as last amended in July 2017, financial institutions, as personal information managers, may not

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collect, store, maintain, utilize or provide resident registration numbers of their customers, unless other laws or regulations specifically require or permit the management of resident registration numbers. In addition, under the Use and Protection of Credit Information Act, as last amended in November 2017, a financial institution has a higher duty to protect all information that it collects from its customers and is required to treat such information as credit information. A financial institution's ability to transfer or provide the information to its affiliates or holding company is considerably restricted. Treble damages may be imposed on a financial institution for leakage of such information. Furthermore, under the Electronic Financial Transaction Act, as last amended in July 2017, a financial institution is primarily responsible for compensating its customers harmed by a cyber security breach affecting the financial institution even if the breach is not directly attributable to the financial institution.

In June 2016, the Financial Services Commission proposed the enactment of the Act on the Financial Consumer Protection Framework, which was submitted to the Korean National Assembly in May 2017. If the Act is adopted as proposed, we as a financial instrument distributor will be subject to heightened investor protection measures, including stricter distribution guidelines, improved financial dispute resolution procedures, increased liability for customer losses and newly imposed penalty surcharges.

These and other measures that may be implemented by the Korean government to strengthen consumer protection laws applicable to financial institutions may limit our operational flexibility and cause us to incur significant additional compliance costs, as well as subject us to increased potential liability to our customers, which could adversely affect our business and performance.

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

Through its policy guidelines and recommendations, the Korean government has promoted and, as a matter of policy, may continue to attempt to promote lending by the Korean financial industry to particular types of borrowers. For example, the Korean government has in the past announced policy guidelines requesting financial institutions to participate in remedial programs for troubled corporate borrowers, as well as policies aimed at promoting certain sectors of the economy, including measures such as making low interest funding available to financial institutions that lend to these sectors. The government has in this manner encouraged mortgage lending to low-income individuals and lending to small- and medium-sized enterprises. We expect that all loans or credits made pursuant to these government policies will be reviewed in accordance with our credit approval procedures. However, these or any future government policies may influence us to lend to certain sectors or in a manner in which we otherwise would not in the absence of such policies.

In the past, the Korean government has also announced policies under which financial institutions in Korea are encouraged to provide financial support to particular sectors. For example, in light of the deteriorating financial condition and liquidity position of small- and medium-sized enterprises in Korea and adverse conditions in the Korean economy affecting such enterprises, the Korean government introduced measures intended to encourage Korean banks to provide financial support to small- and medium-sized enterprise borrowers. See [Risks relating to our corporate credit portfolio](#) The largest portion of our exposure is to small- and medium-sized enterprises, and financial difficulties experienced by companies in this segment may result in a deterioration of our asset quality and have an adverse impact on us. In addition, in March 2015, in response to increasing levels of consumer debt and amid concerns over the debt-servicing capacity of retail borrowers if interest rates were to rise, the Korean government requested Korean banks to participate in a mortgage loan refinancing program aimed at reducing the payment burden on and improving the asset quality of outstanding mortgage loans. See [Risks relating to our consumer credit portfolio](#) We may experience increases in delinquencies in our consumer loan and credit card portfolios.

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

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***The Financial Services Commission may impose burdensome measures on us if it deems us to be financially unsound.***

If the Financial Services Commission deems our financial condition to be unsound, or if we fail to meet applicable regulatory standards, such as minimum capital adequacy and liquidity ratios, the Financial Services Commission may order or recommend, among other things:

admonitions or warnings with respect to our officers;

capital increases or reductions;

assignments of contractual rights and obligations relating to financial transactions;

a suspension of performance by our officers of their duties and the appointment of receivers;

disposals of property holdings or closures of subsidiaries or branch offices or downsizing;

stock cancellations or consolidations;

mergers with other financial institutions;

acquisition of us by a third party; and

suspensions of a part or all of our business operations.

If any of these measures are imposed on us by the Financial Services Commission, they could hurt our business, results of operations and financial condition. In addition, if the Financial Services Commission orders us to partially or completely reduce our capital, you may lose part or all of your investment.

***Our income tax expenses may increase as a result of changes to Korean corporate income tax laws.***

Pursuant to an amendment to the Corporate Income Tax Law of Korea which became effective in January 2018, the corporate income tax rate applicable to the portion of the tax base of companies that exceeds 300 billion has been raised from 24.2% to 27.5%, inclusive of local income surtax in each case. In addition, pursuant to an amendment to the Special Tax Treatment Control Law of Korea which became effective in January 2018, large corporations with net equity in excess of 50 billion, including us and certain of our subsidiaries, are subject to a 20% additional levy on the unused amount if a certain portion (i.e., 65% or 15%, depending on the taxation method) of their taxable income is not used for investments or wage increases. Such changes in Korean income tax laws may result in an increase in our and our subsidiaries' income tax expenses, which, depending on the magnitude of such increase, may have a material

adverse effect on our results of operations.

### **Risks relating to Korea**

#### *Unfavorable financial and economic developments in Korea may have an adverse effect on us.*

We are incorporated in Korea, and a substantial majority of our operations are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future growth of the Korean economy is subject to many factors beyond our control, including developments in the global economy.

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. See Other risks relating to our business Unfavorable changes in the global financial markets could adversely affect our results of operations and financial condition. The value of the Won relative to major foreign currencies has fluctuated significantly. See Item 3.A. Selected Financial Data Exchange Rates. Furthermore, as a result of changing global and Korean economic conditions, there has been volatility in the stock prices of Korean companies in recent years. Future declines in the Korea Composite Stock Price Index, known as the KOSPI, and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may adversely affect the value of the Won, the foreign currency

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reserves held by financial institutions in Korea, and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

Developments that could have an adverse impact on the Korean economy include:

adverse conditions or uncertainty in the economies of countries and regions that are important export markets for Korea, such as China, the United States, Europe and Japan, or in emerging market economies in Asia or elsewhere, as well as increased uncertainty in light of a future Brexit;

adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, the euro or the Japanese yen exchange rates or revaluation of the Chinese renminbi), interest rates, inflation rates or stock markets;

deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy (such as the controversy between Korea and China, which is Korea's largest export market, regarding the deployment of a Terminal High Altitude Area Defense system in Korea by the United States in March 2017 and the ensuing economic and other retaliatory actions by China);

increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;

the investigations of several Korean conglomerates and their senior management for bribery, embezzlement and other possible misconduct relating to the impeachment and dismissal of former President Park Geun-hye;

a continuing rise in the level of household debt and increasing delinquencies and credit defaults by consumer or small- and medium-sized enterprise borrowers in Korea;

declines in consumer confidence and a slowdown in consumer spending in the Korean or global economy;

social and labor unrest;

decreases in the market prices of Korean real estate;

the economic impact of any pending or future free trade agreements or of any changes to existing free trade agreements;

a decrease in tax revenue and a substantial increase in the Korean government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased government budget deficit;

financial problems or lack of progress in the restructuring of *chaebols*, other large troubled companies (including those in the construction, shipbuilding and shipping sectors) and their suppliers;

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

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

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

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

the occurrence of severe health epidemics in Korea or other parts of the world (such as the Middle East Respiratory Syndrome outbreak in Korea in 2015);

political uncertainty or increasing strife among or within political parties in Korea;

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

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

changes in financial regulations in Korea.

***Escalations in tensions with North Korea could have an adverse effect on us and the market price of our ADSs.***

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

North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted six rounds of nuclear tests since October 2006, including claimed detonations of hydrogen bombs, which are more powerful than plutonium bombs, and warheads that can be mounted on ballistic missiles. Over the years, North Korea has also conducted a series of ballistic missile tests, including missiles launched from submarines and intercontinental ballistic missiles that it claims can reach the United States mainland. In response, the Korean government has repeatedly condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions. In February 2016, the government also closed the inter-Korea Gaeseong Industrial Complex in response to North Korea's fourth nuclear test in January 2016. Internationally, the United Nations Security Council has passed a series of resolutions condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea, most recently in December 2017, in response to North Korea's intercontinental ballistic missile test in November 2017. Over the years, the United States and the European Union have also expanded their sanctions applicable to North Korea.

In August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarized zone. Claiming the landmines were set by North Koreans, the Korean army reinitiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas.

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



North Korea's economy also faces severe challenges, which may further aggravate social and political pressures within North Korea. Although a bilateral summit between the two Koreas was held on April 27, 2018 and there has been an announcement in March 2018 of a potential summit between the United States and North Korea, there can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or military hostilities occur, could have a material adverse effect on the Korean economy and on our business, financial condition and results of operations and the market value of our common stock and ADSs.

***Labor unrest in Korea may adversely affect our operations.***

Economic difficulties in Korea or increases in corporate reorganizations and bankruptcies could result in layoffs and higher unemployment. Such developments could lead to social unrest and substantially increase

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government expenditures for unemployment compensation and other costs for social programs. According to statistics from the Korea National Statistical Office, the unemployment rate increased from 3.6% in 2015 to 3.7% in 2016 and 2017. Further increases in unemployment and any resulting labor unrest in the future could adversely affect our operations, as well as the operations of many of our customers and their ability to repay their loans, and could adversely affect the financial condition of Korean companies in general, depressing the price of their securities. Furthermore, the government's privatization plan with respect to us contemplates the sale of its remaining ownership interest in us to one or more third parties, which may lead to labor unrest among our employees. See Item 4.A. History and Development of the Company Privatization Plan. Any of these developments may have an adverse effect on our financial condition and results of operations.

### **Risks relating to our common stock and ADSs**

*We or our major shareholders may sell shares of our common stock in the future, and such sales may adversely affect the market price of our common stock and ADSs and may dilute your investment and relative ownership interest in us.*

We have no current plans for any public offerings of our common stock, ADSs or securities exchangeable for or convertible into such securities. However, it is possible that we may decide to offer or sell such securities in the future.

In addition, the KDIC currently owns 124,604,797 shares, or 18.43%, of our outstanding common stock, and IMM Private Equity, Inc., through its special purpose company Nobis1, Inc., currently owns 40,560,000 shares, or 6.00%, of our outstanding common stock. See Item 7.A. Major Shareholders. In the future, such major shareholders or any other shareholder that owns a large number of shares of our outstanding common stock may choose to sell large blocks of our common stock publicly or privately to a strategic or financial investor, including a sale by the KDIC for the purpose of recovering the public funds it injected into us. For example, in accordance with the Korean government's privatization plan, the KDIC sold 40,143,022 shares of our common stock (representing 5.9% of our outstanding common stock) in a private sale in Korea in December 2014 and an aggregate of 200,685,395 shares of our common stock (representing 29.7% of our outstanding common stock) in stakes ranging from 3.7% to 6.0% to seven financial companies through a bidding process in December 2016 and January 2017. In 2017, pursuant to a series of transactions related to call options previously granted in connection with the KDIC's sale of our common stock in December 2014, the KDIC sold an aggregate of 19,852,364 shares of our common stock (representing 2.94% of our outstanding common stock). As a result of such transactions, the KDIC's ownership interest in us was reduced to 18.43%. See Risks relating to our structure and strategy The implementation of the Korean government's privatization plan may have an adverse effect on us and your interests as a shareholder. We expect the KDIC to sell all or a portion of the remaining shares of our common stock it owns to one or more purchasers in the future.

Any future offerings or sales by us of our common stock or ADSs or securities exchangeable for or convertible into such securities, significant sales of our common stock by a major shareholder, or the public perception that such an offering or sale may occur, could have an adverse effect on the market price of our common stock and ADSs. Furthermore, any offerings by us in the future of any such securities could have a dilutive impact on your investment and relative ownership interest in us.

### ***Ownership of our common stock is restricted under Korean law.***

Under the Bank Act, a single shareholder, together with its affiliates, is generally prohibited from owning more than 10.0% of a nationwide bank's total issued and outstanding shares with voting rights or more than 15.0% of a regional bank's total issued and outstanding shares with voting rights, with the exception of certain shareholders that are non-financial business group companies, whose applicable limit was reduced from 9.0% to 4.0% pursuant to an

amendment of the Bank Act which became effective on February 14, 2014. To the extent that the total number of shares of our common stock (including those represented by ADSs) that you and your affiliates own together exceeds the applicable limits, you will not be entitled to exercise the voting rights for the excess shares, and the Financial Services Commission may order you to dispose of the excess shares within a

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period of up to six months. Failure to comply with such an order would result in an administrative fine of up to 0.03% of the book value of such shares per day until the date of disposal. Non-financial business group companies may not acquire beneficial ownership of shares of a nationwide bank in excess of 4.0% of such bank's outstanding voting shares, unless they obtain the approval of the Financial Services Commission and agree not to exercise voting rights in respect of shares in excess of the 4.0% limit, in which case they may acquire beneficial ownership of up to 10.0% of such nationwide bank's outstanding voting shares. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Restrictions on Bank Ownership. In addition, if the shareholding of any single shareholder, together with its affiliates, increases to a level exceeding the applicable limits as a result of a merger, such shareholder will be restricted from exercising its voting rights in respect of shares in excess of the applicable limit pursuant to the Bank Act from the effective date of the merger, and will be required to dispose of such excess shares within three years after such effective date.

***You will not be able to exercise dissent and appraisal rights unless you have withdrawn the underlying shares of our common stock and become our direct shareholder.***

In some limited circumstances, including the transfer of the whole or any significant part of our business and the merger or consolidation of us with another company, dissenting shareholders have the right to require us to purchase their shares under Korean law. However, if you hold our ADSs, you will not be able to exercise such dissent and appraisal rights if the depositary refuses to do so on your behalf. Our deposit agreement does not require the depositary to take any action in respect of exercising dissent and appraisal rights. In such a situation, holders of our ADSs must withdraw the underlying common stock from the ADS facility (and incur charges relating to that withdrawal) and become our direct shareholder prior to the record date of the shareholders' meeting at which the relevant transaction is to be approved, in order to exercise dissent and appraisal rights.

***You may be limited in your ability to deposit or withdraw common stock.***

Under the terms of our deposit agreement, holders of common stock may deposit such stock with the depositary's custodian in Korea and obtain ADSs, and holders of ADSs may surrender ADSs to the depositary and receive common stock. However, to the extent that a deposit of common stock exceeds any limit that we may specify from time to time, that common stock will not be accepted for deposit unless our consent with respect to such deposit has been obtained. We currently have not set any such limit; however, we have the right to do so at any time. Under the terms of the deposit agreement, no consent would be required if the shares of common stock were to be obtained through a dividend, free distribution, rights offering or reclassification of such stock. We have consented, under the terms of the deposit agreement, to any deposit unless the deposit would be prohibited by applicable laws or violate our articles of incorporation. If we choose to impose a limit on deposits in the future, however, we might not consent to the deposit of any additional common stock. In that circumstance, if you surrender ADSs and withdraw common stock, you may not be able to deposit the stock again to obtain ADSs. See Item 9.C. Markets Restrictions Applicable to Shares.

***You will not have preemptive rights in some circumstances.***

The Korean Commercial Code, as amended, and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares of our common stock in proportion to their existing shareholding ratio whenever new shares are issued. If we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the depositary, after consultation with us, may make the rights available to holders of our ADSs or use commercially feasible efforts to dispose of the rights on behalf of such holders, in a riskless principal capacity, and make the net proceeds available to such holders. The depositary will make rights available to holders of our ADSs only if:

we have requested in a timely manner that those rights be made available to such holders;

the depositary has received the documents that are required to be delivered under the terms of the deposit agreement, which may include confirmation that a registration statement filed by us under the

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U.S. Securities Act of 1933, as amended, or the Securities Act, is in effect with respect to those shares or that the offering and sale of those shares is exempt from or is not subject to the registration requirements of the Securities Act; and

the depositary determines, after consulting with us, that the distribution of rights is lawful and commercially feasible.

Holders of our common stock located in the United States may not exercise any rights they receive absent registration or an exemption from the registration requirements under the Securities Act.

We are under no obligation to file any registration statement with the U.S. Securities and Exchange Commission or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings. If a registration statement is required for you to exercise preemptive rights but is not filed by us or is not declared effective, you will not be able to exercise your preemptive rights for additional ADSs and you will suffer dilution of your equity interest in us. If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or feasible, it will allow the rights to lapse, in which case you will receive no value for these rights.

***Your dividend payments and the amount you may realize upon a sale of your ADSs will be affected by fluctuations in the exchange rate between the U.S. dollar and the Won.***

Our common stock is listed on the KRX KOSPI Market and quoted and traded in Won. Cash dividends, if any, in respect of the shares represented by the ADSs will be paid to the depositary in Won and then converted by the depositary into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Won and the U.S. dollar will affect, among other things, the amounts you will receive from the depositary in respect of dividends, the U.S. dollar value of the proceeds that you would receive upon a sale in Korea of the shares of our common stock obtained upon surrender of ADSs and the secondary market price of ADSs. Such fluctuations will also affect the U.S. dollar value of dividends and sales proceeds received by holders of our common stock.

***The market value of your investment may fluctuate due to the volatility of, and government intervention in, the Korean securities market.***

Our common stock is listed on the KRX KOSPI Market, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the KRX KOSPI Market. The KRX KOSPI Market has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the KRX KOSPI Market has prescribed a fixed range in which share prices are permitted to move on a daily basis. The KOSPI was 2,476.33 on April 20, 2018. There is no guarantee that the stock prices of Korean companies will not decline again in the future. Like other securities markets, including those in developed markets, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

The Korean government has the potential ability to exert substantial influence over many aspects of the private sector business community, and in the past has exerted that influence from time to time. For example, the Korean government has induced mergers to reduce what it considers excess capacity in a particular industry and has also

induced private companies to publicly offer their securities. Similar actions in the future could have the effect of depressing or boosting the Korean securities market, whether or not intended to do so. Accordingly, actions by the government, or the perception that such actions are taking place, may take place or has ceased, may cause sudden movements in the market prices of the securities of Korean companies in the future, which may affect the market price and liquidity of our common stock and ADSs.

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*If the Korean government deems that emergency circumstances are likely to occur, it may restrict you and the depositary from converting and remitting dividends and other amounts in U.S. dollars.*

If the Korean government deems that certain emergency circumstances, including, but not limited to, severe and sudden changes in domestic or overseas economic circumstances, extreme difficulty in stabilizing the balance of payments or implementing currency, exchange rate and other macroeconomic policies, have occurred or are likely to occur, it may impose certain restrictions provided for under the Foreign Exchange Transaction Law, including the suspension of payments or requiring prior approval from governmental authorities for any transaction. See Item 10.D. Exchange Controls General.

**Other Risks**

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

We are a corporation with limited liability organized under the laws of Korea. Substantially all of our directors and officers and other persons named in this annual report reside in Korea, and all or a significant portion of the assets of our directors and officers and other persons named in this annual report and a substantial majority of our assets are located in Korea. As a result, it may not be possible for you to effect service of process within the United States, or to enforce against them or us 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.

**Item 4. INFORMATION ON THE COMPANY****Item 4.A. History and Development of the Company Overview**

We were originally established in 1899 and operated as the Commercial Bank of Korea until 1998. In 1998, we were acquired by the KDIC and merged with another commercial bank, Hanil Bank, which had been established in 1932. We were the surviving entity in the merger and were renamed Hanvit Bank.

In March 2001, the KDIC established a financial holding company, Woori Finance Holdings, to consolidate its ownership interests in four commercial banks (including us), one merchant bank and a number of smaller financial institutions. See History. We were renamed Woori Bank in 2002 and operated as a wholly-owned subsidiary of Woori Finance Holdings through October 2014. Woori Finance Holdings registered its common stock under Section 12(b) of the Exchange Act and listed ADSs representing its common stock on the New York Stock Exchange, in September 2003.

On November 1, 2014, Woori Finance Holdings merged with and into us, such that we remained as the surviving entity, and Woori Finance Holdings ceased to exist, after the merger. In connection with the merger, shareholders of Woori Finance Holdings received one share of our common stock for each share of common stock of Woori Finance Holdings they held. See Privatization Plan Merger with Woori Finance Holdings. The merger constituted a succession for purposes of Rule 12g-3(a) under the Exchange Act, such that our common stock was deemed registered under Section 12(b) of the Exchange Act by operation of Rule 12g-3(a). Following the merger, we file reports under the



Exchange Act as the successor issuer to Woori Finance Holdings.

Our legal and commercial name is Woori Bank, and we are a commercial bank established under the laws of the Republic of Korea. Our registered office and corporate headquarters are located at 51, Sogong-ro, Jung-gu, Seoul, Korea. Our telephone number is 822-2002-3000. Our website address is <http://www.wooribank.com>.

## **History**

### ***Establishment of Woori Finance Holdings***

In response to a financial and economic downturn in Korea beginning in late 1997, the Korean government announced and implemented a series of comprehensive policy packages to address structural weaknesses in the

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Korean economy and the financial sector. As part of these measures, on October 1, 1998, the KDIC purchased 95.0% of the outstanding shares of the Commercial Bank of Korea and 95.6% of the outstanding shares of Hanil Bank, and subsequently merged Hanil Bank into the Commercial Bank of Korea (which was renamed Hanvit Bank). These banks had suffered significant losses in 1997 and 1998. The Korean government took pre-emptive measures to ensure the survival of these and other banks as it believed that bank failures would have a substantial negative impact on the Korean economy.

In December 2000, the Korean government wrote down the capital of Hanvit Bank, as well as Kyongnam Bank, Kwangju Bank and Peace Bank of Korea, to zero. It accomplished this by having the Financial Services Commission issue a capital reduction order with respect to these banks pursuant to its regulatory authority. The Korean government also decided to recapitalize these banks by injecting public funds through the KDIC. In December 2000, the KDIC made initial capital injections to Hanvit Bank ( 2,764 billion), Kyongnam Bank ( 259 billion), Kwangju Bank ( 170 billion) and Peace Bank of Korea ( 273 billion), in return for new shares of those banks. The KDIC also agreed to make additional capital contributions, not involving the issuance of new shares, in the future, which were made in September 2001 to Hanvit Bank ( 1,877 billion), Kyongnam Bank ( 94 billion), Kwangju Bank ( 273 billion) and Peace Bank of Korea ( 339 billion).

In addition, in November 2000, the KDIC established Hanaro Merchant Bank to restructure substantially all of the assets and liabilities of four failed merchant banks (Yeungnam Merchant Banking Corporation, Central Banking Corporation, Korea Merchant Banking Corporation and H&S Investment Bank) that were transferred to it.

In March 2001, the KDIC established Woori Finance Holdings as a new financial holding company and transferred all of the shares in each of Hanvit Bank, Kyongnam Bank, Kwangju Bank, Peace Bank of Korea and Hanaro Merchant Bank held by the KDIC to Woori Finance Holdings in exchange for its newly issued shares. Accordingly, Woori Finance Holdings became the sole owner of those entities. Woori Finance Holdings subsequently listed its common stock on the KRX KOSPI Market in June 2002 and listed ADSs representing its common stock on the New York Stock Exchange in September 2003.

Our name was changed from Hanvit Bank to Woori Bank in May 2002.

***Memoranda of Understanding***

In connection with the recapitalization by the KDIC of the entities (including us) that became subsidiaries of Woori Finance Holdings and its establishment, such entities, Woori Finance Holdings and the KDIC entered into a number of memoranda of understanding, including the following.

*Memoranda of Understanding between Woori Finance Holdings Subsidiaries and the KDIC.* In December 2000, in connection with the capital contributions made by the KDIC into each of us, Kwangju Bank, Kyongnam Bank, Peace Bank of Korea and Hanaro Merchant Bank, these entities entered into separate memoranda of understanding with the KDIC that included business normalization plans. The memoranda of understanding were substantially identical with respect to each entity and primarily dealt with each entity's obligation to implement a two-year business normalization plan covering 2001 and 2002. To the extent that any entity were to fail to implement its business normalization plan or to meet financial targets specified in the plan, the KDIC had the right to impose sanctions on that entity's directors or employees, or to require the entity to take certain actions. In addition, each entity was required to take all actions necessary to enable it to return to the KDIC any public funds injected into them, so long as that action would not cause a material adverse effect on the normalization of business operations as contemplated by the memorandum of understanding.

Each entity prepared a two-year business normalization plan that was approved by the KDIC. Each plan included recapitalization goals and deadlines, econometric models, plans to dispose of non-performing loans, cost reduction initiatives, future management and business strategies and other restructuring plans. Each plan also set forth financial targets for each quarter of 2001 and 2002 that the applicable entity was required to meet.

Since 2000, we periodically entered into new business normalization plans with the KDIC, with new restructuring measures and financial targets. The other entities did so as well, until their merger or disposition by

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Woori Finance Holdings, pursuant to which their memoranda of understanding with the KDIC were terminated. See Privatization Plan. Our memorandum of understanding with the KDIC was terminated in December 2016 in connection with the reduction in its ownership of our common stock from a majority stake to a minority stake after its sale of an aggregate of 200,685,395 shares of our common stock in December 2016 and January 2017. The KDIC's current ownership interest in us is 18.43%. See Privatization Plan Sales of the KDIC's Ownership Interest.

*Memorandum of Understanding between Woori Finance Holdings and the KDIC.* In July 2001, Woori Finance Holdings entered into a memorandum of understanding with the KDIC, which included a business normalization plan. Under this memorandum, Woori Finance Holdings was required to take all actions necessary (including making dividend payments and share buybacks and cancellations) to return the public funds injected into it by the KDIC, but only to the extent that these actions would not cause a material adverse effect on the contemplated normalization of its operations.

The business normalization plan included in the memorandum of understanding set financial targets for Woori Finance Holdings' capital ratio, return on total assets, expense-to-revenue ratio, operating income per employee, non-performing loan ratio and holding company expense ratio, which it was required to meet on a semi-annual basis. Woori Finance Holdings periodically entered into a new business normalization plan with the KDIC, with new restructuring measures and financial targets. Woori Finance Holdings' memorandum of understanding with the KDIC was terminated in connection with its merger with and into us in November 2014. See Privatization Plan Merger with Woori Finance Holdings.

## ***Reorganization and Expansion Plans***

Following its establishment and its acquisition of its subsidiaries, Woori Finance Holdings developed a reorganization and integration plan designed to reorganize the corporate structure of some of its subsidiaries and integrate its operations under a single management structure. As part of this plan:

From December 2001 through February 2002, Peace Bank of Korea was restructured by:

splitting off its commercial banking operations and merging them into us;

changing the name of Peace Bank of Korea to Woori Credit Card; and

transferring our credit card operations to Woori Credit Card.

In March 2003, the credit card operations of Kwangju Bank were transferred to Woori Credit Card.

In August 2003, Woori Investment Bank (formerly named Hanaro Merchant Bank) was merged with us. In succeeding years, Woori Finance Holdings adopted plans to further reorganize and expand its operations, including through mergers, acquisitions and investments. Pursuant to such reorganization and expansion plans:

In March 2004, Woori Credit Card was merged with us.

In October and December 2004, Woori Finance Holdings acquired an aggregate 27.3% voting interest in LG Investment & Securities Co., Ltd., which was subsequently renamed Woori Investment & Securities.

In May 2005, Woori Finance Holdings acquired a 90.0% interest in LG Investment Trust Management Co., Ltd., which was subsequently renamed Woori Asset Management.

In October 2005, we established Woori Private Equity as a consolidated subsidiary.

In April 2008, Woori Finance Holdings acquired a 51.0% interest in LIG Life Insurance Co., Ltd., which was subsequently renamed Woori Aviva Life Insurance.

In March 2011, Woori Finance Holdings acquired certain assets and assumed certain liabilities of Samhwa Mutual Savings Bank through a newly established subsidiary, Woori FG Savings Bank.

In September 2012, Woori FG Savings Bank acquired certain assets and assumed certain liabilities of Solomon Mutual Savings Bank.

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In October 2012, Woori Finance Holdings established Woori Finance Research Institute, which engages in economic and finance research, management consulting, and management and sales of intellectual property rights.

In April 2013, we effected a spin-off of our credit card business into a newly established wholly-owned subsidiary of Woori Finance Holdings, Woori Card.

In June 2013, through an internal reorganization, Kumho Investment Bank (previously a subsidiary of Woori Private Equity and subsequently renamed Woori Investment Bank), in which Woori Finance Holdings held a 41.6% interest, became its consolidated subsidiary, and 70 billion of new capital was injected into such entity.

In January 2014, we completed the purchase of an additional 27% equity interest (in addition to the 6% equity interest we previously acquired through our subsidiary PT. Bank Woori Indonesia) in PT. Bank Himpunan Saudara 1906, an Indonesian commercial bank with a network of over 100 branches and offices throughout Indonesia. In December 2014, PT. Bank Woori Indonesia merged with and into PT. Bank Himpunan Saudara 1906. The merged entity, in which we hold a 79.9% equity interest, was renamed PT Bank Woori Saudara Indonesia 1906, Tbk and became our consolidated subsidiary.

In October 2016, we acquired a 51% equity interest in Wealth Development Bank Corp., a thrift bank in the Philippines with a network of 16 branches and approximately 300 employees, by purchasing newly issued shares for approximately US\$21 million.

In November 2016, we established a local subsidiary in Vietnam, Woori Bank Vietnam, which commenced operations in January 2017.

## **Privatization Plan**

In June 2013, the Korean government, through the Public Funds Oversight Committee of the Financial Services Commission, announced an updated plan to privatize Woori Finance Holdings and its former subsidiaries, including us. The privatization plan provided for the segregation of such entities into three groups and the disposal of the Korean government's interest in these entities held through the KDIC in a series of transactions, many of which have been completed.

### ***Spin-off of Kwangju Bank and Kyongnam Bank***

In August 2013, the board of directors of Woori Finance Holdings approved a plan to establish two new companies, KJB Financial Group and KNB Financial Group (which we refer to as the New Holdcos), through a spin-off (which we refer to as the Spin-off) of its businesses related to the holding of the shares and thereby controlling the business operations of Kwangju Bank and Kyongnam Bank, respectively. The Spin-off was approved at an extraordinary general meeting of the shareholders of Woori Finance Holdings held on January 28, 2014 and was effected on May 1, 2014. After the Spin-off, KJB Financial Group owned the shares of Kwangju Bank previously held by Woori Finance Holdings, and KNB Financial Group owned the shares of Kyongnam Bank previously held by Woori Finance Holdings. Woori Finance Holdings no longer owned any shares of Kwangju Bank or Kyongnam Bank, and neither they nor the New Holdcos were its subsidiaries, after the Spin-off. Following the Spin-off, each of these banks was

merged with the relevant New Holdco.

As of December 31, 2013, Kwangju Bank had total assets of 18,873 billion (including total loans of 13,447 billion) and total liabilities of 17,429 billion (including total deposits of 13,531 billion), on a consolidated basis. For the year ended December 31, 2013, Kwangju Bank's interest income amounted to 832 billion, its interest expense amounted to 417 billion and its net income amounted to 61 billion, on a consolidated basis. As of December 31, 2013, Kyongnam Bank had total assets of 31,714 billion (including total loans of 24,572 billion) and total liabilities of 29,454 billion (including total deposits of 23,773 billion), on a consolidated basis. For the year ended December 31, 2013, Kyongnam Bank's interest income amounted to 1,324 billion, its interest expense amounted to 672 billion and its net income amounts to 130 billion, on a consolidated basis.

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The Spin-off was accomplished through a pro rata distribution of common stock, par value 5,000 per share, of KJB Financial Group and KNB Financial Group to the holders of Woori Finance Holdings common stock. Specifically, on May 21, 2014, each holder of Woori Finance Holdings common stock as of the record date of April 30, 2014 received 0.0637 shares of common stock of KJB Financial Group and 0.0973 shares of common stock of KNB Financial Group for each share of Woori Finance Holdings common stock held by such holder. Holders of Woori Finance Holdings ADSs did not receive any common stock of the New Holdcos in connection with the Spin-off. Instead, the depository for Woori Finance Holdings American depositary receipts program sold the New Holdcos common stock it received in the Spin-off, in a riskless principal capacity, and distributed the net proceeds of such sale to holders of the ADSs, after deducting applicable fees and expenses of the depository and applicable taxes and other governmental charges. Neither of the New Holdcos issued any ADSs or established any American depositary receipts program following the Spin-off.

As a result of the Spin-off, pursuant to share consolidation procedures under Korean law, the outstanding shares of Woori Finance Holdings common stock were consolidated as of May 1, 2014 such that the shareholders recorded in its shareholder register as of the record date of April 30, 2014 were allotted 0.8390 shares of its common stock in exchange for each previously outstanding share. Woori Finance Holdings outstanding ADSs were also consolidated as of May 1, 2014 such that holders of such ADSs recorded in the transfer books of the depository as of the record date of April 30, 2014 were allotted 0.8390 ADSs in exchange for each previously outstanding ADS.

In October 2014, the KDIC sold its 56.97% ownership interest in Kwangju Bank and Kyongnam Bank to JB Financial Group and BS Financial Group, respectively.

***Disposal of Woori Financial, Woori Asset Management, Woori F&I, Woori Investment & Securities, Woori Aviva Life Insurance and Woori FG Savings Bank***

On March 20, 2014, Woori Finance Holdings sold its 52.0% ownership interest in Woori Financial to KB Financial Group for the sale price of 280 billion. As of December 31, 2013, Woori Financial had total assets of 3,940 billion and total liabilities of 3,528 billion on a consolidated basis. For the year ended December 31, 2013, Woori Financial's operating revenues amounted to 338 billion, and its net income amounted to 54 billion, on a consolidated basis.

In May 2014, Woori Finance Holdings sold its 100.0% ownership interest in Woori Asset Management to Kiwoom Securities for the sale price of 76 billion. As of December 31, 2013, Woori Asset Management had total assets of 85 billion and total liabilities of 17 billion on a consolidated basis. For the year ended December 31, 2013, Woori Asset Management's operating revenues amounted to 32 billion, and its net income amounted to 4 billion, on a consolidated basis.

In June 2014, Woori Finance Holdings sold its 100.0% ownership interest in Woori F&I to Daishin Securities for the sale price of 368 billion. As of December 31, 2013, Woori F&I had total assets of 1,641 billion and total liabilities of 1,336 billion on a consolidated basis. For the year ended December 31, 2013, Woori F&I's operating revenues amounted to 184 billion, and its net income amounted to 49 billion, on a consolidated basis.

In June 2014, Woori Finance Holdings sold its 37.9% ownership interest in Woori Investment & Securities, its 51.6% ownership interest in Woori Aviva Life Insurance and its 100.0% ownership interest in Woori FG Savings Bank to NongHyup Financial Group Inc. for the sale price of 1,039 billion in a collective sale. As of December 31, 2013, Woori Investment & Securities, Woori Aviva Life Insurance and Woori FG Savings Bank had total assets of 29,982 billion, 4,466 billion and 823 billion, respectively, on a consolidated basis, and total liabilities of 26,534 billion, 4,309 billion and 699 billion, respectively, on a consolidated basis. For the year ended December 31, 2013, operating revenues of Woori Investment & Securities, Woori Aviva Life Insurance and Woori FG Savings Bank amounted to



4,027 billion, 982 billion and 85 billion, respectively, on a consolidated basis, and net income of Woori Investment & Securities and Woori Aviva Life Insurance amounted to 48 billion and 2 billion, respectively, on a consolidated basis. For the year ended December 31, 2013, Woori FG Savings Bank had a net loss of 34 billion.

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***Merger with Woori Finance Holdings***

In July 2014, we entered into a merger agreement with Woori Finance Holdings, providing for the merger of Woori Finance Holdings with and into us. The merger agreement was approved by the shareholders of Woori Finance Holdings at an extraordinary general meeting held on October 10, 2014. Pursuant to the merger agreement, Woori Finance Holdings merged with and into us on November 1, 2014, such that we remained as the surviving entity, and Woori Finance Holdings ceased to exist, after the merger. In connection with the merger, shareholders of Woori Finance Holdings recorded in its shareholder register as of November 1, 2014 received one share of our common stock for each share of common stock of Woori Finance Holdings they held.

As a result of the merger, the other remaining subsidiaries of Woori Finance Holdings, including Woori Card, Woori Private Equity, Woori FIS, Woori Investment Bank and Woori Finance Research Institute, became our subsidiaries. Accordingly, our overall business and operations after the merger, on a consolidated basis, are substantially identical to those of Woori Finance Holdings on a consolidated basis prior to the merger.

The following chart sets forth the corporate organization of Woori Finance Holdings and its subsidiaries prior to the merger:

The following chart sets forth our corporate organization following the merger:

We were an unlisted corporation prior to the merger, while Woori Finance Holdings had its common stock listed on the KRX KOSPI Market and its ADSs listed on the New York Stock Exchange. Following the merger, we became newly listed on the KRX KOSPI Market and succeeded to Woori Finance Holdings' listing on the New York Stock Exchange.

The shareholders of Woori Finance Holdings were entitled to exercise appraisal rights with respect to its common stock held by them at a purchase price of ₩12,422 per share, in accordance with Korean law. The period for exercise of appraisal rights started on October 11, 2014 and ended on October 21, 2014, during which shareholders exercised appraisal rights with respect to an aggregate of 64,832 shares of common stock of Woori Finance Holdings. The payment of the purchase price for such common stock held by the exercising shareholders was made on October 30, 2014, in the aggregate amount of ₩805 million. Such common stock purchased by Woori Finance Holdings was exchanged for our common stock in the merger and are held by us as treasury shares. We are required under applicable Korean law to dispose of such treasury shares within five years after the date of their acquisition.

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**Table of Contents*****Sales of the KDIC's Ownership Interest***

Pursuant to the Korean government's privatization plan, in December 2014, the KDIC sold 40,143,022 shares of our common stock (representing 5.9% of our outstanding common stock) in a private sale in Korea. In addition, in December 2016 and January 2017, the KDIC sold an aggregate of 200,685,395 shares of our common stock (representing 29.7% of our outstanding common stock) in stakes ranging from 3.7% to 6.0% to seven financial companies through a bidding process. Pursuant to a commitment made by the KDIC in connection with such bidding process, five persons, each nominated by one of the winning bidders, were elected as new outside directors at an extraordinary general meeting of our shareholders held in December 2016. See Item 6.A. Directors and Senior Management Board of Directors Outside Directors. In 2017, pursuant to a series of transactions related to call options previously granted in connection with the KDIC's sale of our common stock in December 2014, the KDIC sold an aggregate of 19,852,364 shares of our common stock (representing 2.94% of our outstanding common stock). As a result of such transactions, the KDIC's ownership interest in us was reduced to 18.43%. We expect the KDIC to sell all or a portion of the remaining shares of our common stock it owns to one or more purchasers in the future.

In December 2016, in connection with the KDIC's sale of shares of our common stock, we entered into an agreement with the KDIC, pursuant to which we are required to use our best efforts to cause an employee of the KDIC nominated by it to be appointed as our non-standing director, so long as the KDIC either (x) owns 10% or more of our total issued shares with voting rights or (y) owns more than 4% but less than 10% of our total issued shares with voting rights and remains our largest shareholder (other than the National Pension Service of Korea). See Item 10.C. Material Contracts.

**Item 4.B. Business Overview**

We are one of the largest commercial banks in Korea. Our operations include a broad range of businesses, including corporate banking, consumer banking, credit card operations, investment banking, capital markets activities and other businesses. We provide a wide range of products and services to our customers, which mainly comprise small- and medium-sized enterprises and individuals, as well as some of Korea's largest corporations. As of December 31, 2017, we had, on a consolidated basis, total assets of 316,295 billion, total liabilities of 295,730 billion and total equity of 20,565 billion.

As one of the leading financial services groups in Korea, we believe our core competitive strengths include the following:

***Strong and long standing relationships with corporate customers.*** Historically our operations concentrated on large corporate customers. As a result, we believe that we have strong relationships with many of Korea's leading corporate groups, and we are the main creditor bank to 13 of the 36 largest Korean corporate borrowers. Further enhancing our corporate loan portfolio is our ability to lend to small- and medium-sized enterprise customers. As of December 31, 2017, we had approximately 280,129 small- and medium-sized enterprise borrowers.

***Large and loyal retail customer base.*** With respect to our consumer banking operations, we have the third-largest deposit base among Korean commercial banks, and over 22.6 million retail customers, representing about half of the Korean adult population. Of these customers, over 9.2 million are active customers, meaning that they have a deposit account with us with a balance of at least 300,000 or have a loan account with us.

***Extensive distribution and marketing network.*** We serve our customers primarily through one of the largest banking networks in Korea, comprising 876 branches and 5,952 ATMs and cash dispensers as of December 31, 2017. We also

operate 10 dedicated corporate banking centers and 84 general managers for our large corporate customers and 1,009 relationship managers stationed at 726 branches (as well as 615 additional non-stationed employees who serve as relationship managers as needed) for our small- and medium-sized enterprise customers as of December 31, 2017. In addition, we have Internet and mobile banking platforms to enhance customer convenience, reduce service delivery costs and allow our branch staff to focus on marketing and sales.

***Strong capital base.*** As of December 31, 2017, our consolidated equity totaled 20.6 trillion, and our total capital adequacy ratio was 15.40%. Our management team carefully coordinates our capital and dividend plans to

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ensure that we optimize our capital position. We believe our strong capital base and coordinated capital management enable us to support growth of our core businesses and to pursue franchise-enhancing initiatives such as selective investments and acquisitions.

***Strong and experienced management team.*** We benefit from our management team's extensive experience accumulated with us and our predecessors. In December 2017, Tae-Seung Sohn assumed the role of our president and chief executive officer. We believe that the extensive experience of many members of our management team in the financial sector will help us to continue to strengthen our operations.

**Strategy**

We aim to continue to build our position as a leading universal banking and financial services company in Korea, with a view to having our business platform and operating structure on par with those of leading global financial institutions. The key elements of our strategy are as follows:

***Further improve our asset quality and strengthen our risk management practices.*** We were one of the earliest and most aggressive banks in Korea to actively reduce non-performing loans through charge-offs and sales to third parties, and we have taken various measures to facilitate the disposal of our substandard or below loans. As a result of these and other initiatives, our ratio of non-performing loans to total loans has been steadily declining and was 0.73% as of December 31, 2017.

One of our highest priorities is to maintain our strong asset quality and enhance our risk management practices on an ongoing basis. We created a centralized risk management organization, installed a comprehensive warning and monitoring system, adopted uniform loan loss provisioning policies and implemented an advanced credit evaluation system called CREPIA. We have undertaken a series of reviews of our credit risk management procedures, as well as our risk management infrastructure, in order to develop and implement various measures to further standardize and improve our risk management procedures and systems.

In addition, we use a value at risk, or VaR, monitoring system for managing market risk. We intend to vigorously maintain a manageable risk profile and balance that risk profile with adequate returns. We believe that our continuous focus on upgrading our risk management systems and practices will enable us to maintain our strong asset quality, improve our financial performance and enhance our competitiveness.

***Enhance customer profitability through optimization of channel usage, products and services for each customer segment.*** Our extensive distribution network and wide range of quality products and services has enabled us to serve our customers effectively. However, we intend to further enhance the value proposition to our customers by differentiating products and delivery channels based on the distinct needs of different customer segments.

***Retail customers.*** We have segmented our retail customers into four groups: high net worth; mass affluent; middle class; and mass market. We believe we are relatively competitive in our core customer base, which includes mass affluent and middle class customers, and we serve these customers via our team of financial planners in our branches who sell customized higher margin services and products, such as investment advice, mutual funds, insurance and personal loans. For our mass market customers, we offer simple, easy-to-understand and relatively more standardized products such as basic deposit and lending products, including mortgage loans, and we encourage the use of alternative distribution channels such as the Internet, mobile banking and ATMs by our mass market customers such that we can serve them in a cost efficient manner. We serve our high net worth individuals via branches and dedicated private banking centers staffed with experienced private bankers who offer sophisticated tailored financial services.

*Corporate customers.* We continuously and vigorously review our portfolio of large corporate and small- and medium-sized enterprise customers to refine our database of core accounts and industries in terms of profitability potential. We seek to expand our relationship beyond a pure lending relationship by promoting our foreign exchange, factoring, trade finance and investment banking services to our core small- and medium-sized enterprise customers and cross-selling our investment banking services, derivatives and other risk hedging products, as well as employee retirement products, to our core large corporate customers.

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**Table of Contents*****Diversify our revenue base with a view to reducing our exposure to interest rate cycles and increasing profitability.***

Currently, in line with the Korean banking industry, we derive a substantial majority of our revenues from our loan and other credit products. To reduce our traditional reliance on lending as a source of revenue and to increase our profitability, we have been seeking to further diversify our earnings base, in particular by focusing on fee-based services, such as foreign exchange, trade finance and derivatives products, investment banking and advisory investment trust services for our corporate customers and asset management and mutual funds, investment trust products and beneficiary certificates, and life and non-life insurance products for our retail customers.

In addition, we intend to continue to enter into business alliances with other leading financial service providers so that we can offer a full range of best of class products and services to our targeted customers. We actively evaluate alliances and joint venture opportunities when they arise in order to diversify our revenue stream and provide our customers with a range of sophisticated and tailored products that will complement our existing products and services. We also intend to carefully consider potential acquisitions or other strategic investments that fit within our overall strategy. When considering acquisitions, we will focus on opportunities that supplement the range of products and services we offer and strengthen our existing customer base, enable us to maintain our standard for asset quality and profitability and provide us with a reasonable return on our investment.

***Increase fintech capabilities.*** We have been enhancing our financial technology, or fintech, capabilities in order to expand our non-traditional financial service delivery channels for our customers. We have established a mobile financial service platform through the launch of the first mobile-only banking service in Korea called WiBee Bank in May 2015 and the additions of a mobile messenger application called WiBee Talk and a comprehensive membership point service called WiBee Members in January and July 2016, respectively. In addition, in April 2017, K bank, formed by a consortium with KT Corporation and 20 other companies, in which we own 13.8% of the equity with voting rights, launched its services to become the first Internet-only bank in Korea. K bank also offers its services through convenience stores and phone booths in addition to our ATMs.

We have also strengthened our alliances with information technology companies to provide innovative electronic payment methods, including Woori Samsung Pay with Samsung Electronics, which is a cardless ATM withdrawal system that utilizes smartphones. In August 2016, we commenced iris-scanning authentication at certain of our ATMs, which allows for cardless ATM withdrawals.

***Expand presence in the global market.*** We have continuously expanded our overseas operations since our establishment of the first overseas branch of a Korean commercial bank in Tokyo in 1968. In December 2014, we became the first Korean bank to be involved in a merger with a listed overseas bank when our subsidiary PT. Bank Woori Indonesia merged with and into PT. Bank Himpunan Saudara 1906, which was renamed PT Bank Woori Saudara Indonesia 1906, Tbk. In October 2016, we acquired a 51% equity interest in Wealth Development Bank Corp., a thrift bank in the Philippines, and have partnered with Vicsal Development Corporation, an operator of department stores and supermarkets in the Philippines and another major shareholder of Wealth Development Bank Corp., to actively expand our base of local customers. In addition, in November 2016, we established a local subsidiary in Vietnam, Woori Bank Vietnam, which manages the local operations of our branches in Vietnam. In 2017, we expanded the scope of our operations in Myanmar, Indonesia, Cambodia and the Philippines in order to capitalize on the potential for high growth and profitability in Southeast Asia and established a representative office in Poland as well as branches in India, as a result of which we have a presence in 25 countries with 301 branches and offices outside Korea.

***Enhance operational efficiencies and synergies.*** We have been seeking to improve our operational efficiency and synergies and reduce our expenses by integrating our businesses, unifying our business procedures, eliminating duplication, centralizing processes and procurement, implementing continuous automation and migrating to low cost

distribution channels. Among other measures, we have established a centralized information technology center to increase information sharing and synergies among our different business operations.

We believe that the integration of our accounting, information technology and other back-office systems allows us to further eliminate redundant functions and equipment and reduce our long-term expense. We also



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believe that these measures, together with our effort to encourage migration of our mass market customers to low-cost alternative channels, will reduce our costs and enhance our operating efficiencies. We are also continuing our efforts to maximize synergies among our businesses.

**Develop and increase productivity of our professional workforce.** We aim to retain the most qualified and highly-trained professionals in the market, and we intend to continue to focus on the development and training of our core professionals. In order to boost employee morale and productivity, we aim to create an environment that nurtures development and growth and accordingly have implemented performance-based incentive programs to recognize high performers on both an individual and business group level. In addition, a rigorous ethics management program and related measures have been instituted to reduce operational risk and help ensure compliance with our internal standards and policies.

**Corporate Banking**

We provide commercial banking services to large corporate customers (including government-owned enterprises) and small- and medium-sized enterprises in Korea. Currently, our corporate banking operations consist mainly of lending to and taking deposits from our corporate customers. We also provide ancillary services on a fee basis, such as inter-account transfers, transfers of funds from branches and agencies of a company to its headquarters and transfers of funds from a company's customer accounts to the company's main account.

The following table sets forth the balances and percentages of our total lending and total deposits represented by our large corporate and small- and medium-sized enterprise customer loans and deposits, respectively, and the number of such customers as of the dates indicated:

	2015		As of December 31, 2016		2017	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in billions of Won, except percentages)						
<b>Loans<sup>(1)</sup>:</b>						
Small- and medium-sized enterprise <sup>(2)</sup>	67,115	29.5%	68,434	28.9%	74,906	29.6%
Large corporate <sup>(3)</sup>	40,780	18.0	36,176	15.3	43,372	17.2
Others <sup>(4)</sup>	19,727	8.7	21,033	8.9	18,398	7.3
<b>Total</b>	<b>127,622</b>	<b>56.2%</b>	<b>125,643</b>	<b>53.1%</b>	<b>136,676</b>	<b>54.1%</b>
<b>Deposits:</b>						
Small- and medium-sized enterprise	37,067	17.7%	39,564	17.9%	42,693	18.2%
Large corporate	64,114	30.7	62,899	28.5	68,340	29.1
<b>Total</b>	<b>101,181</b>	<b>48.4%</b>	<b>102,463</b>	<b>46.4%</b>	<b>111,033</b>	<b>47.3%</b>
<b>Number of borrowers:</b>						
Small- and medium-sized enterprise	256,592		262,311		280,129	
Large corporate	3,297		3,771		4,169	

- (1) Not including due from banks, other receivables and outstanding credit card balances, and prior to deducting allowance for credit losses and present value discount or reflecting deferred origination costs.
- (2) Loans to small- and medium-sized enterprises as defined in the Framework Act on Small and Medium Enterprises of Korea and related regulations (and including project finance loans to such enterprises). See Small- and Medium-Sized Enterprise Banking.
- (3) Loans to companies that are not small- and medium-size enterprises as defined in the Framework Act on Small and Medium Enterprises of Korea and related regulations, and typically including companies that have assets of 12 billion or more and are therefore subject to external audit under the Act on External Audits of Stock Companies. See Large Corporate Banking.
- (4) Includes loans to governmental agencies, foreign loans and other corporate loans.

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Corporate loans we provide consist principally of the following:

*working capital loans*, which are loans used for general working capital purposes, typically with a maturity of one year or less, including notes discounted and trade finance; and

*facilities loans*, which are loans to finance the purchase of materials, equipment and facilities, typically with a maturity of three years or more.

On the deposit-taking side, we currently offer our corporate customers several types of corporate deposit products. These products can be divided into two general categories: demand deposits that have no restrictions on deposits or withdrawals, but which offer a relatively low interest rate; and time deposits from which withdrawals are restricted for a period of time, but offer higher interest rates. We also offer installment deposits, certificates of deposit and repurchase instruments. We offer varying interest rates on our deposit products depending upon the rate of return on our income-earning assets, average funding costs and interest rates offered by other nationwide commercial banks.

***Small- and Medium-Sized Enterprise Banking***

We use the term *small- and medium-sized enterprises* as defined in the Framework Act on Small and Medium Enterprises of Korea and related regulations. Under the amended Framework Act on Small and Medium Enterprises of Korea, which became effective on April 27, 2016, and related regulations, 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 average or annual sales revenue standards prescribed by the Enforcement Decree of the Framework Act on Small and Medium Enterprises that are applicable to the enterprise's primary business, and (iii) the enterprise must meet the standards of management independence from ownership as prescribed by the Enforcement Decree of the Framework Act on Small and Medium Enterprises, including non-membership in a conglomerate as defined in the Monopoly Regulations and Fair Trade Act. However, even if an enterprise that qualified as a small- and medium-sized enterprise under the Framework Act on Small and Medium Enterprises prior to the amendments thereof no longer met the definition due to such amendments, such enterprise continued to be deemed a small- and medium-sized enterprise until March 31, 2018. Furthermore, certified social enterprises (as defined in the Social Enterprise Promotion Act of Korea), as well as cooperatives or federations of cooperatives (as defined in the Framework Act on Cooperatives), that satisfy the requirements prescribed by the Framework Act on Small and Medium Enterprises may qualify as small- and medium-sized enterprises. The small- and medium-sized enterprise segment of the corporate banking market has grown significantly in recent years, including as a result of government measures to encourage lending to these enterprises. As of December 31, 2017, 26.0% of our small- and medium-sized enterprise loans were extended to borrowers in the manufacturing industry, 15.8% were extended to borrowers in the retail and wholesale industry, and 7.2% were extended to borrowers in the hotel, leisure and transportation industries.

We service our small- and medium-sized enterprise customers primarily through our network of branches and small- and medium-sized enterprise relationship managers. As of December 31, 2017, we had stationed one or more relationship managers at 726 branches, of which 370 were located in the Seoul metropolitan area. The relationship managers specialize in servicing the banking needs of small- and medium-sized enterprise customers and concentrate their marketing efforts on developing new customers in this segment. As of December 31, 2017, we had a total of 1,009 small- and medium-sized enterprise relationship managers stationed at our branches (as well as 615 non-stationed employees who serve as relationship managers as needed).

In addition to increasing our dedicated staffing and branches, our strategy for this banking segment is to identify promising industry sectors and to develop and market products and services targeted towards customers in these sectors. We have also developed in-house industry specialists who can help us identify leading small- and medium-sized enterprises in, and develop products and marketing strategies for, these targeted industries. In addition, we operate customer loyalty programs for our most profitable small- and medium-sized enterprise customers and provide them with benefits and services such as preferential rates, free seminars and workshops and complementary invitations to cultural events.

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*Lending Activities.* We provide both working capital loans and facilities loans to our small- and medium-sized enterprise customers. As of December 31, 2017, working capital loans and facilities loans accounted for 47.1% and 49.4%, respectively, of our total small- and medium-sized enterprise loans. As of December 31, 2017, we had approximately 280,129 small- and medium-sized enterprise borrowers.

As of December 31, 2017, secured loans and loans guaranteed by a third party accounted for 68.8% and 6.1%, respectively, of our small- and medium-sized enterprise loans. As of December 31, 2017, approximately 78.5% of the secured loans were secured by real estate and 1.6% were secured by deposits. Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of three to five years if periodic payments are made. Facilities loans have a maximum maturity of 10 years.

When evaluating the extension of working capital loans and facilities loans, we review the creditworthiness and capability to generate cash of the small- and medium-sized enterprise customer. Furthermore, we take corporate guarantees and credit guarantee letters from other financial institutions and use deposits that the borrower has with us or securities pledged to us as collateral.

The value of any collateral is defined using a formula that takes into account the appraised value of the property, any prior liens or other claims against the property and an adjustment factor based on a number of considerations including, with respect to property, the value of any nearby property sold in a court-supervised auction during the previous five years. We generally revalue any collateral on a periodic basis (every year for real estate (with apartments being revalued every month, subject to the availability of certain specified market value information), every year for equipment, every month for deposits and every week for stocks listed on a major Korean stock exchange) or if a trigger event occurs with respect to the loan in question.

*Pricing.* We establish the pricing for our small- and medium-sized enterprise loan products based principally on transaction risk, our cost of funding and market considerations. Our lending rates are generally determined using our CREPIA system. We use our CREPIA system to manage our lending activities, and input data gathered from loan application forms, credit scores of borrowers and the appraisal value of collateral provided by external valuation experts into the CREPIA system and update such information periodically to reflect changes in such information. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Evaluation and Approval. We measure transaction risk using factors such as the credit rating assigned to a particular borrower and the value and type of collateral. Our system also takes into account cost factors such as the current market interest rate, opportunity cost and cost of capital, as well as a spread calculated to achieve a target rate of return. Depending on the price and other terms set by competing banks for similar borrowers, we may reduce the interest rate we charge to compete more effectively with other banks. Loan officers have limited discretion in deciding what interest rates to offer, and significant variations require review at higher levels. As of December 31, 2017, approximately 81.3% of our small- and medium-sized enterprise loans had interest rates that varied with reference to current market interest rates.

***Large Corporate Banking***

Our large corporate customers consist of companies that are not small- and medium-size enterprises as defined in the Framework Act on Small and Medium Enterprises of Korea and related regulations, and typically include companies that have assets of 12 billion or more and are therefore subject to external audit under the Act on External Audits of Stock Companies. As a result of our history and development, we remain the main creditor bank to many of Korea's largest corporate borrowers.

In terms of our outstanding loan balance, as of December 31, 2017, 40.9% of our large corporate loans were extended to borrowers in the finance and insurance industry, 33.0% were extended to borrowers in the manufacturing industry,

and 6.9% were extended to borrowers in the retail and wholesale industry.

We service our large corporate customers primarily through our network of dedicated corporate banking centers and general managers. We operate 10 dedicated corporate banking centers, all of which are located in the Seoul metropolitan area. Each center is staffed with one or more general managers, and certain centers are headed by a senior general manager. Depending on the center, each such manager is responsible for large

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corporate customers that either are affiliates of a particular *chaebol* or operate in a particular industry or region. As of December 31, 2017, we had a total of 84 general managers who focus on marketing to and managing the accounts of large corporate customers.

Our strategy for the large corporate banking segment is to develop new products and cross-sell our existing products and services to our core base of large corporate customers. In particular, we continue to focus on marketing fee-based products and services such as foreign exchange and trade finance services, derivatives and other risk hedging products, investment banking services and advisory services. We have also been reviewing the credit and risk profiles of our existing customers as well as those of our competitors, with a view to identifying a target group of high-quality customers on whom we can concentrate our marketing efforts. In addition, we are seeking to continue to increase the *chaebol*-, region- and industry-based specialization of the managers at our dedicated corporate banking centers, including through the operation of a knowledge management database that allows greater sharing of marketing techniques and skills.

*Lending Activities.* We provide both working capital loans and facilities loans to our large corporate customers. As of December 31, 2017, working capital loans (including domestic usance, bills bought and securities sold under repurchase agreements) and facilities loans accounted for 78.7% and 12.9%, respectively, of our total large corporate loans.

Loans to large corporate customers may be secured by real estate or deposits or be unsecured. As of December 31, 2017, secured loans and loans guaranteed by a third party accounted for 13.0% and 4.1%, respectively, of our large corporate loans. Since a relatively low percentage of our large corporate loan portfolio is secured by collateral, we may be required to establish larger allowances for credit losses with respect to any such loans that become non-performing or impaired. See [Assets and Liabilities](#) [Asset Quality of Loans](#) [Loan Loss Provisioning Policy](#). As of December 31, 2017, approximately 65.0% of the secured loans were secured by real estate and approximately 4.9% were secured by deposits. Working capital loans generally have a maturity of one year but may be extended on an annual basis for an aggregate term of three to five years. Facilities loans have a maximum maturity of 10 years.

We evaluate creditworthiness and collateral for our loans to large corporate customers in essentially the same way as we do for loans to small- and medium-sized enterprise customers. See [Corporate Banking](#) [Small- and Medium-Sized Enterprise Banking](#) [Lending Activities](#).

*Pricing.* We determine the pricing of our loans to large corporate customers in the same way that we determine the pricing of our loans to small- and medium-sized enterprise customers. See [Corporate Banking](#) [Small- and Medium-Sized Enterprise Banking](#) [Pricing](#). As of December 31, 2017, approximately 93.3% of these loans had interest rates that varied with reference to current market interest rates.

## **Consumer Banking**

We provide retail banking services to consumers in Korea. Our consumer banking operations consist mainly of lending to and taking deposits from our retail customers. We also provide ancillary services on a fee basis, such as wire transfers. While we have historically attracted and held large amounts of consumer deposits through our extensive branch network, our substantial consumer lending growth occurred principally in recent years, in line with the increase in the overall level of consumer debt in Korea. See [Branch Network and Other Distribution Channels](#).

We classify our consumer banking customers based on their individual net worth and contribution to our consumer banking operations into four groups: high net worth; mass affluent; middle class; and mass market. We differentiate our products, services and service delivery channels with respect to these segments and target our marketing and

cross-selling efforts based on this segmentation. With respect to the high net worth and mass affluent segments, we have established private banking operations to better service customers in these segments. See Private Banking Operations. With respect to the middle class segment, we seek to use our branch-level sales staff to maximize the overall volume of products and services we provide. With respect to the mass market segment, we have focused on increasing our operating efficiency by encouraging customers to migrate to low-cost alternative service delivery channels, such as the Internet, call centers, mobile banking and ATMs.



**Table of Contents*****Lending Activities***

We offer a variety of consumer loan products to households and individuals. We differentiate our product offerings based on a number of factors, including the customer's age group, the purpose for which the loan is used, collateral requirements and maturity. The following table sets forth the balances and percentage of our total lending represented by our consumer loans as of the dates indicated:

	2015		As of December 31, 2016		2017	
	Amount <sup>(1)</sup>	% of Total Loans <sup>(2)</sup>	Amount <sup>(1)</sup>	% of Total Loans <sup>(2)</sup>	Amount <sup>(1)</sup>	% of Total Loans <sup>(2)</sup>
	(in billions of Won, except percentage)					
General purpose household loans	28,193	12.4%	32,368	13.7%	36,301	14.4%
Mortgage loans	40,598	17.9	47,630	20.1	47,476	18.8
Home equity loans	24,657	10.9	24,486	10.3	25,513	10.1
Total	93,448	41.2%	104,484	44.1%	109,290	43.2%

(1) Not including outstanding credit card balances, and prior to deducting allowance for credit losses and present value discount or reflecting deferred origination costs.

(2) Total loans do not include other receivables and are before the deduction of allowance for credit losses and present value discount and the reflection of deferred origination costs.

Our consumer loans consist of:

*general purpose household loans*, which are loans made to customers for any purpose (other than mortgage and home equity loans), and include overdraft loans, which are loans extended to customers to cover insufficient funds when they withdraw funds from their demand deposit accounts with us in excess of the amount in such accounts up to a limit established by us; and

*mortgage loans*, which are loans made to customers to finance home purchases, construction, improvements or rentals, and *home equity loans*, which are loans made to customers secured by their homes to ensure loan repayment.

For secured loans, including mortgage and home equity loans, we generally lend up to 70% of the collateral value (except in areas of high speculation designated by the government where we generally limit our lending to 40% of the appraised value of collateral) minus the value of any lien or other security interest that is prior to our security interest. In calculating the collateral value for real estate for such secured consumer loans (which principally consists of residential properties), we generally use the fair value of the collateral as appraised by Korea Investors Service which is collated in our CREPIA system. We generally revalue collateral on a periodic basis. As of December 31, 2017, the revaluation frequency was every year for real estate (with apartments being revalued every month, subject to the availability of certain specified market value information), every year for equipment, every month for deposits and

every week for stocks listed on a major Korean stock exchange.

A borrower's eligibility for general purpose household loans is primarily determined by such borrower's creditworthiness. In reviewing a potential borrower's loan application, we also consider the suitability of the borrower's proposed use of funds, as well as the borrower's ability to provide a first-priority mortgage. A borrower's eligibility for a home equity loan is primarily determined by such borrower's creditworthiness (including as determined by our internal credit scoring protocols) and the value of the collateral property, as well as any third party guarantees of the borrowed amounts.

We also offer a variety of collective housing loans, including loans to purchase property or finance the construction of housing units, loans to contractors to be used for working capital purposes, and loans to educational institutions and non-profit entities to finance the construction of dormitories. Collective housing loans subject us to the risk that the housing units will not be sold. As a result, we review the probability of the sale of the housing unit when evaluating the extension of a loan. We also review the borrower's creditworthiness and the suitability of the borrower's proposed use of funds. Furthermore, we take a lien on the land on which the

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housing unit is to be constructed as collateral. If the collateral is not sufficient to cover the loan, we also take a guarantee from the Housing Finance Credit Guarantee Fund as security.

*General Purpose Household Loans*

Our general purpose household loans may be secured by real estate (other than homes), deposits or securities. As of December 31, 2017, approximately 26,978 billion, or 74.3%, of our general purpose household loans were unsecured, although some of these loans were guaranteed by a third party. Overdraft loans are primarily unsecured and typically have a maturity between one and three years, and the amount of such loans has been steadily declining. As of December 31, 2017, this amount was approximately 44 million.

*Pricing.* The interest rates on our general purpose household loans are either a periodic floating rate (which is based on a base rate determined for three-month, six-month or twelve-month periods, further adjusted to account for the borrower's credit score and our opportunity cost) or a fixed rate that reflects our internal cost of funding and similar adjustments, but taking into account interest rate risks. In 2010, we began using the Cost of Fund Index (or COFIX) benchmark rate, as announced by the Korea Federation of Banks, as the base rate for our general purpose household loans with periodic floating rates in place of the benchmark certificate of deposit rate that we had traditionally used for such purpose.

Our interest rates also incorporate a margin based on, among other things, the type of collateral (if any), priority with respect to any security, our target loan-to-value ratio and loan duration. We also can adjust the applicable rate based on current or expected profit contribution of the customer. Our lending rates are generally determined by our CREPIA system. The applicable interest rate is determined at the time of the drawdown of the loan. We also charge a termination fee in the event a borrower repays the loan prior to maturity. As of December 31, 2017, approximately 66.9% of our general purpose household loans had floating interest rates.

*Mortgage and Home Equity Lending*

We provide customers with a number of mortgage and home equity loan products that have flexible features, including terms, repayment schedules, amounts and eligibility for loans. The maximum term of our mortgage and home equity loans is typically 35 years. Most of our mortgage and home equity loans provided prior to January 2016 have an interest-only payment period of 10 years or less. However, the Korea Federation of Banks' implementation of its Guidelines on Banks' Mortgage Loan Screening changed the default interest-only payment period to one year or less, which applies to loans that were originated subsequent to the effective date of the Guidelines in January 2016. With respect to mortgage and home equity loans, we determine the eligibility of borrowers based on the borrower's personal information, transaction history and credit history using our CREPIA system. See Item 11. Quantitative and Qualitative Disclosures about Market Risk - Credit Risk Management - Credit Evaluation and Approval. The eligibility of a borrower that is participating in a housing lottery will depend on proof that it has paid a deposit or can obtain a guarantee from a Korean government-related housing fund.

As of December 31, 2017, approximately 64.9% of our mortgage and home equity loans were secured by residential or other property, 25.9% of our mortgage and home equity loans were guaranteed by Korean government-related housing funds and 5.7% of our mortgage and home equity loans, contrary to general practices in the United States, were unsecured (although the use of proceeds from mortgage and home equity loans is restricted for the purpose of financing home purchases and some of these loans were guaranteed by a third party). One reason that a portion of our mortgage and home equity loans are unsecured is that we, along with other Korean banks, provide advance loans to borrowers for the down payment of new housing (particularly apartments) that is in the process of being built. Once construction is completed, which may take several years, these mortgage and home equity loans become secured by

the new housing purchased by these borrowers. As of December 31, 2017, we had issued unsecured construction loans relating to housing where construction was not completed in the amount of 4,130 billion. For the year ended December 31, 2017, the average initial loan-to-value ratio of our mortgage loans and home equity loans was approximately 59.1% and 55.6%, respectively, compared to 60.3% and 54.8% for the year ended December 31, 2016. The average loan-to-value ratio of our

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mortgage loans and home equity loans as of December 31, 2017 was approximately 51.5% and 50.4%, respectively, compared to 56.8% and 52.2% as of December 31, 2016.

*Pricing.* The interest rates for our mortgage and home equity loans are determined on essentially the same basis as our general purpose household loans, except that for mortgage and home equity loans we place significantly greater weight on the value of any collateral that is being provided to secure the loan. The base rate we use in determining the interest rate for our mortgage and home equity loans is identical to the base rate we use to determine pricing for our general purpose household loans. As of December 31, 2017, approximately 66.1% of our outstanding mortgage and home equity loans had floating interest rates.

***Private Banking Operations***

Our private banking operations aim to service our high net worth and mass affluent retail customers. As of December 31, 2017, we had over 179,200 customers who qualified for private banking services, representing 0.8% of our total retail customer base. Of our total retail customer deposits of 97 trillion as of December 31, 2017, high net worth and mass affluent customers accounted for 55.1%.

Through our private bankers, we provide financial and real estate advisory services to our high net worth and mass affluent customers. We also market differentiated investment and banking products and services to these segments, including beneficiary certificates, overseas mutual fund products, specialized bank accounts and credit cards. In addition, we have developed a customer loyalty program for our private banking customers that provides preferential rate and fee benefits and awards. We have also segmented our private banking operations by introducing exclusive private client services for high net worth customers who individually maintain a deposit balance of at least 100 million. We believe that our private banking operations will allow us to increase our revenues from our existing high net worth and mass affluent customers, as well as attract new customers in these segments.

We have 668 branches that offer private banking services. These branches are staffed by 686 private bankers, and almost all of the branches are located in metropolitan areas, including Seoul.

We also operate an advisory center in Seoul for our private banking clients, which employs 20 specialists advising on matters of law, tax, real estate, risk assessment and investments.

***Deposit-Taking Activities***

As of December 31, 2017, we were the third-largest deposit holder among Korean banks, in large part due to our nation-wide branch network. The balance of our deposits from retail customers was 73,364 billion as of December 31, 2015, 80,655 billion as of December 31, 2016 and 95,757 billion as of December 31, 2017 which constituted 35.1%, 36.5% and 40.8%, respectively, of the balance of our total deposits.

We offer diversified deposit products that target different customers with different needs and characteristics. These deposit products fall into five general categories:

*demand deposits*, which either do not accrue interest or accrue interest at a lower rate than time, installment or savings deposits. The customer may deposit and withdraw funds at any time and, if the deposits are interest-bearing, they accrue interest at a fixed or variable rate depending on the period and/or amount of deposit;

*time deposits*, which generally require a customer to maintain a deposit for a fixed term during which interest accrues at a fixed or floating rate. Early withdrawals require penalty payments. The term for time deposits typically ranges from one month to five years;

*savings deposits*, which allow the customer to deposit and withdraw funds at any time and accrue interest at a fixed rate set by us depending upon the period and amount of deposit;

*installment deposits*, which generally require the customer to make periodic deposits of a fixed amount over a fixed term during which interest accrues at a fixed rate. Early withdrawals require penalty payment. The term for installment deposits range from six months to five years; and

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*certificates of deposit*, the maturities of which range from 30 days to five years, with a required minimum deposit of 10 million. Interest rates on certificates of deposit vary with the length of deposit and prevailing market rates. Certificates of deposit may be sold at face value or at a discount with the face amount payable at maturity.

The following table sets forth the percentage of our total retail and corporate deposits represented by each deposit product category as of December 31, 2017:

<b>Demand Deposits</b>	<b>Time Deposits</b>	<b>Savings Deposits</b>	<b>Installment Deposits</b>	<b>Certificates of Deposit</b>
10.08%	52.34%	35.68%	0.01%	1.89%

We offer varying interest rates on our deposit products depending on market interest rates as reflected in average funding costs, the rate of return on our interest-earning assets and the interest rates offered by other commercial banks. Generally, the interest payable is the highest on installment deposits and decreases with certificate of deposit accounts and time deposits and savings deposit accounts receiving relatively less interest, and demand deposits accruing little or no interest.

We also offer deposits in foreign currencies and a specialized deposit product, the apartment application comprehensive deposit, which is a monthly installment comprehensive savings program providing the holder with a preferential right to subscribe for new national housing units constructed under the Housing Act or new privately constructed housing units. This deposit product requires monthly installments of 20,000 to 500,000, terminates when the holder is selected as a subscriber for a housing unit and accrues interest at variable rates depending on the term.

The Monetary Policy Committee of the Bank of Korea imposes a reserve requirement on Won currency deposits of commercial banks based generally on the type of deposit instrument. The minimum reserve requirement ratio is 7%. See *Supervision and Regulation Principal Regulations Applicable to Banks Liquidity*. Ongoing regulatory reforms have removed all controls on lending rates and deposit rates (except for the prohibition on interest payments on current account deposits).

The Depositor Protection Act provides for a deposit insurance system where the KDIC guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of 50 million per depositor per bank. See *Supervision and Regulation Principal Regulations Applicable to Banks Deposit Insurance System*. We pay a quarterly premium of 0.02% of our average deposits and a quarterly special contribution of 0.025% of our average deposits, in each case for the relevant quarter. For the year ended December 31, 2017, we paid an aggregate of 305 billion of such premiums and contributions.

***Branch Network and Other Distribution Channels***

We had a total of 876 banking branches in Korea as of December 31, 2017, which was one of the most extensive networks of branches among Korean commercial banks. In recent years, demand in Korea for mutual funds and other asset management products as well as bancassurance products has been rising. These products require an extensive sales force and customer interaction to sell, further emphasizing the need for a large branch network. As a result, an extensive branch network is important to attracting and maintaining retail customers, as they generally conduct a significant portion of their financial transactions through bank branches. We believe that our extensive branch network in Korea helps us to maintain our retail customer base, which in turn provides us with a stable and relatively low cost funding source.





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The following table presents the geographical distribution of our banking branch network in Korea as of December 31, 2017:

Area	Number	Total % of Total
Seoul	402	46%
Six largest cities (other than Seoul)	150	17
Other	324	37
<b>Total</b>	<b>876</b>	<b>100%</b>

In order to maximize access to our products and services, we have established an extensive network of ATMs and cash dispensers, which are located in branches as well as unmanned outlets. We had 5,952 ATMs and cash dispensers as of December 31, 2017.

We actively promote the use of alternative service delivery channels in order to provide convenient service to customers. We also benefit from customers' increasing use of these channels, as they allow us to maximize the marketing and sales functions at the branch level, reduce employee costs and improve profitability. The following tables set forth information, for the periods indicated, relating to the number of transactions and the fee revenue of our alternative service delivery channels.

	For the year ended December 31,		
	2015	2016	2017
<b>ATMs<sup>(1)</sup>:</b>			
Number of transactions (millions)	378	346	316
Fee income (billions of Won)	44	40	40
<b>Telephone banking:</b>			
Number of users	6,058,318	6,419,017	6,384,164
Number of transactions (millions)	106	105	104
Fee income (billions of Won)	3	3	3
<b>Internet banking:</b>			
Number of users	14,775,540	15,631,766	16,554,353
Number of transactions (millions)	6,567	6,994	7,566
Fee income (billions of Won)	141	150	160

<sup>(1)</sup> Includes cash dispensers.

Most of our electronic banking transactions do not generate fee income as many of those transactions are free of charge, such as balance inquiries, consultations with customer representatives or transfers of money. This is particularly true for telephone banking services, where a majority of the transactions are balance inquiries or consultations with customer representatives, although other services such as money transfers are also available.

Our automated telephone banking system offers a variety of services, including inter-account fund transfers, balance and transaction inquiries and customer service inquiries. We also operate a call center that handles calls from customers, engages in telemarketing and assists in our collection efforts.

Our Internet banking services include balance and transaction inquiries, money transfers, loan applications, bill payment and foreign exchange transactions. We seek to maintain and increase our Internet banking customer base by focusing largely on our younger customers and those that are able to access the Internet easily (such as office workers) as well as by developing additional Internet-based financial services and products. We also develop new products to target different types of customers with respect to our Internet banking services, and have developed a service that enables private banking customers to access their accounts on a website that provides specialized investment advice. We also offer online escrow services.

In addition, we provide mobile banking services to our customers, which is available to all our Internet-registered users. These services allow our customers to complete selected banking transactions through major

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Korean telecommunications networks using their smart phones or other mobile devices. In May 2015, we launched the first mobile-only banking service in Korea, called WiBee Bank, and we are expanding its services to Southeast Asia.

We also offer our Win-CMS service to our corporate customers, which provides an integrated electronic cash management system and in-house banking platform for such customers.

## **Credit Cards**

We offer credit card products and services mainly to consumers and corporate customers in Korea. In April 2013, as a part of our strategy to enhance our credit card operations and increase its synergies with our other businesses, we effected a horizontal spin-off of our credit card business. As a result, our former credit card business is operated by a wholly-owned subsidiary, Woori Card. As of December 31, 2017, Woori Card's market share based on transaction volume was approximately 8.7%, which ranked Woori Card as the sixth largest credit card issuer in Korea, according to BC Research, which is a quarterly report issued by BC Card.

Our credit card operations benefit from Woori Card's ownership of a 7.65% equity stake in BC Card. BC Card is co-owned by KT Corporation, which is one of Korea's largest telecommunications companies, and other Korean financial institutions, and operates the largest merchant payment network in Korea as measured by transaction volume. This ownership stake allows us to outsource production and delivery of new credit cards, the preparation of monthly statements, management of merchants and other ancillary services to BC Card for our credit card operations.

## ***Products and Services***

We currently have the following principal brands of credit cards outstanding:

a Woori brand;

a BC Card brand; and

a Visa brand.

We issue Visa brand cards under a non-exclusive license agreement with Visa International Service Association and also issue MasterCard, JCB and Union Pay brand cards under a non-exclusive, co-branding agreement with BC Card.

We offer a number of different services to holders of our credit cards. Generally, these services include:

credit purchase services, which allow cardholders to purchase merchandise or services on credit and repay such credit on a lump-sum or installment basis;

cash advance services from ATMs and bank branches; and

credit card loans, which are loans that cardholders can obtain based on streamlined application procedures. Unlike in the United States and many other countries, where most credit cards are revolving cards that allow outstanding balances to be rolled over from month to month so long as a required minimum percentage is repaid, cardholders in Korea are generally required to pay for their non-installment purchases as well as cash advances within approximately 15 to 60 days of purchase or advance, depending on their payment cycle.

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The following tables set forth certain data relating to the credit card operations of Woori Card (including BC Cards and Visa Cards issued through the BC Card consortium) as of the dates or for the period indicated:

	<b>As of or for the year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>(in billions of Won, unless indicated otherwise)</b>		
<b>Number of credit card holders (at year end) (thousands of holders)</b>			
General accounts	11,789	12,125	12,509
Corporate accounts	642	481	550
<b>Total</b>	<b>12,431</b>	<b>12,606</b>	<b>13,059</b>
<b>Active ratio<sup>(1)</sup></b>	<b>47.20%</b>	<b>49.00%</b>	<b>50.70%</b>
<b>Credit card interest and fees</b>			
Installment and cash advance interest	223	236	225
Annual membership fees	43	56	72
Merchant fees	763	831	896
Other fees	343	421	570
<b>Total</b>	<b>1,372</b>	<b>1,544</b>	<b>1,763</b>
<b>Charge volumes</b>			
General purchase	50,761	59,678	58,454
Installment purchase	5,454	6,231	6,796
Cash advance	4,404	4,620	4,700
Card loan	2,984	2,991	2,944
<b>Total</b>	<b>63,603</b>	<b>73,520</b>	<b>72,894</b>
<b>Outstanding balances (at year end)</b>			
General purchase	2,275	2,580	2,595
Installment purchase	1,315	1,383	1,559
Cash advance	565	573	574
Card loan	1,951	2,146	2,107
<b>Total</b>	<b>6,106</b>	<b>6,682</b>	<b>6,835</b>
<b>Average outstanding balances</b>			
General purchase	2,299	2,591	2,822
Installment purchase	1,208	1,375	1,520
Cash advance	558	576	581
Card loan	1,748	2,047	2,174
<b>Total</b>	<b>5,813</b>	<b>6,589</b>	<b>7,097</b>

Delinquency ratios <sup>(2)</sup>			
Less than 1 month	1.68	1.37	1.78
From 1 month to 3 months	0.83	0.76	0.72
From 3 months to 6 months	0.76	0.44	0.57
Over 6 months	0.00	0.00	0.00
<b>Total</b>	<b>3.27%</b>	<b>2.57%</b>	<b>3.07%</b>
Non-performing loan ratio <sup>(3)</sup>			
Non-performing loan ratio <sup>(3)</sup>	1.12%	0.76%	0.83%
Gross charge-offs	198	242	228
Recoveries	34	44	51
<b>Net charge-offs</b>	<b>164</b>	<b>198</b>	<b>177</b>
Gross charge-off ratio <sup>(4)</sup>	3.41%	3.66%	3.22%
<b>Net charge-off ratio<sup>(5)</sup></b>	<b>2.82%</b>	<b>3.00%</b>	<b>2.49%</b>

- (1) Represents the ratio of accounts used at least once within the past month to total accounts as of the end of the relevant year.
- (2) Our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding balances since a certain portion of delinquent credit card balances (defined as balances one day or more past due) were restructured into loans and were not treated as being delinquent at the time of conversion or for a period of time thereafter. Including all restructured loans, outstanding balances overdue by more than one month accounted for 3.1% of our credit card balances as of December 31, 2017.

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- (3) Represents the ratio of balances that are more than three months overdue to total outstanding balances as of the end of the relevant year. These ratios do not include the following amounts of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary as of December 31, 2015, 2016 and 2017:

	As of December 31,		
	2015	2016	2017
	(in billions of Won)		
Restructured loans	73	102	122

- (4) Represents the ratio of gross charge-offs for the year to average outstanding balances for the year. Our charge-off policy is to charge off balances which are more than six months past due (including previously delinquent credit card balances restructured into loans that are more than six months overdue from the point at which the relevant balances were so restructured), except for those balances with a reasonable probability of recovery.

- (5) Represents the ratio of net charge-offs for the year to average outstanding balances for the year.

We offer a diverse range of credit card products within our various brands. Factors that determine which type of card a particular cardholder may receive include net worth, age, location, income level and the particular programs or services that may be associated with a particular card. Targeted products that we offer include:

cards that offer additional benefits, such as frequent flyer miles and award program points that can be redeemed for services, products or cash;

gold cards, platinum cards and other preferential members cards that have higher credit limits and provide additional services;

corporate and affinity cards that are issued to employees or members of particular companies or organizations; and

revolving credit cards and cards that offer travel services and insurance.

In recent years, credit card issuers in Korea have agreed with selected cardholders to restructure their delinquent credit card account balances as loans that have more gradual repayment terms, in order to retain fundamentally sound customers who are experiencing temporary financial difficulties and to increase the likelihood of eventual recovery on those balances. In line with industry practice, we have restructured a portion of our delinquent credit card account balances as loans. The general qualifications to restructure delinquent credit card balances as loans are that the delinquent amount be more than one month overdue and in excess of 1 million. The terms of the restructured loans usually require the payment of approximately 10% to 20% of the outstanding balance as a down payment and that they be guaranteed by a third party and carry higher interest rates than prevailing market rates. These loans are usually required to be repaid by the borrower in installments over terms ranging from three months to 60 months. As of December 31, 2017, the total amount of our restructured loans was 131 billion. Because restructured loans are not initially recorded as being delinquent, our delinquency ratios do not fully reflect all delinquent amounts relating to our outstanding credit card balances.

***Payments and Charges***

Revenues from our credit card operations consist principally of cash advance charges, merchant fees, interest income from credit card loans, interest on late and deferred payments, and annual membership fees paid by cardholders.

Each cardholder is allocated an aggregate credit limit in respect of all cards issued under his or her account and each month. We advise each cardholder of the credit limit relating to the cards in his or her monthly billing statement. Credit limits in respect of card loans are established separately. We conduct ongoing monitoring of all cardholders and accounts, and may reduce the credit limit or cancel an existing cardholder's card based on current economic conditions, receipt of new negative credit data from third party sources or the cardholder's score under the credit risk management systems we use to monitor their behavior, even if the cardholder continues to make timely payments in respect of his or her cards. We consider an account delinquent if the payment due is not received on the first monthly payment date on which such payment was due, and late fees are immediately applied. Late fee charges and computation of the delinquency period are based on each outstanding unpaid transaction or installment, as applicable. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Review and Monitoring.



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Payments on amounts outstanding on our credit cards must be made (at the cardholder's election at the time of purchase) either in full on each monthly payment date, in the case of lump-sum purchases, or in equal monthly installments over a fixed term from two months to 36 months, in the case of installment purchases. Cardholders may prepay installment purchases at any time without penalty. Payment for cash advances must be made on a lump sum basis. Payments for card loans must be made on an equal principal installment basis over a fixed term from three months up to a maximum of 36 months, up to a maximum loan amount of \$30 million.

No interest is charged on lump-sum purchases that are paid in full by the monthly payment date. For installment purchases, we charge a fixed rate of interest on the outstanding balance of the transaction amount, based on the installment period selected at the time of purchase. For a new cardholder, we currently apply an interest rate between approximately 9.5% and 19.5% per annum as determined by the cardholder's application system score. See Item 11. Quantitative and Qualitative Disclosures about Market Risk: Credit Risk Management: Credit Evaluation and Approval: Credit Card Approval Process and Credit Review and Monitoring: Credit Card Review and Monitoring.

For cash advances, finance charges start accruing immediately following the cash withdrawal. We currently charge a periodic finance charge on the outstanding balance of cash advance of approximately 6.4% to 26.4% per annum. The periodic finance charge assessed on such balances is calculated by multiplying the daily installment balances for each day during the billing cycle by the applicable periodic finance charge rate, and aggregating the results for each day in the billing period. In addition to finance charges, cardholders using cash advance networks operated by companies that are not financial institutions (such as Hantnet and NICE) are charged a minimum commission of \$800 and a maximum of \$1,300 per withdrawal.

We also generally charge a basic annual membership fee of \$2,000 to \$25,000 for regular and gold cards and \$30,000 to \$1,000,000 for platinum cards. The determination of the annual fee is based on various factors including the type of card, and whether affiliation options are selected by the cardholder. For certain cards, such as the Woori V Card, we will waive membership fees if customers charge above a certain amount.

We outsource the management of merchants to BC Card. We charge merchant fees to merchants for processing transactions. Merchant fees vary depending on the type of merchant and the total transaction amounts generated by the merchant. As of December 31, 2017, we charged merchants an average of 1.37% of their respective total transaction amounts. In addition to merchant fees, we receive nominal interchange fees for international card transactions.

**Capital Markets Activities**

We engage in capital markets activities for our own account and for our customers. Our capital markets activities include securities investment and trading, derivatives trading, asset securitization services and investment banking.

***Securities Investment and Trading***

We invest in and trade securities for our own account, in order to maintain adequate sources of liquidity and to generate interest and dividend income and capital gains. As of December 31, 2017, our investment portfolio, which consists of held-to-maturity financial assets and available-for-sale financial assets, and our trading portfolio, which consists of financial assets held for trading and financial assets designated at fair value through profit or loss (excluding deposits and derivative assets), had a combined total book value of \$34,804 billion and represented 11.0% of our total assets.

Our trading and investment portfolios consist primarily of Korean treasury securities and debt securities issued by Korean government agencies, including the KDIC, local governments or government-invested enterprises, and debt

securities issued by financial institutions. As of December 31, 2017, we held debt securities with a total book value of 32,462 billion, of which:

held-to-maturity debt securities accounted for 16,749 billion, or 51.6%;

available-for-sale debt securities accounted for 13,059 billion, or 40.2%;

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debt securities held for trading accounted for 2,644 billion, or 8.2%; and

debt securities designated at fair value through profit or loss accounted for 10 billion, or less than 0.1%. Of these amounts, as of December 31, 2017, debt securities issued by the Korean government amounted to 3,995 billion, or 23.9% of our held-to-maturity debt securities, 2,331 billion, or 17.8% of our available-for-sale debt securities, and 540 billion, or 20.4% of our trading debt securities.

From time to time, we also purchase and sell equity securities for our securities portfolios. Our equity securities consist primarily of equities listed on the KRX KOSPI Market or the KRX KOSDAQ Market. As of December 31, 2017:

equity securities in our available-for-sale portfolio had a book value of 1,411 billion, or 9.2% of our available-for-sale securities portfolio;

equity securities held for trading accounted for 22 billion, or 0.8% of our held-for-trading securities portfolio; and

equity securities designated at fair value through profit or loss accounted for 13 billion, or 56.5% of our financial assets designated at fair value through profit or loss portfolio.

Funds that are not used for lending activities are used for investment and liquidity management purposes, including investment and trading in securities. See Assets and Liabilities Securities Investment Portfolio.

The following tables show, as of the dates indicated, the gross unrealized gains and losses within our investment portfolio and the amortized cost and fair value of the portfolio by type of investment financial asset:

	As of December 31, 2015			
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gain	Loss	
		(in billions of Won)		
<b>Available-for-sale financial assets:</b>				
Debt securities				
Korean treasury and government agencies	3,530	29		3,559
Financial institutions	5,599	27		5,626
Corporate	3,809	79		3,888
Asset-backed securities	260		(2)	258
Foreign currency bonds	650	1	(13)	638
Others	12	8		20
<b>Subtotal</b>	<b>13,860</b>	<b>144</b>	<b>(15)</b>	<b>13,989</b>
Equity securities	968	376	(6)	1,338

Beneficiary certificates <sup>(1)</sup>	1,119	24	(25)	1,118
Others	723	3		726
<b>Total available-for-sale financial assets</b>	<b>16,670</b>	<b>547</b>	<b>(46)</b>	<b>17,171</b>
<b>Held-to-maturity financial assets:</b>				
Debt securities				
Korean treasury and government agencies	3,367	64		3,431
Financial institutions	4,138	26		4,164
Corporate	6,021	107	(5)	6,123
Foreign currency bonds	96			96
<b>Total held-to-maturity financial assets</b>	<b>13,622</b>	<b>197</b>	<b>(5)</b>	<b>13,814</b>

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	As of December 31, 2016			Fair Value
	Amortized Cost	Gross Unrealized Gain (in billions of Won)	Gross Unrealized Loss (in billions of Won)	
<b>Available-for-sale financial assets:</b>				
Debt securities				
Korean treasury and government agencies	3,779	14	(4)	3,789
Financial institutions	6,311	7	(4)	6,314
Corporate	4,336	94	(21)	4,409
Asset-backed securities	250		(1)	249
Foreign currency bonds	1,227	1	(16)	1,212
Others	73	2		75
Subtotal	15,976	118	(46)	16,048
Equity securities				
Beneficiary certificates <sup>(1)</sup>	2,803	40	(21)	2,822
Others	494	3	(3)	494
Total available-for-sale financial assets	20,307	581	(70)	20,818
<b>Held-to-maturity financial assets:</b>				
Debt securities				
Korean treasury and government agencies	3,754	27	(7)	3,774
Financial institutions	5,169	9	(5)	5,173
Corporate	4,823	58	(7)	4,874
Foreign currency bonds	164			164
Total held-to-maturity financial assets	13,910	94	(19)	13,985

	As of December 31, 2017			Fair Value
	Amortized Cost	Gross Unrealized Gain (in billions of Won)	Gross Unrealized Loss (in billions of Won)	
<b>Available-for-sale financial assets:</b>				
Debt securities				
Korean treasury and government agencies	2,339	1	(9)	2,331
Financial institutions	5,225	2	(10)	5,217
Corporate	2,727	4	(6)	2,725
Asset-backed securities	310		(2)	308
Foreign currency bonds	2,450	3	(10)	2,443
Others	35			35
Subtotal	13,086	10	(37)	13,059
Equity securities	982	431	(2)	1,411

Beneficiary certificates <sup>(1)</sup>	698	19	(4)	713
Others	169	1		170
<b>Total available-for-sale financial assets</b>	<b>14,935</b>	<b>461</b>	<b>(43)</b>	<b>15,353</b>
<b>Held-to-maturity financial assets:</b>				
Debt securities				
Korean treasury and government agencies	3,995	7	(15)	3,987
Financial institutions	7,245	3	(15)	7,233
Corporate	5,312	12	(25)	5,299
Foreign currency bonds	197	1	(1)	197
<b>Total held-to-maturity financial assets</b>	<b>16,749</b>	<b>23</b>	<b>(56)</b>	<b>16,716</b>

- (1) Beneficiary certificates are instruments that are issued by and represent an ownership interest in an investment trust. Investment trusts, which operate like mutual funds in the United States, are managed by investment trust management companies and invest in portfolios of securities and/or other financial instruments, such as certificates of deposit. Beneficiary certificates give the holder beneficial rights to both the relevant investment trust and the trust property in which the investment trust has invested.

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For a discussion of our risk management policies with respect to our securities trading activities, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Market Risk Management Market Risk Management for Trading Activities.

***Derivatives Trading***

We offer derivatives products and engage in derivatives trading, mostly for our corporate customers. Our trading volume was 203,956 billion in 2015, 233,871 billion in 2016 and 268,734 billion in 2017. Our aggregate net trading revenue (loss) from derivatives for the years ended December 31, 2015, 2016 and 2017 was 174 billion, 176 billion and (53) billion, respectively.

We provide and trade a number of derivatives products principally through sales or brokerage accounts for our customers, including:

interest rate swaps, options and futures, relating principally to Won interest rate risks;

index futures and options, relating to stock market fluctuations;

cross currency swaps, relating to foreign exchange risks, largely for Won against U.S. dollars;

foreign exchange forwards, swaps, options and futures, relating to foreign exchange risks;

commodity derivatives, which we provide to customers that wish to hedge their commodities exposure; and

credit derivatives, which we provide to financial institutions that wish to hedge existing credit exposures or take on credit exposure to generate revenue.

Our derivatives operations focus on addressing the needs of our corporate clients to hedge their risk exposure and on hedging our risk exposure resulting from such client contracts. We also engage in derivatives trading activities to hedge the interest rate and foreign currency risk exposure that arises from our own assets and liability positions. In addition, we engage in proprietary trading of derivatives, such as index options and futures within our regulated open position limits, for the purpose of generating capital gains.

The following shows the estimated fair value of derivatives we held or had issued for trading purposes as of the dates indicated:

		<b>As of December 31,</b>					
		<b>2015</b>		<b>2016</b>		<b>2017</b>	
		<b>Estimated</b>	<b>Estimated</b>	<b>Estimated</b>	<b>Estimated</b>	<b>Estimated</b>	<b>Estimated</b>
		<b>Fair</b>	<b>Fair</b>	<b>Fair</b>	<b>Fair</b>	<b>Fair</b>	<b>Fair</b>

	<b>Value of Assets</b>	<b>Value of Liabilities</b>	<b>Value of Assets (in billions of Won)</b>	<b>Value of Liabilities</b>	<b>Value of Assets</b>	<b>Value of Liabilities</b>
Currency derivatives	1,441	1,439	2,331	2,246	2,732	2,782
Interest rate derivatives	938	975	491	532	236	267
Equity derivatives		155	73	229	147	100
Commodity derivatives	11	12	3	3	1	1
<b>Total</b>	<b>2,390</b>	<b>2,581</b>	<b>2,898</b>	<b>3,010</b>	<b>3,116</b>	<b>3,150</b>

For a discussion of our risk management policies with respect to our derivatives trading activities, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Market Risk Management Market Risk Management for Trading Activities.

### *Asset Securitization Services*

We are active in the Korean asset-backed securities market. We participate in asset securitization transactions in Korea by acting as arranger, trustee or liquidity provider. In 2017, we were involved in asset securitization transactions with an initial aggregate issue amount of 583 billion and generated total fee income



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of approximately 16 billion in connection with such transactions. The securities issued in asset securitization transactions are sold mainly to institutional investors buying through Korean securities firms.

**Investment Banking**

We engage in investment banking activities in Korea. In addition, we provide project finance and financial advisory services, in the area of social overhead capital projects such as highway, port, power and water and sewage projects, as well as structured finance, leveraged buy-out financing, equity and venture financing and mergers and acquisitions financing services. In 2017, we generated investment banking revenue of approximately 153 billion from gains on investment in foreign bonds and equity securities and fees from advisory and other services.

We believe that significant opportunities exist for us to leverage our existing base of large corporate and small- and medium-sized banking customers to cross-sell investment banking services. We intend to expand our investment banking operations to take advantage of these opportunities, with a view to increasing our fee income and further diversifying our revenue base.

**International Banking**

We engage in various international banking activities, including foreign exchange services and dealing, import and export-related services, offshore lending, syndicated loans and foreign currency securities investment. These services are provided primarily to our domestic customers and overseas subsidiaries and affiliates of Korean corporations and, to a limited extent, to local companies and individuals. We also raise foreign currency funding through our international banking operations. In addition, we provide commercial banking services to retail and corporate customers in select overseas markets.

The table below sets forth certain information regarding our foreign currency assets and borrowings:

	2015	As of December 31, 2016 (in millions of US\$)	2017
Total foreign currency assets	US\$ 33,329	US\$ 33,670	US\$ 35,678
Foreign currency borrowings			
Call money	US\$ 1,097	US\$ 1,131	US\$ 593
Long-term borrowings	4,883	4,841	4,290
Short-term borrowings	7,247	4,797	6,191
Total foreign currency borrowings	US\$ 13,227	US\$ 10,769	US\$ 11,074

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The table below sets forth our overseas subsidiaries and direct branches in operation as of December 31, 2017:

<b>Business Unit<sup>(1)</sup></b>	<b>Location</b>
<b>Subsidiaries:</b>	
Woori America Bank	United States
PT Bank Woori Saudara Indonesia 1906, Tbk	Indonesia
Woori Global Markets Asia Limited	China (Hong Kong)
Woori Bank (China) Limited	China
AO Woori Bank	Russia
Banco Woori Bank do Brasil S.A.	Brazil
Woori Finance Cambodia	Cambodia
Woori Finance Myanmar	Myanmar
Wealth Development Bank Corp.	Philippines
Woori Bank Vietnam	Vietnam
<b>Branches, Agencies and Representative Offices:</b>	
London Branch	United Kingdom
Tokyo Branch	Japan
Singapore Branch	Singapore
Hong Kong Branch	China (Hong Kong)
Bahrain Branch	Bahrain
Dhaka Branch	Bangladesh
Gaeseong Branch	Korea <sup>(2)</sup>
New York Agency	United States
Los Angeles Branch	United States
Chennai Branch	India
Sydney Branch	Australia
Dubai Branch	United Arab Emirates
Gurgaon Branch	India
Mumbai Branch	India
Kuala Lumpur Representative Office	Malaysia
Yangon Representative Office	Myanmar
Iran Representative Office	Iran
Katowice Representative Office	Poland

<sup>(1)</sup> Does not include subsidiaries and branches in liquidation or dissolution.

<sup>(2)</sup> Due to the shutdown of the Gaeseong Industrial Complex in February 2016, the Gaeseong Branch is currently located at our corporate headquarters in Seoul.

The principal activities of our overseas branches and subsidiaries are providing trade financing and local currency funding for Korean companies and Korean nationals operating in overseas markets as well as servicing local customers and providing foreign exchange services in conjunction with our headquarters. On a limited basis, such overseas branches and subsidiaries also engage in the investment and trading of securities of foreign issuers.

Woori America Bank currently operates 21 branches in New York, New Jersey, Maryland, Virginia, Pennsylvania and California and provides retail and corporate banking services targeted towards the Korean-American community. Woori America Bank had total assets of US\$1,831 million as of December 31, 2017 and net profit of US\$10 million

in 2017.

In November 2007, we established a local subsidiary in China, Woori Bank (China) Limited, which currently has branches in Beijing, Shanghai, Shenzhen, Suzhou, Tianjin, Dalian, Chengdu, Weihai, Chongqing and Shenyang. We also established a local subsidiary in Russia, AO Woori Bank, in January 2008 and it currently has branches in Moscow and St. Petersburg and a representative office in Vladivostok.

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In January 2014, we completed the purchase of an additional 27% equity interest (in addition to the 6% equity interest we previously acquired through our subsidiary PT. Bank Woori Indonesia) in PT. Bank Himpunan Saudara 1906, an Indonesian commercial bank with a network of over 100 branches and offices throughout Indonesia. In December 2014, PT. Bank Woori Indonesia merged with and into PT. Bank Himpunan Saudara 1906. The merged entity, in which we hold a 79.9% equity interest, was renamed PT Bank Woori Saudara Indonesia 1906, Tbk and became our consolidated subsidiary. As of December 31, 2017, PT Bank Woori Saudara Indonesia 1906, Tbk had total assets of approximately US\$2,090 million and shareholders' equity of US\$455 million.

In May 2016, we established a new representative office in Tehran, Iran, in light of the lifting of certain international sanctions against Iran, including U.S. secondary sanctions. The representative office engages only in the collection of local market information and does not conduct any banking operations.

In October 2016, we acquired a 51% equity interest in Wealth Development Bank Corp., a thrift bank in the Philippines with a network of 16 branches and approximately 300 employees, by purchasing newly issued shares for approximately US\$21 million.

In November 2016, we established a local subsidiary in Vietnam, Woori Bank Vietnam, which commenced operations in January 2017 and currently operates the branches in Hanoi, Bac Ninh and Ho Chi Minh City that we previously operated directly.

We are also expanding our network of branches in South and Southeast Asia through our other local subsidiaries, including PT Bank Woori Saudara Indonesia 1906, Tbk, Woori Finance Myanmar, Wealth Development Bank Corp. and Woori Finance Cambodia.

## **Asset Management**

### ***Trust Management Services***

*Money Trusts.* We offer money trust products to our customers and manage the funds they invest in money trusts. The money trusts we manage are generally trusts with a fixed life that allow investors to share in the investment performance of the trust in proportion to the amount of their investment in the trust. We principally offer the following types of money trust products:

*retirement trusts*, which invest funds received from corporations or organizations and manage these funds until they are withdrawn to pay retirement funds to a corporation's officers or employees or an organization's members;

*pension trusts*, which invest funds received until pension benefits are due to be disbursed to a pension beneficiary; and

*specified money trusts*, which invest cash received as trust property at the direction of the trustors and, once the trust matures, disburse the principal and any gains to the trust beneficiaries.

We also offer other types of money trusts that have a variety of differing characteristics with respect to, for example, maturities and tax treatment.

Under Korean law, the assets of our money trusts are segregated from our assets and are not available to satisfy the claims of our creditors. We are, however, permitted to maintain deposits of surplus funds generated by trust assets in certain circumstances as set forth under the Financial Investment Services and Capital Markets Act and the regulations thereunder. Except for specified money trusts, we have investment discretion over all money trusts, which are pooled and managed jointly for each type of trust. Specified money trusts are established on behalf of individual customers, typically corporations, which direct our investment of trust assets.

We receive fees for our trust management services that are generally based upon a percentage, ranging between 0.01% and 2.0%, of the net asset value of the assets under management. We also receive penalty payments when customers terminate their trust deposit prior to the original contract maturity. Fees that we received for trust management services (including those fees related to property trust management services,

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described below, but excluding those fees relating to guaranteed trusts, which are eliminated in consolidation), net of expenses, amounted to 49 billion in 2015, 78 billion in 2016 and 142 billion in 2017.

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

The following table shows the balances of our money trusts by type as of the dates indicated. We consolidate within our financial statements trust accounts for which we guarantee both the repayment of the principal amount and a fixed rate of interest and trust accounts for which we guarantee only the repayment of the principal amount, while we do not consolidate performance trusts on which we do not guarantee principal or interest:

	<b>As of December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>(in billions of Won)</b>		
Principal and interest guaranteed trusts	1	1	1
Principal guaranteed trusts	1,287	1,344	1,401
Performance trusts	21,324	25,767	29,252
Total	22,612	27,112	30,654

The trust assets we manage consist principally of investment securities, loans made from the trusts and amounts due from banks. The investment securities consist of government-related debt securities, corporate debt securities, including bonds and commercial paper, equity securities and other securities. As of December 31, 2017, our money trusts had invested in securities with an aggregate book value of 9,712 billion, which accounted for approximately 22.1% of our money trust assets. Debt securities accounted for 4,156 billion of this amount.

Our money trusts also invest, to a lesser extent, in equity securities, including beneficiary certificates issued by investment trust management companies. As of December 31, 2017, equity securities held by our money trusts amounted to 5,556 billion, which accounted for approximately 12.7% of our money trust assets. Of this amount, 1,248 billion was from money trusts over which we had investment discretion and the remainder was from specified money trusts.

Loans made by our money trusts are similar in type to the loans made by our banking operations. As of December 31, 2017, our money trusts had made loans in the aggregate principal amount of 12,852 billion (excluding loans to our banking operations of 2,712 billion), which accounted for approximately 29.3% of our money trust assets.

The amounts due from banks consist of local currency and foreign currencies. As of December 31, 2017, such amounts due from banks totaled 13,349 billion, which accounted for approximately 30.4% of our money trust assets.

If the income from a money trust for which we provide a guarantee is less than the amount of the payments we have guaranteed, we will need to pay the amount of the shortfall with funds from special reserves maintained in our trust accounts, followed by basic fees from that money trust and funds from our banking operations. We net any payments we make as a result of these shortfalls against any gains we receive from other money trusts. No material payments of any such shortfall amounts were made in 2017.

*Property Trusts.* We also offer property trust management services, where we manage non-cash assets in return for a fee. Non-cash assets include mostly receivables (including those securing asset-backed securities), real property and securities, but can also include movable property such as artwork. Under these arrangements, we render escrow or custodial services for the property in question and collect fees in return.

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In 2017, our property trust fees generally ranged from 0.003% to 0.04% of total assets under management, depending on the type of trust account product. As of December 31, 2017, the balance of our property trusts totaled 12,608 billion.

Property trusts are not consolidated within our financial statements.

### ***Trustee and Custodian Services Relating to Securities Investment Trusts***

As of December 31, 2017, we acted as a trustee for 2,491 securities investment trusts, mutual funds and other investment funds. We receive a fee for acting as a trustee and generally perform the following functions:

receiving payments made in respect of such securities;

executing trades in respect of such securities on behalf of the investment fund, based on instructions from the relevant investment fund management company; and

in certain cases, authenticating beneficiary certificates issued by investment trust management companies and handling settlements in respect of such beneficiary certificates.

For the year ended December 31, 2017, our fee income from such services was 12 billion.

## **Other Businesses**

### ***Management of National Housing Urban Fund***

In April 2008, we were selected to be the lead manager of the National Housing Urban Fund. The National Housing Urban Fund provides financial support to low-income households in Korea by providing mortgage financing and construction loans for projects to build small- and medium-sized housing. As of December 31, 2017, outstanding housing loans from the National Housing Urban Fund amounted to approximately 95.9 trillion, of which we originated approximately 50.9 trillion. The activities of the National Housing Urban Fund are funded primarily by the issuance of national housing bonds, which must be purchased by persons and legal entities wishing to make real estate-related registrations and filings, and by subscription savings deposits held at the National Housing Urban Fund.

In return for managing the operations of the National Housing Urban Fund, we receive a monthly fee. This fee consists of a fund raising fee, a loan origination fee and a management fee. The fund raising fee is based on the number of National Housing Urban Fund subscription savings deposit accounts opened and the level of activity for existing accounts and the number of National Housing Urban Fund bonds issued or redeemed. The loan origination fee is based on the number of new National Housing Urban Fund loans and the number of National Housing Urban Fund mortgage loans to contractors constructing housing units that are assumed by the individual buyers of housing units and the level of activity for existing loans during each month. The management fee is based on the monthly average of the number of outstanding accounts and the monthly average of the number of overdue loans owed to the National Housing Urban Fund. We received total fees of approximately 51 billion for managing the National Housing Urban Fund in 2017.

### ***Bancassurance***



The term bancassurance refers to the marketing and sale by commercial banks of insurance products manufactured within a group of affiliated companies or by third-party insurance companies. We market a wide range of bancassurance products. In 2017, we generated fee income of approximately 86.5 billion through the marketing of bancassurance products. We believe that we will be able to continue to develop an important new source of fee-based revenues by expanding our offering of these products. We have entered into bancassurance marketing arrangements with 29 insurance companies, including Samsung Life Insurance, Samsung Fire and Marine Insurance, Hanwha Life Insurance, Hyundai Fire and Marine Insurance and American International Assurance, and plan to enter into additional insurance product marketing arrangements with other leading insurance companies whose names and reputation are likely to be familiar to our customer base.

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**Table of Contents*****Private Equity***

In 2016, Woori Private Equity Co., Ltd., which was established in October 2005, registered as a specialized private placement collective investment business under the Financial Investment Services and Capital Markets Act and changed its name to Woori Private Equity Asset Management Co., Ltd., or Woori PEAM. Such registration enabled it to manage specialized private placement collective investment vehicles (which include hedge funds) targeting professional investors, in addition to its existing business of making long-term and strategic investments in buyout target companies and actively involving itself in their management. In 2017, three of the private equity funds for which Woori PEAM acted as general partner, Woori Private Equity Fund, the size of which was approximately 344 billion, Woori Blackstone Korea Opportunity Private Equity Fund I, the size of which was approximately 606 billion, and Woori Columbus Private Equity Fund I, the size of which was approximately 61 billion, were successfully liquidated after meeting their respective investment objectives. We expect that Woori PEAM will continue to provide us with investment opportunities, through identifying potential investees suffering from inefficient management and effecting financial restructuring and strategic reorientation in those investees so as to enhance their enterprise value, as well as serve as a source of business for other segments by managing specialized private placement collective investment vehicles for professional investors.

**Competition**

We compete with other financial institutions in Korea, including principally nationwide and regional Korean commercial banks and branches of foreign banks operating in Korea. In addition, in particular segments such as credit cards, asset management and bancassurance, we compete with specialized financial institutions focusing on such segments. Some of the financial institutions we compete with are larger in terms of asset size and customer base and have greater financial resources or more specialized capabilities than us.

Competition in the Korean financial market has been and is likely to remain intense. In particular, in the area of our core banking operations, most Korean banks have been focusing on retail customers and small- and medium-sized enterprises in recent years, although they have begun to increase their exposure to large corporate borrowers, and have been focusing on developing fee income businesses, including bancassurance, as increasingly important sources of revenue. In the area of credit cards, Korean banks and credit card companies have in the past engaged in aggressive marketing activities and made significant investments, contributing to some extent to the lower profitability and asset quality problems previously experienced with respect to credit card receivables.

In addition, general regulatory reforms in the Korean financial industry have increased competition among banks and other financial institutions in Korea. In the second half of 2015, the Korean government implemented measures to facilitate bank account portability of retail customers by requiring commercial banks to establish systems that allow retail customers to easily switch their bank accounts at one commercial bank to another and automatically transfer the automatic payment settings of their former accounts to the new ones. Such measures are expected to further intensify competition among financial institutions in Korea.

Furthermore, the introduction of Internet-only banks in Korea is expected to increase competition in the Korean banking industry. Internet-only banks generally operate without branches and conduct most of their operations through electronic means, which enable them to minimize costs and offer customers higher interest rates on deposits or lower lending rates. In April 2017, K bank, the first Internet-only bank in Korea, in which we own 13.8% of the equity with voting rights, commenced operations. Kakao Bank, a mobile-only bank, commenced operations in July 2017.

Moreover, in March 2016, the Financial Services Commission introduced an individual savings account scheme in Korea, which enables individuals to efficiently manage a wide range of retail investment vehicles, including cash deposits, investment funds and securities investment products, from a single integrated account with one financial institution and offers tax benefits on investment returns. Since the scheme backed by the Korean government allows only one individual savings account per person, financial institutions have been competing to retain existing customers and attract new customers since the launch of the individual savings

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account scheme. Over 30 financial institutions, including banks, securities companies and insurance companies, have registered with the Financial Services Commission to sell their individual savings account products, and competition among these financial institutions is expected to remain intense.

Moreover, the Korean financial industry is undergoing significant consolidation. The number of nationwide commercial banks in Korea has decreased from 16 as of December 31, 1997 to six as of December 31, 2017. A number of significant mergers and acquisitions in the industry have taken place in Korea in recent years, including Hana Financial Group's acquisition of a controlling interest in Korea Exchange Bank in 2012, the subsequent merger of Hana Bank into Korea Exchange Bank in 2015, KB Financial Group's acquisition of Hyundai Securities Co., Ltd. in 2016 and the subsequent merger of Hyundai Securities with and into KB Investment & Securities Co., Ltd. in 2016. In 2016, Mirae Asset Securities Co., Ltd. acquired a 43% interest in KDB Daewoo Securities Co., Ltd., which changed its name to Mirae Asset Daewoo Securities Co., Ltd., and subsequently merged with and into Mirae Asset Daewoo Securities to create the largest securities company in Korea in terms of capital. Furthermore, in 2014, pursuant to the implementation of the Korean government's privatization plan with respect to Woori Finance Holdings and its former subsidiaries, Woori Financial, Woori Asset Management and Woori F&I were acquired by KB Financial Group, Kiwoom Securities and Daishin Securities, respectively, and Woori Investment & Securities, Woori Aviva Life Insurance and Woori FG Savings Bank were acquired by NongHyup Financial Group. In addition, in October 2014, the KDIC's ownership interest in Kwangju Bank and Kyongnam Bank were acquired by JB Financial Group and BS Financial Group, respectively. See Item 4.A. History and Development of the Company Privatization Plan.

We expect that consolidation in the Korean financial industry will continue. Other financial institutions may seek to acquire or merge with other entities, and the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for us. We also believe that foreign financial institutions, many of which have greater experience and resources than we do, may seek to compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. See Item 3.D. Risk Factors Risks relating to competition.

## **Assets and Liabilities**

The tables below and accompanying discussions provide selected financial highlights regarding our assets and liabilities on a consolidated basis.

Certain information with respect to our loan portfolio and the asset quality of our loans is presented below on a basis consistent with certain requirements of the Financial Services Commission applicable to Korean financial institutions, which differs (as described below where applicable) from the presentation of such information in our financial statements prepared in accordance with IFRS, as we believe that such alternative presentation allows us to provide additional details regarding our loan portfolio and the asset quality of our loans which would be helpful to our investors.

### ***Loan Portfolio***

As of December 31, 2017, the balance of our total loan portfolio was 252,793 billion. As of December 31, 2017, 89.4% of our total loans were Won-denominated loans and 10.6% of our total loans were denominated in other currencies. Of the 26,827 billion of foreign currency-denominated loans as of that date, approximately 54.7% represented foreign loans to offshore entities and individuals. We make foreign loans primarily through our overseas branches to affiliates of large Korean manufacturing companies for trade financing and working capital.

Except where we specify otherwise, all loan amounts stated below do not include amounts due from banks and other receivables and are prior to deducting allowance for credit losses and present value discount or reflecting deferred origination costs, and all corporate loan amounts stated below include loans made to the Korean government and government-owned agencies and banks.

**Table of Contents***Loan Types*

The following table presents loans by type as of the dates indicated. Total loans reflect our loan portfolio, including past due amounts.

	2013 <sup>(1)</sup>	2014	As of December 31, 2015		2016	2017
			(in billions of Won)			
<b>Domestic:</b>						
Corporate <sup>(2)</sup> :						
Commercial and industrial	91,058	89,410	92,802	88,968	93,320	
Lease financing				7	25	
Trade financing	10,296	11,937	11,446	10,699	9,290	
Other commercial	9,690	11,440	12,229	12,923	21,283	
<b>Total corporate</b>	<b>111,044</b>	<b>112,787</b>	<b>116,477</b>	<b>112,597</b>	<b>123,918</b>	
Consumer:						
General purpose household	25,094	25,070	26,971	30,684	34,374	
Mortgage	19,952	28,988	40,598	47,630	47,476	
Home equity	25,732	25,340	24,657	24,486	25,513	
Total consumer	70,778	79,398	92,226	102,800	107,363	
Credit cards	4,209	5,114	6,099	6,674	6,827	
<b>Total domestic</b>	<b>186,031</b>	<b>197,299</b>	<b>214,802</b>	<b>222,071</b>	<b>238,108</b>	
<b>Foreign:</b>						
Corporate <sup>(3)</sup> :						
Commercial and industrial	6,961	7,989	9,518	10,540	9,632	
Trade financing	319	725	1,421	2,156	2,655	
Other commercial	192	245	206	350	471	
<b>Total corporate</b>	<b>7,472</b>	<b>8,959</b>	<b>11,145</b>	<b>13,046</b>	<b>12,758</b>	
Consumer	263	819	1,222	1,684	1,927	
<b>Total foreign</b>	<b>7,735</b>	<b>9,778</b>	<b>12,367</b>	<b>14,730</b>	<b>14,685</b>	
<b>Total loans<sup>(4)</sup></b>	<b>193,766</b>	<b>207,077</b>	<b>227,169</b>	<b>236,801</b>	<b>252,793</b>	
Less: present value discount	(25)	(17)	(5)	(14)	(11)	
Less: deferred origination costs (fees)	295	368	435	464	511	
Less: allowance for credit losses	(3,337)	(2,609)	(2,051)	(1,851)	(1,770)	
<b>Total loans, net</b>	<b>190,699</b>	<b>204,819</b>	<b>225,548</b>	<b>235,400</b>	<b>251,523</b>	

(1)

The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.

- (2) Including loans made to banks and the Korean government and government-owned agencies.
- (3) Including loans made to banks.
- (4) Not including due from banks and other receivables.

*Loan Concentrations*

We limit our total exposure to any single borrower as required by Korean regulations and pursuant to our internal policies and determine this limit based on the borrower's credit rating provided by our CREPIA system. We may adjust our limit if such limit would otherwise exceed the limit imposed by Korean regulations. See [Supervision and Regulation - Principal Regulations Applicable to Banks - Financial Exposure to Any Individual Customer or Major Shareholder](#).

**Table of Contents***20 Largest Exposures by Borrower*

As of December 31, 2017, our exposures to our 20 largest borrowers or issuers totaled 47,540 billion and accounted for 12.5% of our total exposures. The following table sets forth our total exposures to those borrowers or issuers as of that date:

Company (Credit Rating) <sup>(1)</sup>	Loans						Amounts classified as substandard or below <sup>(3)</sup>
	Won currency	Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Total exposure	
	(in billions of Won)						
The Bank of Korea <sup>(4)</sup>	1,420			6,610		8,030	
Korean Government <sup>(4)</sup>				6,760		6,760	
Korea Development Bank (AAA)		6		4,253		4,259	
Korea Housing Finance Corporation (AAA)				3,172		3,172	
Korea Land & Housing Corporation (AAA)	465			2,516		2,981	
Samsung Electronics (AA)	200	2,274	5			2,479	
Mirae Asset Daewoo (AA+)	2,413					2,413	
NH Investment & Securities (AA+)	2,332					2,332	
Shinhan Investment (AAA)	1,780					1,780	
Meritz Securities (AA-)	1,628					1,628	
Industrial Bank of Korea (AAA)	64	24		1,496		1,584	
Kyobo Securities (A+)	1,284					1,284	
Samsung Securities (AA+)	1,280					1,280	
KB Securities (AA)	1,270					1,270	
Korea Securities Finance Corp. (AAA)	1,100		71			1,171	
Hana Financial Investment (AA)	1,120					1,120	
Defense Acquisition Program Administration <sup>(4)</sup>					1,114	1,114	
Korea Investment & Securities (AA)	1,063					1,063	
Samsung Heavy Industries (BBB+)	100	46			793	939	50
Export-Import Bank of Korea (AAA)	1			880		881	
<b>Total</b>	<b>17,520</b>	<b>2,350</b>	<b>76</b>	<b>25,687</b>	<b>1,907</b>	<b>47,540</b>	<b>50</b>

<sup>(1)</sup> Credit ratings are from one of the domestic credit rating agencies in Korea, including Korea Ratings Corporation, NICE Investors Service Co. and Korea Information Service Inc., as of December 31, 2017. If multiple ratings were



available, the lowest one is indicated.

- (2) The value of collateral is appraised based on future cash flow and observable market price.
- (3) Classification is based on the Financial Services Commission's asset classification criteria.
- (4) Credit rating is unavailable.

As of December 31, 2017, five of these top 20 borrowers or issuers were companies belonging to the 24 largest *chaebol* in Korea. See Item 3.D. Risk Factors Risks relating to our corporate credit portfolio We have exposure to the largest Korean commercial conglomerates, known as *chaebols*, and, as a result, financial difficulties of *chaebols* may have an adverse impact on us.

**Table of Contents***Exposure to Chaebols*

As of December 31, 2017, 6.6% of our total exposure was to the 24 largest *chaebols* in Korea. The following table shows, as of December 31, 2017, our total exposures to the 10 *chaebols* to which we have the largest exposure:

Chaebol	Won currency	Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Total exposures	Collateral <sup>(1)</sup>	Amounts Classified as substandard or below <sup>(2)</sup>
								(in billions of Won)
Samsung	1,702	3,180	8	20	1,359	6,269	139	
Hyundai Motors	1,609	808	1	76	376	2,870	26	
Mirae Asset	2,453					2,453		
Hyundai Heavy Industries	684	108			1,048	1,840	11	
SK	830	323	1	7	501	1,662		
LG	948	277	1	20	108	1,354	6	
Hanwha	867	134		55	91	1,147	156	
Korea Investment	1,131					1,131		
Doosan	435	104			492	1,031	101	
Lotte	709	122	1		111	943	19	
<b>Total</b>	<b>11,368</b>	<b>5,056</b>	<b>12</b>	<b>178</b>	<b>4,086</b>	<b>20,700</b>	<b>458</b>	

(1) The value of collateral is appraised based on future cash flow and observable market price.

(2) Classification is based on the Financial Services Commission's asset classification criteria.

*Loan Concentration by Industry*

The following table shows, as of December 31, 2017, the aggregate balance of our domestic and foreign corporate loans by industry concentration and as a percentage of our total corporate lending:

Industry	Aggregate corporate loan balance (in billions of Won)	Percentage of total corporate loan balance
Manufacturing	36,189	26.4%
Financial and insurance	25,084	18.4
Retail and wholesale	17,036	12.5

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Hotel, leisure or transportation	7,378	5.4
Construction	4,503	3.3
Government and government agencies	311	0.2
Other	46,175	33.8
Total	136,676	100.0%

**Table of Contents***Maturity Analysis*

The following table sets out, as of December 31, 2017, the scheduled maturities (time remaining until maturity) of our loan portfolio:

	1 year or less	Over 1 year but not more than 5 years (in billions of Won)	Over 5 years	Total
<b>Domestic</b>				
Corporate <sup>(1)</sup>				
Commercial and industrial	62,779	24,970	5,571	93,320
Lease financing		25		25
Trade financing	9,290			9,290
Other commercial	18,438	2,085	760	21,283
<b>Total corporate</b>	<b>90,507</b>	<b>27,080</b>	<b>6,331</b>	<b>123,918</b>
Consumer				
General purpose household	19,219	6,399	8,756	34,374
Mortgage	10,827	9,945	26,704	47,476
Home equity	3,737	3,437	18,339	25,513
<b>Total consumer</b>	<b>33,783</b>	<b>19,781</b>	<b>53,799</b>	<b>107,363</b>
Credit cards	5,997	766	64	6,827
<b>Total domestic</b>	<b>130,287</b>	<b>47,627</b>	<b>60,194</b>	<b>238,108</b>
<b>Foreign</b>				
Corporate <sup>(2)</sup>				
Commercial and industrial	5,635	3,122	875	9,632
Trade financing	2,655			2,655
Other commercial	260	175	36	471
<b>Total corporate</b>	<b>8,550</b>	<b>3,297</b>	<b>911</b>	<b>12,758</b>
Consumer				
Other consumer	168	478	1,281	1,927
<b>Total foreign</b>	<b>8,718</b>	<b>3,775</b>	<b>2,192</b>	<b>14,685</b>
<b>Total loans</b>	<b>139,005</b>	<b>51,402</b>	<b>62,386</b>	<b>252,793</b>

(1) Including loans made to banks and the Korean government and government-owned agencies.

(2) Including loans made to banks.

A significant portion of our loans with maturities of one year is renewed annually. We typically roll over our working capital loans and consumer loans (other than those payable in installments) after we conduct our normal loan review in accordance with our loan review procedures. Under our internal guidelines, we may generally extend working capital loans on an annual basis for an aggregate term of five years. Those guidelines also allow us to generally extend consumer loans other than home equity loans for another term on an annual basis for an aggregate term of up to five years (and home equity loans for an aggregate term of up to 10 years).

**Table of Contents***Interest Rates*

The following table shows, as of December 31, 2017, the total amount of our loans due after one year that have fixed interest rates and variable or adjustable interest rates:

	<b>Domestic</b>	<b>Foreign</b>	<b>Total</b>
	<b>(in billions of Won)</b>		
Fixed rate <sup>(1)</sup>	34,933	2,206	37,139
Variable or adjustable rates <sup>(2)</sup>	72,888	3,761	76,649
<b>Total loans</b>	<b>107,821</b>	<b>5,967</b>	<b>113,788</b>

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

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

For additional information regarding our management of interest rate risk, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Market Risk Management Asset and Liability Management.

*Asset Quality of Loans*

Except where we specify otherwise, all loan amounts stated below do not include amounts due from banks and other receivables and are prior to deducting allowance for credit losses and present value discount or reflecting deferred origination costs, and all corporate loan amounts stated below include loans made to the Korean government and government-owned agencies and banks.

*Loan Classifications*

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

The following is a summary of the asset classification criteria we apply for corporate and consumer loans, based on the asset classification guidelines of the Financial Services Commission. Credit card receivables are subject to classification based on the number of days past due, as required by the Financial Services Commission. We also apply different criteria for other types of credits such as loans to the Korean government or to government-related or controlled entities, certain bills of exchange and certain receivables.

**Asset Classification**

Normal

**Characteristics**

Credits extended to customers that, based on our consideration of their business, financial position and future cash flows, do not raise concerns regarding their ability to repay the credits.

Precautionary

Credits extended to customers that:

based on our consideration of their business, financial position and future cash flows, show potential risks with respect to their ability to repay the credits, although showing no immediate default risk; or

are in arrears for one month or more but less than three months.

Substandard

Either:

credits extended to customers that, based on our consideration of their business, financial position and future cash flows, are judged to have incurred considerable default risks as their ability to repay has deteriorated; or

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**Asset Classification**

**Characteristics**

the portion that we expect to collect of total loans (1) extended to customers that have been in arrears for three months or more, (2) extended to customers that have incurred serious default risks due to the occurrence of, among other things, final refusal to pay their debt instruments, entry into liquidation or bankruptcy proceedings, or closure of their businesses, or (3) extended to customers who have outstanding loans that are classified as doubtful or estimated loss.

Doubtful

Credits exceeding the amount we expect to collect of total credits to customers that:

based on our consideration of their business, financial position and future cash flows, have incurred serious default risks due to noticeable deterioration in their ability to repay; or

have been in arrears for three months or more but less than twelve months.

Estimated Loss

Credits exceeding the amount we expect to collect of total credits to customers that:

based on our consideration of their business, financial position and future cash flows, are judged to have to be accounted as a loss as the inability to repay became certain due to serious deterioration in their ability to repay;

have been in arrears for twelve months or more; or

have incurred serious risks of default in repayment due to the occurrence of, among other things, final refusal to pay their debt instruments, liquidation or bankruptcy proceedings or closure of their business.

*Loan Loss Provisioning Policy*

Under International Accounting Standard 39, *Financial Instruments: Recognition and Measurement*, we establish allowances for credit losses with respect to loans using either a case-by-case or collective approach. We assess individually significant loans on a case-by-case basis and other loans on a collective basis. In addition, if we determine that no objective evidence of impairment exists for a loan, we include such loan in a group of loans with similar credit risk characteristics and assess them collectively for impairment regardless of whether such loan is significant. If there is objective evidence that an impairment loss has been incurred for individually significant loans, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at such asset's original effective interest rate. Future cash flows are estimated through a case-by-case analysis of individually assessed assets, which takes into account the benefit of any guarantee or other collateral held. The value and timing of future cash flow receipts are based on available estimates in conjunction with facts available at the time of review and reassessed on a periodic basis as new information becomes available.



For collectively assessed loans, we base the level of allowance for credit losses on a portfolio basis in light of the homogenous nature of the assets included in each portfolio. The allowances are determined based on a quantitative review of the relevant portfolio, taking into account such factors as the level of arrears, the value of any security, and historical and projected cash recovery trends over the recovery period. The methodologies we use to estimate collectively assessed allowances reflect the probability that the performing customer will default, our historical loss experience (as adjusted by current economic and credit conditions where appropriate) and the emergence period between an impairment event occurring and a loan being identified and reported as impaired.

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IFRS 9 *Financial Instruments* is effective, and replaces International Accounting Standard 39, for annual periods commencing on or after January 1, 2018. See Item 5.B. Liquidity and Capital Resources Recent Accounting Pronouncements. IFRS 9 introduces a new impairment model which requires the calculation of allowance for credit losses based on expected credit losses instead of incurred losses (as is the case under International Accounting Standard 39) by assessing changes in expected credit losses and recognizing such changes as impairment loss (or reversal of impairment loss) in profit or loss. Under IFRS 9, the allowance required to be established with respect to a loan or receivable is the amount of the expected 12-month credit loss or the expected lifetime credit loss for the applicable loan or receivable, according to three stages of credit risk deterioration since initial recognition.

If additions or changes to the allowance for credit losses are required, then we record provisions for credit loss, which are included in impairment losses due to credit loss and treated as charges against current income. Credit exposures that we deem to be uncollectible, including actual loan losses, net of recoveries of previously charged-off amounts, are charged directly against the allowance for credit losses. See Item 5.A. Operating Results Critical Accounting Policies Impairment of Loans and Allowance for Credit Losses.

We consider the following loans to be impaired loans:

loans that are past due by 90 days or more;

loans that are subject to legal proceedings related to collection;

loans to a borrower that has received a warning from the Korea Federation of Banks indicating that such borrower has exhibited difficulties in making timely payments of principal and interest;

loans to corporate borrowers that are rated D according to our internal credit ratings;

restructured loans; and

individually significant loans classified as precautionary based on the asset classification criteria of the Financial Services Commission, where the borrower is subject to complete capital impairment or has received an adverse audit opinion or disclaimer of opinion on its financial statements.

In addition, if our allowance for credit losses is deemed insufficient for regulatory purposes, we compensate for the difference by recording a planned regulatory reserve for credit loss, which is segregated within our retained earnings. The level of planned regulatory reserve for credit loss required to be recorded is equal to the amount by which our allowance for credit losses under IFRS is less than the greater of (x) the amount of expected loss calculated using the internal ratings-based approach under Basel II and as approved by the Financial Supervisory Service and (y) the required amount of credit loss reserve calculated based on guidelines prescribed by the Financial Services Commission. The following table sets forth the Financial Services Commission's guidelines applicable to banking institutions for the minimum percentages of the outstanding principal amount of the relevant loans or balances that the credit loss reserve must cover:

<b>Loan classifications</b>	<b>Corporate<sup>(1)</sup></b>	<b>Consumer</b>	<b>Credit card receivables<sup>(2)</sup></b>	<b>Credit card loans<sup>(3)</sup></b>
Normal	0.85% or above	1% or above	1.1% or above	2.5% or above
Precautionary	7% or above	10% or above	40% or above	50% or above
Substandard	20% or above	20% or above	60% or above	65% or above
Doubtful	50% or above	55% or above	75% or above	75% or above
Estimated loss	100%	100%	100%	100%

(1) Subject to certain exceptions pursuant to the Banking Industry Supervision Regulations of Korea.

(2) Applicable for credit card receivables for general purchases of products or services.

(3) Applicable for cash advances, card loans and revolving loan receivables.

The process to determine the allowances for off-balance sheet positions under IFRS is similar to the methodology used for loans. Any loss amounts are recognized as a provision in the consolidated statements of financial position within liabilities and charged to the consolidated statement of income as a component of the impairment losses due to credit loss.

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The actual amount of credit losses we incur may differ from our loss estimates as a result of changing economic conditions, changes in industry or geographic concentrations, or other factors. We monitor the differences between our estimated and actual incurred credit losses, and we undertake detailed periodic assessments of both individual loans and credit portfolios, the models we use to estimate incurred credit losses in those portfolios and the adequacy of our overall allowances.

*Problem Loans and Past Due Accruing Loans*

We monitor and manage our problem loans by generally placing loans on problem loan status when payments of interest and/or principal become past due by 90 days. In addition, the following types of loans are classified as problem loans by us even if such loans are not past due:

Loans to creditors with dishonored notes or checks;

Loans for which interest payments are reduced or postponed (e.g., through work-out procedures or debt restructurings); and

Loans to creditors included in the watch list maintained by the Korea Federation of Banks.

We reclassify loans as non-problem loans when interest and principal payments are up-to-date and future payments of principal and interest are reasonably assured. In applying payments on problem loans, we first apply payments to the delinquent interest outstanding, then to non-delinquent interest, and then to the outstanding loan balance until the loan is paid in full.

Foregone interest is the portion of the contractual interest due on problem loans that we have not accrued in our books. If we had not foregone interest on our problem loans, we would have recorded gross interest income of 164 billion, 104 billion and 74 billion for 2015, 2016 and 2017, respectively, on loans accounted for as problem loans throughout the year, or since origination for loans held for part of the year. The actual amount of interest income on those loans included in our net income for 2015, 2016 and 2017 was 41 billion, 47 billion and 34 billion, respectively.

The category accruing loans which are contractually past due 90 days or more as to principal or interest includes loans that are still accruing interest based on the contractual rate of interest but on which principal or interest payments are contractually past due 90 days or more. We continue to accrue contractual interest on loans that are fully secured by deposits or on which there are financial guarantees from the Korean government, the KDIC or certain financial institutions.

The following table shows, as of the dates indicated, the amount of loans that were problem loans and accruing loans which were past due 90 days or more:

		As of December 31,														
		2013 <sup>(1)</sup>			2014			2015			2016			2017		
		Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
classified as problem loans <sup>(2)</sup>																

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rate <sup>(3)</sup>	3,645	23	3,668	2,458	82	2,540	1,901	44	1,945	1,200	67	1,267	924	145
mer <sup>(4)</sup>	600		600	547	6	553	436	4	440	442	20	462	460	23
tal	4,245	23	4,268	3,005	88	3,093	2,337	48	2,385	1,642	87	1,729	1,384	168
ing loans which are ctually past due 90 days or s to principal or interest <sup>(2)</sup>														
rate <sup>(3)</sup>				2		2				3		3		2
mer <sup>(4)</sup>														
tal				2		2				3		3		2
	4,245	23	4,268	3,007	88	3,095	2,337	48	2,385	1,645	87	1,732	1,386	168

- (1) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.
- (2) Not including due from banks and other receivables, and prior to deducting allowance for credit losses and present value discount or reflecting deferred origination costs.
- (3) Including loans made to banks and the Korean government and government-owned agencies.

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(4) Includes credit card balances of 79 billion, 80 billion, 93 billion, 142 billion and 163 billion as of December 31, 2013, 2014, 2015, 2016 and 2017, respectively.

The following table shows, as of the dates indicated, the amount of problem loans, potential problem loans and non-performing loans:

	As of December 31,		
	2015	2016	2017
	(in billions of Won)		
Problem loans	2,385	1,729	1,551
Potential problem loans <sup>(1)</sup>	1,603	1,158	937
Non-performing loans	2,909	2,080	1,853

(1) Potential problem loans are those classified as precautionary that we determine, through our internal loan review process, as requiring close management due to the borrower's financial condition, our forecast for the industry in which it operates or as a result of other developments relating to its business.

*Loan Aging Schedule*

The following table shows our loan aging schedule (excluding accrued interest) as of the dates indicated. In line with industry practice, we have restructured a portion of our delinquent credit card balances as loans.

As of December 31, 2017														
		Normal			Past due by 1 month or less		Past due by 1-3 months		Past due by 3-6 months		Past due by more than 6 months		Total	
					Amount past due		Amount past due		Amount past due		Amount past due		Amount	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
<b>Domestic</b>														
Corporate <sup>(1)</sup>														
Commercial and industrial	92,767	36.7%	172	0.1%	81	0.0%	98	0.0%	202	0.1%	93,320	36.9%		
Lease financing	25	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	25	0.0	0.0		
Trade financing	9,264	3.7	8	0.0	4	0.0	3	0.0	11	0.0	9,290	3.7		
Other commercial	21,238	8.4	5	0.0	5	0.0	1	0.0	34	0.0	21,283	8.4		
Total corporate	123,294	48.8	185	0.0	90	0.0	102	0.0	247	0.1	123,918	49.0		
Consumer														
General purpose household	34,084	13.5	165	0.1	41	0.0	30	0.0	54	0.0	34,374	13.6		

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Mortgages	47,104	18.7	277	0.1	46	0.0	23	0.0	26	0.0	47,476	18.8
Home equity	25,308	10.1	116	0.0	27	0.0	21	0.0	41	0.0	25,513	10.1
Total consumer	106,496	42.3	558	0.2	114	0.0	74	0.0	121	0.0	107,363	42.5
Credit cards	6,617	2.7	122	0.0	49	0.0	39	0.0	0.0	0.0	6,827	2.7
Total domestic	236,407	93.8	865	0.3	253	0.0	215	0.0	368	0.1	238,108	94.2
<b>Foreign</b>												
Corporate <sup>(2)</sup>												
Commercial and industrial												
	9,579	3.8	1	0.0	1	0.0	8	0.0	43	0.0	9,632	3.8
Trade financing	2,649	1.0	4	0.0	0	0.0	0	0.0	2	0.0	2,655	1.0
Other commercial												
	471	0.2	0	0.0	0	0.0	0	0.0	0	0.0	471	0.2
Total corporate	12,699	5.0	5	0.0	1	0.0	8	0.0	45	0.0	12,758	5.0
Consumer	1,864	0.8	2	0.0	3	0.0	1	0.0	57	0.0	1,927	0.8
Total foreign	14,563	5.8	7	0.0	4	0.0	9	0.0	102	0.0	14,685	5.8
Total loans <sup>(3)</sup>	250,970	99.6%	872	0.3%	257	0.0%	224	0.0%	470	0.1%	252,793	100.0%

(1) Including loans made to banks and the Korean government and government-owned agencies.

(2) Including loans made to banks.

(3) Not including due from banks and other receivables, and prior to deducting allowance for credit losses and present value discount or reflecting deferred origination costs.

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As of December 31, 2016												
Normal		Past due by 1 month or less		Past due by 1-3 months		Past due by 3-6 months		Past due by more than 6 months		Total		
(in billions of Won, except percentages)												
Amount		Amount past due		Amount past due		Amount past due		Amount past due		Amount		
	%		%		%		%		%		%	
<b>Domestic</b>												
Corporate <sup>(1)</sup>												
Commercial and industrial												
	88,313	37.4%	162	0.1%	98	0.0%	97	0.0%	298	0.2%	88,968	37.7%
Lease financing	7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7	0.0	0.0
Trade financing	10,671	4.5	4	0.0	4	0.0	10	0.0	10	0.0	10,699	4.5
Other commercial												
	12,843	5.4	6	0.0	2	0.0	17	0.0	55	0.0	12,923	5.4
Total corporate	111,834	47.3	172	0.1	104	0.0	124	0.0	363	0.2	112,597	47.6
Consumer												
General purpose household												
	30,412	12.9	141	0.1	30	0.0	21	0.0	80	0.0	30,684	13.0
Mortgages	47,328	20.1	225	0.1	38	0.0	18	0.0	21	0.0	47,630	20.2
Home equity	24,269	10.3	112	0.0	24	0.0	17	0.0	64	0.0	24,486	10.3
Total consumer	102,009	43.3	478	0.2	92	0.0	56	0.0	165	0.0	102,800	43.5
Credit cards	6,502	2.7	92	0.0	51	0.0	29	0.0	0.0	0.0	6,674	2.7
Total domestic	220,345	93.3	742	0.3	247	0.0	209	0.0	528	0.2	222,071	93.8
<b>Foreign</b>												
Corporate <sup>(2)</sup>												
Commercial and industrial												
	10,449	4.5	1	0.0	2	0.0	36	0.0	52	0.0	10,540	4.5
Trade financing	2,155	0.9	0.0	0.0	0.0	0.0	0.0	0.0	1	0.0	2,156	0.9
Other commercial												
	350	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	350	0.1	0.1
Total corporate	12,954	5.5	1	0.0	2	0.0	36	0.0	53	0.0	13,046	5.5
Consumer												
	1,664	0.7	2	0.0	6	0.0	2	0.0	10	0.0	1,684	0.7
Total foreign	14,618	6.2	3	0.0	8	0.0	38	0.0	63	0.0	14,730	6.2
Total loans <sup>(3)</sup>	234,963	99.5%	745	0.3%	255	0.0%	247	0.0%	591	0.2%	236,801	100.0%

(1) Including loans made to banks and the Korean government and government-owned agencies.



- (2) Including loans made to banks.
- (3) Not including due from banks and other receivables, and prior to deducting allowance for credit losses and present value discount or reflecting deferred origination costs.

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As of December 31, 2015												
Normal		Past due by 1 month or less		Past due by 1-3 months		Past due by 3-6 months		Past due by more than 6 months		Total		
(in billions of Won, except percentages)												
Amount		Amount past due		Amount past due		Amount past due		Amount past due		Amount		
Amount	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount	%	
<b>Domestic</b>												
Corporate <sup>(1)</sup>												
Commercial and industrial												
91,443	40.3%	158	0.1%	154	0.1%	534	0.2%	513	0.3%	92,802	41.0%	
Trade financing												
11,405	5.0	8	0.0	10	0.0	9	0.0	14	0.0	11,446	5.0	
Other commercial												
12,135	5.3	7	0.0	7	0.0	18	0.0	62	0.0	12,229	5.3	
Total corporate												
114,983	50.6	173	0.1	171	0.1	561	0.2	589	0.3	116,477	51.3	
Consumer												
General purpose household												
26,679	11.8	143	0.1	38	0.0	25	0.0	86	0.0	26,971	11.9	
Mortgages												
40,337	17.8	188	0.1	33	0.0	16	0.0	24	0.0	40,598	17.9	
Home equity												
24,391	10.7	130	0.1	35	0.0	23	0.0	78	0.0	24,657	10.8	
Total consumer												
91,407	40.3	461	0.3	106	0.0	64	0.0	188	0.0	92,226	40.6	
Credit cards												
5,899	2.6	103	0.0	50	0.0	47	0.0	0.0	0.0	6,099	2.6	
Total domestic												
212,289	93.5	737	0.4	327	0.1	672	0.2	777	0.3	214,802	94.5	
<b>Foreign</b>												
Corporate <sup>(2)</sup>												
Commercial and industrial												
9,484	4.3	7	0.0	3	0.0	5	0.0	19	0.0	9,518	4.3	
Trade financing												
1,419	0.6	0.0	0.0	0.0	0.0	1	0.0	1	0.0	1,421	0.6	
Other commercial												
192	0.1	0.0	0.0	0.0	0.0	0.0	0.0	14	0.0	206	0.1	
Total corporate												
11,095	5.0	7	0.0	3	0.0	6	0.0	34	0.0	11,145	5.0	
Consumer												
1,218	0.5	1	0.0	1	0.0	0.0	0.0	2	0.0	1,222	0.5	
Total foreign												
12,313	5.5	8	0.0	4	0.0	6	0.0	36	0.0	12,367	5.5	
Total loans <sup>(3)</sup>												
224,602	99.0%	745	0.4%	331	0.1%	678	0.2%	813	0.3%	227,169	100.0%	

(1) Including loans made to banks and the Korean government and government-owned agencies.

(2) Including loans made to banks.

- (3) Not including due from banks and other receivables, and prior to deducting allowance for credit losses and present value discount or reflecting deferred origination costs.

*Credit Exposures to Companies in Workout, Restructuring or Rehabilitation*

Workout is a voluntary procedure through which we, together with the borrower and other creditors, seek to restore the borrower's financial stability and viability. Previously, workouts were regulated under a series of Corporate Restructuring Promotion Acts, which last expired on December 31, 2015. In March 2016, the National Assembly of Korea adopted a new Corporate Restructuring Promotion Act, which is scheduled to expire on June 30, 2018. Under the new Corporate Restructuring Promotion Act, creditors of a financially troubled borrower may participate in a creditors' committee, which is authorized to prohibit such creditors from exercising their rights against the borrower, commence workout procedures and approve or make revisions to a reorganization plan prepared by the lead creditor bank, the borrower and external experts. The composition of the creditors' committee is determined at the initial meeting of the committee by the approval of creditors holding not less than 75% of the borrower's total outstanding debt held by creditors who were notified of the initial meeting of the committee. Although creditors that are not financial institutions or hold less than 1% of the total outstanding debt of the borrower need not be notified of the initial meeting of the creditors' committee, if such creditors wish to participate, they may not be excluded. Any decision of the creditors' committee requires the approval of creditors holding not less than 75% of the total outstanding debt of the borrower. However, if a single creditor holds 75% or more of the borrower's total outstanding debt held by the creditors comprising the creditors' committee, any decision of the creditors' committee requires the approval of not less than 40% of the total number of creditors (including such single creditor) comprising the committee. An additional approval of creditors holding not less than 75% of the secured debt is required with respect to the borrower's debt restructuring. Once approved, any decision made by the creditors' committee is binding on all creditors of the borrower, with the exception of those creditors that were excluded by a resolution of the committee at its initial meeting and those who exercised their right to request that their claims be purchased. Creditors that voted against

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commencement of workout, approval or revision of the reorganization plan, debt restructuring, granting of new credit, extension of the joint management process or other resolutions of the committee have the right to request the creditors that voted in favor of such matters to purchase their claims at a mutually agreed price. In the event that the parties are not able to agree on the terms of purchase, a coordination committee consisting of experts would determine the terms. The creditors that oppose a decision made by the coordination committee may request a court to change such decision.

Korean law also provides for corporate rehabilitation proceedings, which are court-supervised procedures to rehabilitate an insolvent company. Under these procedures, a restructuring plan is adopted at a meeting of interested parties, including creditors of the company. That restructuring plan is subject to court approval.

A portion of our loans to and debt securities of corporate customers are currently in workout, restructuring or rehabilitation. As of December 31, 2017, 529 billion, or 0.2%, of our total loans and debt securities were in workout, restructuring or rehabilitation. This included 245 billion of loans to and debt securities of large corporate borrowers in workout, restructuring or rehabilitation and 273 billion of loans to and debt securities of small- and medium-sized enterprises in workout, restructuring or rehabilitation, which represented 0.1% and 0.1% of our total loans and debt securities, respectively. Our Corporate Restoration Department manages our workout, restructured and rehabilitated loans. Upon approval of a workout, restructuring or rehabilitation plan, a credit exposure is initially classified as precautionary or lower and thereafter cannot be classified higher than precautionary with limited exceptions. If a corporate borrower is in workout, restructuring or rehabilitation, we take the status of the borrower into account in assessing our loans to and collateral from that borrower for purposes of establishing our allowance for credit losses.

The following table shows, as of December 31, 2017, our 10 largest exposures that were in workout, restructuring or rehabilitation:

Company	Loans						Collateral <sup>(1)</sup>	Amounts Classified as Substandard or Below <sup>(2)</sup>	Allowance for Credit Loss
	Won Currency	Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptance Exposures	Total			
	(in billions of Won)								
Orient Shipyard					76	76		76	18
Posco Plantec	68					68	20	68	49
Dongmoon Construction	49					49	20	28	9
STX Heavy Industries	19				19	38	25	13	13
DB Metal		22			8	30		30	19
Chuncheon Golf Academy	21					21	18	21	1
Dongbu Steel		13	4		1	18		1	1
NTS	17					17	11	17	2
Samhongsang	16					16	9		1
Korea Development	15					15		15	10
<b>Total</b>	<b>205</b>	<b>35</b>	<b>4</b>		<b>104</b>	<b>348</b>	<b>103</b>	<b>269</b>	<b>123</b>

- (1) The value of collateral is appraised based on future cash flow and observable market price.
- (2) Classification is based on the Financial Services Commission's asset classification criteria.

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As of December 31, 2017, we had 937 billion of corporate loans in respect of which we had serious doubt as to the borrower's ability to comply with repayment terms in the near future. Potential problem loans are those classified as precautionary that we determine, through our internal loan review process, as requiring close management due to the borrower's financial condition, our forecast for the industry in which it operates or as a result of other developments relating to its business. The following table shows changes in our potential problem loans between December 31, 2016 and 2017:

	<b>Amount (in billions of Won)</b>
<b>Balance of potential problem loans at December 31, 2016</b>	1,158
Increase in the balance of potential problem loans to borrowers who became newly classified as borrowers with potential problem loans in 2017	404
Decrease in the balance of potential problem loans to borrowers to whom we had potential problem loans outstanding at December 31, 2016 and have non-performing loans outstanding at December 31, 2017	(41)
Decrease in the balance of potential problem loans to borrowers to whom we had potential problem loans outstanding at December 31, 2016 but no longer have any loans outstanding at December 31, 2017	(515)
Decrease in the balance of potential problem loans to borrowers to whom we had potential problem loans outstanding at December 31, 2016 but have loans outstanding classified as normal at December 31, 2017	(74)
Net other decrease in the balance of potential problem loans to existing borrowers to whom we had potential problems loans outstanding at December 31, 2017	5
<b>Balance at December 31, 2017</b>	<b>937</b>

*Non-Performing Loans*

Non-performing loans include commercial and consumer loans which are past due by 90 days or more. In addition, non-performing loans include those loans that, even if they are not past due, are classified as substandard, doubtful or estimated loss based on the Financial Services Commission's asset classification criteria. Moreover, when a consumer loan borrower has any loans that are classified as substandard, doubtful or estimated loss under such criteria, all loans to such borrower are classified as non-performing loans. See Loan Classifications above. The following table shows, as of the dates indicated, certain details of our total non-performing loan portfolio:

	<b>2013<sup>(1)</sup></b>	<b>As of December 31,</b>			<b>2017</b>
		<b>2014</b>	<b>2015</b>	<b>2016</b>	
		<b>(in billions of Won, except percentages)</b>			
Total non-performing loans	4,996 <sup>(2)</sup>	3,818 <sup>(3)</sup>	2,909 <sup>(4)</sup>	2,080 <sup>(5)</sup>	1,853 <sup>(6)</sup>
As a percentage of total loans	2.58%	1.84%	1.28%	0.88%	0.73%

- (1) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.
- (2) Excludes 62 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.
- (3) Excludes 65 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.
- (4) Excludes 73 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.
- (5) Excludes 102 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.
- (6) Excludes 122 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.

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The above amounts do not include loans classified as substandard or below that we sold to United Asset Management Corp., or UAMCO, or to certain structured companies. See Sales of Non-Performing Loans.

We have also issued securities backed by non-performing loans and other assets. Some of these transactions involved transfers of loans through securitizations where control of the loans has not been surrendered and, therefore, are not treated as sale transactions. Instead, the assets remain on our balance sheet with the securitization proceeds treated as part of borrowings. These assets are included in the table above.

The following table sets forth, as of the dates indicated, our total non-performing loans by type of loan:

	2013 <sup>(1)</sup>		2014		As of December 31, 2015		2016		2017	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>(in billions of Won, except percentages)</b>										
<b>Domestic</b>										
Corporate										
Commercial and industrial	3,783	75.7%	2,751	72.1%	2,098	72.1%	1,222	58.8%	1,051	56.6%
Lease financing										0.0
Trade financing	343	6.9	160	4.2	199	6.9	259	12.4	288	15.6
Other commercial	313	6.3	300	7.9	142	4.9	151	7.3	98	5.3
<b>Total corporate</b>	<b>4,439</b>	<b>88.9</b>	<b>3,211</b>	<b>84.2</b>	<b>2,439</b>	<b>83.9</b>	<b>1,632</b>	<b>78.5</b>	<b>1,437</b>	<b>77.5</b>
Consumer										
General purpose household <sup>(2)</sup>	418	8.4	426	11.1	283	9.7	227	10.9	187	10.1
Mortgage	33	0.6	45	1.2	46	1.6	60	2.9	73	3.9
<b>Total consumer</b>	<b>451</b>	<b>9.0</b>	<b>471</b>	<b>12.3</b>	<b>329</b>	<b>11.3</b>	<b>287</b>	<b>13.8</b>	<b>260</b>	<b>14.0</b>
Credit cards	56	1.1	65	1.7	68	2.3	51	2.4	57	3.1
<b>Total domestic</b>	<b>4,946</b>	<b>99.0</b>	<b>3,747</b>	<b>98.2</b>	<b>2,836</b>	<b>97.5</b>	<b>1,970</b>	<b>94.7</b>	<b>1,754</b>	<b>94.6</b>
<b>Foreign</b>										
Corporate										
Commercial and industrial	47	0.9	51	1.3	41	1.4	91	4.4	74	4.0
Lease financing								0.0		0.0
Trade financing			3	0.1	2	0.1	1	0.0	2	0.1
Other commercial					14	0.5		0.0	7	0.4
<b>Total corporate</b>	<b>47</b>	<b>0.9</b>	<b>54</b>	<b>1.4</b>	<b>57</b>	<b>2.0</b>	<b>92</b>	<b>4.4</b>	<b>83</b>	<b>4.5</b>
Consumer	3	0.1	17	0.4	16	0.5	18	0.9	16	0.9
<b>Total foreign</b>	<b>50</b>	<b>1.0</b>	<b>71</b>	<b>1.8</b>	<b>73</b>	<b>2.5</b>	<b>110</b>	<b>5.3</b>	<b>99</b>	<b>5.4</b>
	<b>4,996</b>	<b>100.0%</b>	<b>3,818</b>	<b>100.0%</b>	<b>2,909</b>	<b>100.0%</b>	<b>2,080</b>	<b>100.0%</b>	<b>1,853</b>	<b>100.0%</b>



Total non-  
performing loans

- (1) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.
- (2) Includes home equity loans.

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The following table presents an analysis of the changes in our non-performing loans for 2017:

	<b>2017</b> <b>(in billions of Won)</b>
Non-performing loans as of January 1, 2017	2,080
Additions to non-performing loans	
Loans transferred into non-performing loans	1,443
Reductions in non-performing loans	
Loans sold	(319)
Loans modified and returned to performing loans	(189)
Loans paid down or paid off	(350)
Loans charged-off	(812)
Other	
Total net reductions to non-performing loans	(227)
Total non-performing loans as of December 31, 2017	1,853

*Top 20 Non-Performing Loans.* As of December 31, 2017, our 20 largest non-performing loans accounted for 53.2% of our total non-performing loan portfolio. The following table shows, as of that date, certain information regarding those loans:

	<b>Gross principal outstanding</b>	<b>Allowance for credit losses</b>	<b>Collateral<sup>(1)</sup></b>	<b>Industry</b>
	<b>(in billions of Won)</b>			
Borrower A	170	157	45	Manufacturing
Borrower B	166	139		Manufacturing
Borrower C	78	65		Manufacturing
Borrower D	72	12	68	Shipbuilding
Borrower E	71	40		Real estate
Borrower F	68	49	20	Manufacturing
Borrower G	53	38		Retail and wholesale
Borrower H	33	30		Manufacturing
Borrower I	32	30		Shipping
Borrower J	31	18		Shipbuilding
Borrower K	28	9	20	Construction
Borrower L	28	3	24	Real estate
Borrower M	27	16		Manufacturing
Borrower N	22	19		Manufacturing
Borrower O	21	1	18	Real estate
Borrower P	19	18		Manufacturing
Borrower Q	17	2		Real estate

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Borrower R	17	2	11	Manufacturing
Borrower S	17	14	17	Manufacturing
Borrower T	16	15		Manufacturing
Total	986	677	223	

(1) The value of collateral is appraised based on future cash flow and observable market price.

*Non-Performing Loans and Impaired Loans*

The term non-performing loan is used for our asset quality management in accordance with the Banking Industry Supervision Regulations of Korea, whereas the term impaired loan is used for financial reporting purposes based on our internal accounting policies in accordance with International Accounting Standard 39.

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Major differences between non-performing loans and impaired loans are as follows:

<b>Item</b>	<b>Non-performing loans</b>	<b>Impaired loans</b>
Relevant regulation or accounting principle	Banking Industry Supervision Regulations of Korea  (loans classified as substandard, doubtful or estimated loss )	Our internal policy based on IAS 39
Scope	Loans	Loans and receivables  (including due from banks and other receivables)
Purchased impaired loans	Not included	Included
Loans classified as precautionary based on the Financial Services Commission's asset classification criteria	Not included	Loans classified as precautionary, for which the borrower has a capital deficit or its auditor's opinion on its financial statements is modified or qualified, are included

The following table shows, as of the dates indicated, the amounts of impaired loans and non-performing loans:

	<b>As of December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>(in billions of Won)</b>		
Impaired loans	3,677	2,554	2,237
Precautionary loans meeting the definition of impaired loans <sup>(1)</sup>	81	142	51
Others	3,596	2,412	2,186
Non-performing loans	2,909	2,080	1,853

<sup>(1)</sup> Includes loans that are individually significant where the borrower has a capital deficit or its external auditor has expressed a qualified opinion or disclaimed its opinion on the borrower's financial statements.

*Non-Performing Loan Strategy*

One of our goals is to improve our asset quality, in part by reducing our non-performing loans. We have standardized our credit risk management systems to reduce our risks relating to future non-performing loans. Our credit rating systems are designed to prevent the extension of new loans to high-risk borrowers as determined by their credit rating. Our credit monitoring systems are designed to bring any sudden increase in a borrower's credit risk to our attention to enable close monitoring of such loans. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management.

Our Credit Management and Collection Department and the Corporate Restoration Department generally oversee the process for resolving non-performing loans transferred to them by other business groups. We believe that by centralizing the management of our non-performing loans, we can become more effective in dealing with the issues relating to these loans by pooling institutional knowledge and creating a more specialized workforce.

When a loan becomes non-performing, we will begin a due diligence review of the borrower's assets, send a notice demanding payment or stating that we will take legal action, and prepare for legal action. At the same time, we initiate our non-performing loan management process, which begins with:

identifying loans subject to a proposed sale by assessing the estimated losses from such sale based on the estimated recovery value of collateral, if any, for such non-performing loans;

identifying loans subject to charge-off based on the estimated recovery value of collateral, if any, for such non-performing loans and the estimated rate of recovery of unsecured loans; and

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on a limited basis, identifying corporate loans subject to normalization efforts based on the cash-flow situation of the borrower.

Once we have confirmed the details of a non-performing loan, we make efforts to recover amounts owed to us.

Methods for resolving non-performing loans include the following:

commencing collection proceedings;

commencing legal actions to seize collateral;

writing off these amounts, transferring them to specific subsidiaries in charge of collections and authorizing those subsidiaries to recover what they can with respect to these amounts or to sell these loans to third parties; and

with respect to large corporations, commencing or participating in voluntary workouts or restructurings mandated by Korean courts.

In addition to making efforts to collect on our non-performing loans, we also undertake measures to reduce the overall level of our non-performing loans. These measures include:

selling our non-performing loans to structured companies established in connection with our joint ventures with several financial institutions; and

selling our non-performing loans to third parties, including UAMCO.

See Sales of Non-Performing Loans. We generally expect to suffer a partial loss on loans that we sell or securitize, to the extent such sales and securitizations are recognized as such under IFRS.

*Foreclosure and Collateral.* We generally foreclose on mortgages or exercise our security interests in respect of other collateral if a collateralized obligation becomes overdue for more than three months. At that time, we will petition a court to foreclose on collateral and to sell that collateral through a court-supervised auction. Under Korean law, that petition must be filed with a court that has jurisdiction over the mortgaged property, and must be filed together with a copy of the mortgage agreement and an extract of the court registry regarding the subject property. The court will then issue an order to commence the foreclosure auction, which will be registered in the court registry of the subject property. If no bidder bids at least the minimum amount set by the court on the first auction date, the court will set another date for a subsequent auction approximately one month later. Each time a new auction date is set, the minimum auction price will be lowered by approximately 20%. Unlike laws relating to foreclosure in the United States, Korean law does not provide for non-judicial foreclosure. During 2015, 2016 and 2017, we foreclosed on collateral we obtained with respect to loan balances representing approximately 0.3%, 0.2% and 0.1% respectively, of our average interest-bearing loan balances in each of those periods.

Korean financial institutions, including us, maintain general policies to assess a potential customer's eligibility for loans based on that entity's credit quality, rather than requiring a particular level of collateral, especially in the case of

large corporate borrowers. As a result, the ratio of our collateral to non-performing corporate loans is relatively low when compared with our total exposures. For secured consumer loans, however, we generally impose limits on loan amounts based on the collateral we receive. See Consumer Banking Lending Activities.

We reflect this collateral level when we estimate the future cash flow for our loans, which we calculate using a discounted cash flow method. With respect to loans to borrowers that we do not believe will be going concerns in the future, the lower collateral ratio has a direct effect on cash flow estimates and results in a higher level of allowances. With respect to loans to borrowers that we expect to be going concerns, the lower collateral ratio has an effect on cash flow estimates but we also consider other factors, including future operating income and future asset disposals and restructuring, in determining allowance levels. Accordingly, for these latter borrowers, the effect of lower collateral levels on allowances is mitigated by other characteristics of the borrower, and that lower collateral level will not necessarily result in a higher level of allowances.

**Table of Contents***Sales of Non-Performing Loans*

The overall asset quality of our loan portfolio is affected by sales of non-performing loans. These sales have been made primarily to UAMCO and various structured companies as further described below.

The following table sets forth information regarding our sales of loans for the periods indicated:

Purchaser	Year Ended December 31,								
	2015			2016			2017		
	Net Carrying Amount <sup>(1)</sup>	Sale Price	Gain (Loss)	Net Carrying Amount <sup>(1)</sup>	Sale Price	Gain (Loss)	Net Carrying Amount <sup>(1)</sup>	Sale Price	Gain (Loss)
	(in billions of Won)								
Structured companies	162	193	31	213	244	31	260	273	13
UAMCO	247	303	56	66	78	12			
Others	167	140	(27)	218	259	41			
Total	576	636	60	497	581	84	260	273	13

<sup>(1)</sup> Net carrying amount represents the net value of non-performing loans after deduction of allowance for credit losses on such basis.

*United Asset Management Corp.* UAMCO was established in late 2009 in the wake of the global financial crisis by six major commercial banks in Korea, including us, to purchase, sell and securitize non-performing loans and to engage in corporate restructuring activities, among other things. Currently, we and six other banks each hold a 14% equity interest in UAMCO, while one other bank holds a 2% equity interest. We have committed to contribute approximately 177 billion of capital to UAMCO, of which approximately 87 billion has been contributed to date. Upon the fulfillment of such capital contribution commitments from us and the seven other banks, UAMCO may request a loan from the seven banks holding a 14% equity interest in UAMCO, which includes us, of up to a combined 2 trillion, upon which such seven banks must use their best efforts to fulfill such request pro rata to their ownership interests. Therefore, we have neither control nor significant influence over UAMCO.

Pursuant to a memorandum of understanding among the Financial Services Commission and seven banks, including us, a private equity fund was established in June 2011 to acquire approximately 1.2 trillion of non-performing bank loans to construction companies in workout, restructuring or rehabilitation. The general partner of the fund is UAMCO and the limited partners consist of the seven banks and other investors. The fund purchases non-performing bank loans at market price and the funds required to purchase such loans are contributed or lent by the same banks that sell such loans to the fund. In June 2011, we agreed to make a capital commitment of 148 billion and provide a 109 billion revolving loan facility to the fund. From June to December 2011, we contributed the entire amount of our capital commitment to the fund in connection with its purchase of 443 billion of non-performing loans from us. In 2012, we made an additional capital contribution of 44 billion to the fund in connection with its purchase of 44 billion of non-performing loans from us. We have determined that we have significant influence over the private equity fund.

Under the terms of our sale of loans to UAMCO and the private equity fund, we are not required to repurchase any such loans, provide post-sale price adjustments or otherwise continue to be involved with such loans subsequent to



their sale in any material respect. In addition, UAMCO and the private equity fund have the practical ability to sell non-performing loans in their entirety to unrelated third parties and are able to exercise such ability unilaterally without the need to impose additional restrictions, notwithstanding our ownership interest. Therefore, we believe we have not retained control over the transferred assets, and non-performing loans sold to UAMCO in 2015, 2016 and 2017 were derecognized in accordance with International Accounting Standard 39.

*Structured companies.* We transfer non-performing loans to structured companies, of which we do not have control over the significant operations. Most of the structured companies are investment funds that specialize in acquiring non-performing loans from Korean financial institutions, including us. In addition, we have not provided any financial guarantees or credit facilities nor invested in any such investment funds. As such, we

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believe that we have transferred substantially all of the risks and rewards of the relevant non-performing loans to the structured companies and have derecognized all non-performing loans that were transferred to structured companies in 2015, 2016 and 2017.

*Others.* In addition to sales of loans to UAMCO and various structured companies, we sell non-performing loans to various private investment companies. Pursuant to the terms of such sales to private investment companies, we are not required to repurchase any such loans, provide post-sale price adjustments or otherwise continue to be involved with such loans subsequent to their sale in any material respect.

*Allocation and Analysis of Allowances for Credit Losses*

The following table presents, as of the dates indicated, the allocation of our allowances for credit losses by loan type:

	As of December 31,									
	2013 <sup>(1)</sup>		2014		2015		2016		2017	
	(in billions of Won, except percentages)									
<b>Domestic</b>										
Corporate										
Commercial and industrial	2,336	69.9%	1,781	68.3%	1,297	63.2%	975	52.7%	893	50.4%
Lease financing									1	0.1
Trade financing	313	9.4	151	5.8	217	10.6	277	14.9	297	16.8
Other commercial	229	6.9	157	6.0	135	6.6	183	9.8	143	8.0
<b>Total corporate</b>	<b>2,878</b>	<b>86.2</b>	<b>2,089</b>	<b>80.1</b>	<b>1,649</b>	<b>80.4</b>	<b>1,435</b>	<b>77.4</b>	<b>1,334</b>	<b>75.3</b>
Consumer										
General purpose household <sup>(2)</sup>	284	8.5	301	11.5	184	9.0	149	8.0	187	10.6
Mortgage	15	0.4	19	0.7	11	0.5	9	0.5	11	0.6
<b>Total consumer</b>	<b>299</b>	<b>8.9</b>	<b>320</b>	<b>12.2</b>	<b>195</b>	<b>9.5</b>	<b>158</b>	<b>8.5</b>	<b>198</b>	<b>11.2</b>
Credit cards	106	3.2	129	4.9	146	7.1	155	8.4	182	10.3
<b>Total domestic</b>	<b>3,283</b>	<b>98.3</b>	<b>2,538</b>	<b>97.2</b>	<b>1,990</b>	<b>97.0</b>	<b>1,748</b>	<b>94.3</b>	<b>1,714</b>	<b>96.8</b>
<b>Foreign</b>										
Corporate										
Commercial and industrial	53	1.7	56	2.2	44	2.2	92	5.0	39	2.2
Trade financing	1		4	0.2	4	0.2	1	0.1	3	0.2
Other commercial					3	0.1	1	0.1	7	0.4
<b>Total corporate</b>	<b>54</b>	<b>1.7</b>	<b>60</b>	<b>2.4</b>	<b>51</b>	<b>2.5</b>	<b>94</b>	<b>5.2</b>	<b>49</b>	<b>2.8</b>
Consumer			11	0.4	10	0.5	9	0.5	7	0.4
<b>Total foreign</b>	<b>54</b>	<b>1.7</b>	<b>71</b>	<b>2.8</b>	<b>61</b>	<b>3.0</b>	<b>103</b>	<b>5.7</b>	<b>56</b>	<b>3.2</b>

Total allowance for credit losses <sup>(3)</sup>	3,337	100.0%	2,609	100.0%	2,051	100.0%	1,851	100.0%	1,770	100.0%
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- (1) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.
- (2) Includes home equity loans.
- (3) Not including due from banks and other receivables

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The following table presents an analysis of the changes in our allowances for credit losses for each of the years indicated:

	Year ended December 31,				
	2013 <sup>(1)</sup>	2014	2015	2016	2017
	(in billions of Won)				
Balance at the beginning of the period	3,565	3,337	2,609	2,051	1,851
Bad debt expenses for the period	2,557	1,076	1,029	822	896
Increase on repurchases of non-performing loans					
Gross charge-offs					
Domestic					
Corporate					
Commercial and industrial	(1,462)	(1,037)	(1,016)	(613)	(352)
Lease financing					
Trade financing	(108)	(62)	(82)	(67)	(29)
Other commercial	(47)	(68)	(30)	(19)	(39)
Total corporate	(1,617)	(1,167)	(1,128)	(699)	(420)
Consumer					
General purpose household <sup>(2)</sup>	(179)	(113)	(237)	(152)	(143)
Mortgage	(1)	(2)	(3)	(3)	(4)
Total consumer	(180)	(115)	(240)	(155)	(147)
Credit cards	(172)	(163)	(198)	(242)	(228)
Total domestic	(1,969)	(1,445)	(1,566)	(1,096)	(795)
Foreign	(8)	(7)	(11)	(23)	(37)
Allowances relating to loans sold	(161)	(150)	(141)	(115)	(66)
Total gross charge-offs	(2,138)	(1,602)	(1,718)	(1,234)	(898)
Recoveries:					
Domestic					
Corporate					
Commercial and industrial	140	53	158	153	65
Lease financing					
Trade financing	14	6	19	18	6
Other commercial	13	6	20	21	14
Total corporate	167	65	197	192	85
Consumer					
General purpose household <sup>(1)</sup>	34	6	16	29	25
Mortgage	8	3	13	25	20
Total consumer	42	9	29	54	45
Credit cards	26	28	34	44	51

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Total domestic	235	102	260	290	181
Foreign	1	1	1		1
Total recoveries	236	103	261	290	182
Net charge-offs	(1,902)	(1,499)	(1,457)	(944)	(716)
Foreign exchange translation effects	(1)	1		1	(3)
Others <sup>(3)</sup>	(225)	(306)	(130)	(79)	(258)
Adjustment from discontinued operations	(657)				
Balance at the end of the period	3,337	2,609	2,051	1,851	1,770
Ratio of net charge-offs during the period to average loans outstanding during the period	1.0%	0.8%	0.7%	0.4%	0.3%

(1) Includes discontinued operations.

(2) Includes home equity loans.

(3) Includes unwinding of discount.

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*Loan Charge-Offs*

The credit approval process we have implemented includes assessing credit risk before extending loans and monitoring outstanding loans, in order to minimize loans that must be charged off. To the extent charge-offs are required, we follow charge-off policies aimed at maximizing accounting transparency, minimizing any waste of resources in managing loans which have a low probability of being collected and reducing our non-performing loan ratio.

*Loans To Be Charged Off.* We charge off loans that are deemed to be uncollectible by virtue of their falling under any of the following categories:

loans for which collection is not foreseeable due to insolvency, bankruptcy, compulsory execution, disorganization, dissolution or the shutting down of the business of the debtor;

loans for which collection is not foreseeable due to the death or disappearance of the debtor;

loans for which expenses of collection exceed the collectable amount;

loans on which collection is not possible through legal or any other means;

payments in arrears in respect of credit cards that have been overdue for more than four payment cycles and have been classified as estimated loss (excluding instances where there has been partial payment of the overdue balance, where a related balance is not overdue or where a charge off is not possible due to Korean regulations), and those that have been overdue for more than six months;

payments outstanding on corporate and consumer loans (other than credit card receivables) that have been overdue for more than 12 months, and those on unsecured consumer loans that have been overdue for more than six 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.* In order to charge off corporate loans, an application for a charge-off must be submitted by a branch to the Credit Management and Collection Department promptly and, in any event, within one month after the corporate loan is classified as estimated loss. The department evaluates and approves the application. Then, we must seek an approval from the Financial Supervisory Service for our charge-offs, which is typically granted. At the same time, we refer the approval of the charge-off by the Credit Management and Collection Department to our Audit Committee for its review to ensure compliance with our internal procedures for charge-offs, which include consultations with the branch submitting the charge-off application. Once we receive approval from the Financial Supervisory Service, we must also obtain approval from our senior management to charge off those loans.

With respect to unsecured consumer loans and credit card balances, we follow a different process to determine which unsecured consumer loans and credit card balances should be charged-off, based on the length of time those loans or balances are past due. We charge off unsecured consumer loans which are 12 months overdue and credit card balances which have been overdue for more than four payment cycles and have been classified as estimated loss (excluding instances where there has been partial payment of the overdue balance, where a related balance is not overdue or where a charge off is not possible due to Korean regulations).

*Treatment of Loans Charged Off.* Once loans are charged off, we classify them as charged-off loans. These loans are then transferred to a wholly-owned subsidiary, Woori Credit Information, that is in charge of collections. It will attempt to recover amounts owed or to sell these loans to third parties.

In the case of collateralized loans, our general policy is to petition a court to foreclose and sell the collateral through a court-supervised auction if a collateralized loan becomes overdue for more than three months. If a debtor still fails to repay and the court grants its approval for foreclosure, we will sell the collateral, net of expenses incurred from the auction.

**Table of Contents***Credit Rehabilitation Programs for Delinquent Consumer Borrowers*

In light of the rapid increase in delinquencies in credit card and other consumer credit in recent years, and concerns regarding potential social issues posed by the growing number of individuals with bad credit, the 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 our collections and recoveries on our delinquent consumer credits.

In 2002, the Financial Services Commission established the Credit Counseling and Recovery Service based upon an agreement among approximately 160 financial institutions in Korea. Upon application to the Credit Counseling and Recovery Service and approval by creditor financial institutions representing a majority of the outstanding unsecured debt and two-thirds of the outstanding secured debt, a qualified credit delinquent person with outstanding debts to two or more financial institutions in an aggregate amount not exceeding 500 million may participate in an individual work-out program designed to restructure such person's debt and rehabilitate such person's credit. The aggregate amount of our loans which became subject to such individual work-out programs in 2017 was 55 billion. In 2017, we recovered approximately 5 billion with respect to our loans subject to such individual work-out programs.

Under the Korean Debtor Recovery and Bankruptcy Law, 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. The aggregate amount of our loans which became subject to such court-supervised debt restructuring in 2017 was 263 billion. In 2017, we recovered 28 billion with respect to our loans subject to such court-supervised debt restructuring.

In September 2008, to support consumer borrowers with low credit scores, the Financial Services Commission established the Credit Rehabilitation Fund to purchase from creditors the loans of such borrowers that are in default and to provide guarantees so that such loans may be refinanced at lower rates. The Credit Rehabilitation Fund provides support to (i) individuals with low credit scores who are in default on loans not exceeding 50 million in principal amount in the aggregate (which requirement will be waived for individuals who are basic living welfare recipients) for a period of three months or more and (ii) individuals with low credit scores ranging from category 6 to 10 who are in default on loans not exceeding 30 million in principal amount in the aggregate (which requirement will be waived for individuals who are basic living welfare recipients) and the interest rate of which is 30% or more.

In March 2009, the Financial Services Commission requested Korean banks, including us, to establish a pre-workout program, including a credit counseling and recovery service, for retail borrowers with outstanding short-term debt. Under the pre-workout program, maturity extensions and/or interest rate adjustments are provided to retail borrowers with total loans of less than 1.5 billion (consisting of no more than 500 million of unsecured loans and 1 billion of secured loans) who are in arrears on their payments for more than 30 days but less than 90 days. The aggregate amount of consumer credit (including credit card receivables) we provided which became subject to the pre-workout program in 2017 was 32 billion. See Item 3.D. Risk Factors Risks relating to our consumer credit portfolio We may experience increases in delinquencies in our consumer loan and credit card portfolios.

*Securities Investment Portfolio**Investment Policy*

We invest in and trade Won-denominated securities and, to a lesser extent, foreign currency-denominated securities for our own account to:



maintain asset stability and diversification;

maintain adequate sources of back-up liquidity to match funding requirements; and

supplement income from core lending activities.

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In making securities investments, we take into account a number of factors, including external broker analyses and internal assessments of macroeconomic trends, industry analysis, credit evaluation, maturity and trading history in determining whether to make a particular investment.

Our investments in debt securities include primarily bonds issued by government-related entities, as well as corporate bonds that have been guaranteed by banks (other than merchant banks), government-related funds or privately capitalized funds that we consider to have a low credit risk.

Our securities investments are subject to various regulations, including limitations prescribed under the Bank Act. Under these regulations, we must limit our investments in equity securities and bonds with a maturity in excess of three years (other than monetary stabilization bonds issued by the Bank of Korea and Korean government bonds) to 100% of the sum of our total Tier I and Tier II capital amount (less any capital deductions). We are also generally prohibited from acquiring more than 15% of the shares with voting rights issued by any other corporation. We and our trust accounts are prohibited from acquiring the shares of any of our major shareholders, as defined in Supervision and Regulation Principal Regulations Applicable to Banks Financial Exposure to Any Individual Customer or Major Shareholder, in excess of an amount determined by the Enforcement Decree of the Bank Act within a maximum limit of 1% of the sum of our Tier I and Tier II capital (less any capital deductions). Further information on the regulatory environment governing our investment activities is set out in Supervision and Regulation Principal Regulations Applicable to Banks Liquidity and Restrictions on Shareholdings in Other Companies.

Our investments in foreign currencies are subject to certain limits and restrictions specified in our internal guidelines relating to country exposure, a single issuer and type of security exposure, and total investments by individual business groups.

**Table of Contents***Book Value and Fair Value*

The following table sets out the book value and fair value of securities in our portfolio as of the dates indicated:

	2015		As of December 31, 2016		2017	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
(in billions of Won)						
<b>Financial assets at fair value through profit and loss</b>						
<b>Financial assets held for trading</b>						
Equity securities	63	63	36	36	22	22
Beneficiary certificates	14	14	24	24	13	13
Others	10	10	4	4		
<b>Debt securities</b>						
Korean treasury and government agencies	798	798	519	519	540	540
Financial institutions	1,175	1,175	1,445	1,445	1,477	1,477
Corporate	644	644	681	681	627	627
Total Financial assets held for trading	2,704	2,704	2,709	2,709	2,679	2,679
<b>Financial assets designated at FVTPL</b>						
Debt securities	1	1	4	4	10	10
Equity securities	12	12	13	13	13	13
Total Financial assets designated at FVTPL	13	13	17	17	23	23
<b>Available-for-sale financial assets</b>						
Equity securities	1,338	1,338	1,454	1,454	1,411	1,411
Beneficiary certificates	1,118	1,118	2,822	2,822	713	713
Others	726	726	494	494	170	170
<b>Debt securities</b>						
Korean treasury and government agencies	3,559	3,559	3,789	3,789	2,331	2,331
Financial institutions	5,626	5,626	6,314	6,314	5,217	5,217
Corporate	3,888	3,888	4,409	4,409	2,725	2,725
Asset backed securities	258	258	249	249	308	308
Foreign currency bonds	638	638	1,212	1,212	2,443	2,443
Others	20	20	75	75	35	35
Total Available-for-sale financial assets	17,171	17,171	20,818	20,818	15,353	15,353
<b>Held-to-maturity financial assets</b>						
<b>Debt securities</b>						

Korean treasury and government agencies	3,367	3,431	3,754	3,774	3,995	3,987
Financial institutions	4,138	4,164	5,169	5,173	7,245	7,233
Corporate	6,021	6,123	4,823	4,874	5,312	5,299
Foreign currency bonds	96	96	164	164	197	197
<b>Total Held-to-maturity financial assets</b>	<b>13,622</b>	<b>13,814</b>	<b>13,910</b>	<b>13,985</b>	<b>16,749</b>	<b>16,716</b>
<b>Total securities</b>	<b>33,510</b>	<b>33,702</b>	<b>37,454</b>	<b>37,529</b>	<b>34,804</b>	<b>34,771</b>

**Table of Contents***Maturity Analysis*

The following table categorizes our debt securities by maturity and weighted average yield as of December 31, 2017:

	As of December 31, 2017									
	Within 1 year		Over 1 but Within 5 years (in billions of Won, except percentages)		Over 5 but Within 10 years		Over 10 years		Total	
	Weighted Average Amount	Yield <sup>(1)</sup>	Weighted Average Amount	Yield <sup>(1)</sup>	Weighted Average Amount	Yield <sup>(1)</sup>	Weighted Average Amount	Yield <sup>(1)</sup>	Weighted Average Amount	Yield <sup>(1)</sup>
<b>Financial assets at fair value through profit or loss:</b>										
<b>Financial assets held for trading</b>										
Korean treasury and government agencies	151	2.75%	263	2.07%	126	2.24%		%	540	2.30%
Financial institutions	867	1.51	560	1.77	50	3.06			1,477	1.66
Corporate	354	2.55	253	2.46	20	2.99			627	2.53
Total	1,372	1.91%	1,076	2.00%	196	2.53%		%	2,644	2.00%
<b>Financial assets designated at fair value through profit or loss</b>										
Corporate		%	10	1.72%		%		%	10	1.72%
<b>Available-for-sale financial assets</b>										
Korean treasury and government agencies	1,719	2.38%	559	2.13%	49	2.16%	4	3.39%	2,331	2.32%
Financial institutions	3,641	1.66	1,576	1.85					5,217	1.72
Corporate	1,917	2.27	718	2.33	90	2.61			2,725	2.30
Asset backed securities	40	3.01	209	3.16	59	5.09			308	3.51
Foreign currency bonds	1,007	2.40	1,309	2.20	74	3.30	53	3.87	2,443	2.35
Others	35	2.45							35	2.45
Total	8,359	2.05%	4,371	2.13%	272	3.25%	57	3.84%	13,059	2.11%
<b>Held-to-maturity financial assets</b>										
	1,874	2.64%	2,113	2.15%	8	4.58%		%	3,995	2.38%

Korean treasury and government agencies										
Financial institutions	4,216	1.59	3,029	1.79					7,245	1.68
Corporate	1,052	2.88	3,885	2.51	238	2.49	137	1.96	5,312	2.57
Foreign currency bonds	38	0.64	125	4.35	18	2.78	16	2.89	197	3.39
Total	7,180	2.05%	9,152	2.21%	264	2.57%	153	2.06%	16,749	2.15%

(1) The weighted average yield for the portfolio represents the yield to maturity for each individual security, weighted using its book value (which is the amortized cost in the case of held-to-maturity financial assets and the fair value in the case of available-for-sale financial assets and financial assets at fair value through profit or loss).

#### *Risk Concentrations*

As of December 31, 2017, we held the following securities of individual issuers where the aggregate book value of those securities exceeded 10% of our owners' equity at such date. As of December 31, 2017, our owners' equity was 20,366 billion.

Name of issuer:	As of December 31, 2017	
	Book Value	Market Value
	(in billions of Won)	
Korean government	6,760	6,751
The Bank of Korea	6,610	6,601
Korea Housing Finance Corporation	3,172	3,159
The Korea Development Bank	4,253	4,252
Total	20,795	20,763

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The Bank of Korea, Korea Housing Finance Corporation and the Korea Development Bank are Korean government entities.

**Funding**

We fund our lending and other activities using various sources, both domestic and foreign. Our primary funding strategy is to maintain stable and low-cost funding. We have in the past achieved this in part by increasing the average balances of low-cost customer deposits, in particular demand deposits and savings deposits.

Customer deposits are our principal funding source. Customer deposits accounted for 82.2% of our total funding as of December 31, 2015, 82.8% of our total funding as of December 31, 2016 and 82.7% of our total funding as of December 31, 2017.

We also acquire funding through the following sources:

long-term debt, including the issuance of senior and subordinated debentures and borrowings from government-affiliated funds and entities and other financial institutions;

short-term borrowings, including borrowings from our trust accounts and from the Bank of Korea, and call money; and

the issuance of hybrid securities, including bond-type hybrid securities.

As of December 31, 2017, approximately 87.5% of our total funding was denominated in Won.

**Deposits**

Although the majority of our deposits are short-term, it has been our experience that the majority of our depositors generally roll over their deposits at maturity, providing us with a stable source of funding. See Item 3.D. Risk Factors Other risks relating to our business Our funding is highly dependent on short-term deposits, which dependence may adversely affect our operations. The following table shows the average balances of our deposits and the average costs of our deposits for the periods indicated:

	For the year ended December 31,					
	2015		2016		2017	
	Average Balance <sup>(1)</sup>	Average Cost	Average Balance <sup>(1)</sup>	Average Cost	Average Balance <sup>(1)</sup>	Average Cost
	(in billions of Won, except percentages)					
Demand deposits	8,376	0.51%	9,742	0.78%	8,319	0.63%
Time deposits and savings deposits	168,212	1.53	181,073	1.20	186,277	1.08
Certificates of deposit	1,880	1.91	3,476	1.70	4,553	1.71
Other deposits <sup>(2)</sup>	19,294	1.22	23,405	1.05	24,444	0.99

Average total deposits	197,762	1.46%	217,696	1.17%	223,593	1.06%
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- (1) Average balances are based on daily balances for us and on quarterly balances for all of our subsidiaries and our structured companies.
- (2) Mutual installment deposits are interest-bearing deposits offered by us, which enable customers to become eligible to apply for loans secured by such deposits while they maintain an account with us. In order to qualify to apply for such a loan, a customer must make required periodic deposits to the mutual installment account for a contracted term of less than five years. Any such loan will be secured in an amount up to the holder's mutual installment deposit and will be subject to the same loan underwriting policy we apply for other secured loans. For the portion of the loan, if any, that is not secured, we apply the same loan underwriting policy as we would for other unsecured loans.

For a description of our retail deposit products, see [Business Consumer Banking Lending Activities Mortgage and Home Equity Lending](#) and [Business Consumer Banking Deposit-Taking Activities](#).



**Table of Contents***Maturities of Certificates of Deposit and Other Time Deposits*

The following table presents, as of December 31, 2017, the remaining maturities of our certificates of deposit and other time deposits which had fixed maturities in excess of 100 million:

	<b>As of December 31, 2017</b>		
	<b>Certificates of Deposit</b>	<b>Other Time Deposits</b>	<b>Total</b>
	<b>(in billions of Won)</b>		
Maturing within three months	1,570	27,067	28,637
After three but within six months	1,443	22,358	23,801
After six but within 12 months	1,167	35,314	36,481
After 12 months	192	3,591	3,783
<b>Total</b>	<b>4,372</b>	<b>88,330</b>	<b>92,702</b>

*Long-Term Debt*

The aggregate amount of contractual maturities of all long-term debt, which consists of debentures and borrowings with original maturities exceeding one year, as of December 31, 2017 was as follows:

	<b>Amount</b>
	<b>(in billions of Won)</b>
Due in 2018	12,150
Due in 2019	7,970
Due in 2020	8,624
Due in 2021	2,444
Due in 2022	2,862
Thereafter	3,108
<b>Gross long-term debt</b>	<b>37,158</b>
Less: discount	(30)
<b>Total long-term debt, net</b>	<b>37,128</b>

**Table of Contents***Short-Term Borrowings*

The following table presents, for the periods indicated, information regarding our short-term borrowings, with an original maturity of one year or less:

	<b>As of and for the year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>(in billions of Won, except percentages)</b>		
<b>Call money</b>			
Year-end balance	2,039	1,927	635
Average balance <sup>(1)</sup>	2,531	1,991	1,527
Maximum balance	3,712	3,250	3,375
Average interest rate <sup>(2)</sup>	1.3%	1.3%	2.0%
Year-end interest rate	0.3~5.2%	0.0~5.1%	1.5~2.7%
<b>Borrowings from the Bank of Korea<sup>(3)</sup></b>			
Year-end balance	1,476	1,599	1,404
Average balance <sup>(1)</sup>	1,335	1,474	1,402
Maximum balance	1,580	1,608	1,457
Average interest rate <sup>(2)</sup>	0.7%	0.7%	0.7%
Year-end interest rate	0.5-0.8%	0.5~0.8%	0.5~0.8%
<b>Other short-term borrowings<sup>(4)</sup></b>			
Year-end balance	7,095	5,974	6,750
Average balance <sup>(1)</sup>	7,078	7,192	7,087
Maximum balance	7,905	9,722	7,694
Average interest rate <sup>(2)</sup>	1.5%	1.3%	1.4%
Year-end interest rate	0.2~3.8%	0.01~2.9%	0.01~5.0%

(1) Average balances are based on monthly balances.

(2) Average interest rates for the year are calculated by dividing the total interest expense 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 include borrowings from trust accounts, bills sold, borrowings in domestic and foreign currency, short-term secured borrowings and foreign currency debentures. Other short-term borrowings have maturities of 30 days to one year and are unsecured.

**Supervision and Regulation***Principal Regulations Applicable to Banks**General*

The banking system in Korea is governed by the Bank Act of 1950, as amended and the Bank of Korea Act of 1950, as amended. In addition, Korean banks are subject to the regulations and supervision of the Bank of Korea, the Monetary Policy Committee of the Bank of Korea, the Financial Services Commission and its executive body, the Financial Supervisory Service.

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 with a focus on financial stability. 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 Financial Services Commission, established on April 1, 1998, regulates commercial banks pursuant to the Bank Act, including establishing guidelines on capital adequacy of commercial banks, and promulgates regulations relating to supervision of banks. Furthermore, the Financial Services Commission regulates market entry into the banking business.

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The Financial Supervisory Service, established on January 2, 1999, is subject to the instructions and directives of the Financial Services Commission and carries out supervision and examination of commercial banks. In particular, the Financial Supervisory Service 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 Financial Services Commission 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 Bank Act, approval to commence a commercial banking business or a long-term financing business must be obtained from the Financial Services Commission. Commercial banking business is defined as the lending of funds acquired predominantly from the acceptance of demand deposits for a period not exceeding one year or subject to the limitation established by the Financial Services Commission, for a period between one year and three years. Long-term financing business is defined as the lending, for periods in excess of one year, of funds acquired predominantly from paid-in capital, reserves or other retained earnings, the acceptance of time deposits with maturities of at least one year, or the issuance of debentures or other bonds. A bank wishing to enter into any business other than commercial banking and long-term financing businesses, such as the trust business, must obtain approval from the Financial Services Commission. Approval to merge with any other banking institution, to liquidate, to spin off, to close a banking business or to transfer all or a part of a business must also be obtained from the Financial Services Commission.

If the Financial Services Commission 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 Financial Services Commission may order:

admonitions or warnings with respect to its officers;

capital increases or reductions;

assignments of contractual rights and obligations relating to financial transactions;

a suspension of performance by its officers of their duties and the appointment of receivers;

disposals of property holdings or closures of subsidiaries or branch offices or downsizing;

stock cancellations or consolidations;

mergers with other financial institutions;

acquisition of such bank by a third party; or

suspensions of a part or all of its business operations.

*Capital Adequacy*

The Bank Act requires nationwide banks, such as us, to maintain a minimum paid-in capital of 100 billion and regional banks to maintain a minimum paid-in capital of 25 billion. All banks, including foreign bank branches in Korea, are also required to maintain a prescribed solvency position. A bank must also set aside in its legal reserve an amount equal to at least 10% of the net income after tax each time it pays dividends on net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

Under the Detailed Regulation on the Supervision of the Banking Business, the capital of a bank is divided into two categories, Tier I and Tier II capital. Tier I capital (core capital) consists of (i) Tier I common equity capital, including paid-in capital, capital surplus and retained earnings related to common equity and accumulated other comprehensive gains and losses, and (ii) additional Tier I capital, including paid-in capital and capital surplus related to hybrid Tier I capital instruments that, among other things, qualify as contingent capital and are subordinated to subordinated debt. Tier II capital (supplementary capital) consists of, among other things, capital and capital surplus from the issuance of Tier II capital instruments, allowances for loan losses on loans classified as normal or precautionary, subordinated debt and other capital securities which meet the standards prescribed by the governor of the Financial Supervisory Service under Article 26(2) of the Regulation on the Supervision of the Banking Business.

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All banks must meet minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with Financial Services Commission requirements that have been formulated based on BIS standards. These requirements were adopted and became effective in 1996, and were amended effective January 1, 2008 upon the implementation by the Financial Supervisory Service of Basel II. Under such requirements, all domestic banks and foreign bank branches must meet a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8.0%. Commencing in July 2013, the Financial Services Commission promulgated a series of amended regulations implementing Basel III in Korea, pursuant to which Korean banks and bank holding companies were required to maintain a minimum ratio of Tier I common equity capital to risk-weighted assets of 3.5% and Tier I capital to risk-weighted assets of 4.5% from December 1, 2013, which minimum ratios were increased to 4.0% and 5.5%, respectively, from January 1, 2014 and increased further to 4.5% and 6.0%, respectively, from January 1, 2015. Such requirements are in addition to the pre-existing requirement for a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8.0%, which remains unchanged. The amended regulations also require an additional capital conservation buffer of 1.25% in 2017 and 1.875% in 2018, with such buffer to increase to 2.5% in 2019, as well as a potential counter-cyclical capital buffer of up to 2.5%, which is determined on a quarterly basis by the Financial Services Commission. Furthermore, we were designated as one of six domestic systemically important banks for 2017 by the Financial Services Commission and were subject to an additional capital requirement of 0.5% in 2017. In June 2017, we were again designated as a domestic systemically important bank for 2018, which would subject us to an additional capital requirement of 0.75% in 2018, with such potential requirement to increase to 1.0% in 2019.

Under the Detailed Regulation on the Supervision of the Banking Business, the following risk-weight ratios must be applied by Korean banks in respect of home mortgage loans:

- (1) for those banks which adopted a standardized approach for calculating credit risk capital requirements, a risk-weight ratio of 35% (only in the case where the loan is fully secured by a first ranking mortgage) and, with respect to high-risk home mortgage loans, 50% or 70%; and
- (2) for those banks which adopted an internal ratings-based approach for calculating credit risk capital requirements, a risk-weight ratio calculated with reference to the probability of default, loss given default and exposure at default, each as defined under the Detailed Regulation on the Supervision of the Banking Business.

*Liquidity*

All banks are required to ensure adequate liquidity by matching the maturities of their assets and liabilities in accordance with the Regulation on the Supervision of the Banking Business. Banks may not invest an amount exceeding 100% of their Tier I and Tier II capital (less any capital deductions) in equity securities and certain other securities with a redemption period of over three years. This stipulation does not apply to Korean government bonds, Monetary Stabilization Bonds issued by the Bank of Korea or debentures and stocks referred to in items 1 and 2, respectively, of paragraph (6) of Article 11 of the Act on the Improvement of the Structure of the Financial Industry. The Financial Services Commission uses the liquidity coverage ratio as the principal liquidity risk management measure, and currently requires each Korean bank to:

maintain a liquidity coverage ratio (defined as the ratio of highly liquid assets to total net cash outflows over a 30-day period) of not less than 95%, from January 1, 2018 until December 31, 2018, with such minimum liquidity coverage ratio to increase to 100% in 2019;

maintain a foreign currency liquidity coverage ratio of not less than 70% from January 1, 2018 until December 31, 2018, with such minimum foreign currency liquidity coverage ratio to increase to 80% in 2019; provided, however, that the foreign currency liquidity ratio (defined as the ratio of foreign currency assets due within three months to foreign currency liabilities due within three months) would apply if the amount of foreign currency assets and the ratio of foreign currency liabilities to total liabilities are less than the respective amount and ratio, or in certain other cases, specified under the Bank Act and the regulations thereunder; and

submit monthly reports with respect to the maintenance of these ratios.

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The Monetary Policy Committee of the Bank of Korea is empowered to fix and alter minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratios are:

7% of average balances for Won currency demand deposits outstanding;

0% of average balances for Won currency employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding (with respect to employee-related deposits, only if such deposits were made before February 28, 2013); and

2% of average balances for Won currency time deposits, installment savings deposits, mutual installments, housing installments and certificates of deposit outstanding.

For foreign currency deposit liabilities, a 2% minimum reserve ratio is applied to time deposits with a maturity of one month or longer, certificates of deposit with a maturity of 30 days or longer and savings deposits with a maturity of six months or longer and a 7% minimum reserve ratio is applied to other deposits. A 1% minimum reserve ratio applies to deposits in offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks as well as foreign currency certificates of deposit held by account holders of such offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

Furthermore, under the Regulation on the Supervision of the Banking Business, we are required to maintain a minimum mid- to long-term foreign exchange funding ratio of 100%. Mid-to long term foreign exchange funding ratio refers to the ratio of (1) the total outstanding amount of foreign exchange borrowing with a maturity of more than one year to (2) the total outstanding amount of foreign exchange lending with a maturity of one year or more.

*Amendments Relating to Net Stable Funding Ratio and Leverage Ratio Requirements*

Effective January 31, 2018, the Financial Services Commission implemented amendments to the Regulation on Supervision of the Banking Business that impose certain liquidity- and leverage-related ratio requirements on banks in Korea, in accordance with Basel III. Pursuant to these amendments, each Korean bank is required to:

maintain a net stable funding ratio (defined as the ratio of the available amount of stable funding to the required amount of stable funding) of not less than 100%, where (i) the available amount of stable funding generally refers to the portion of liabilities and capital expected to be reliable over a one-year time horizon and (ii) the required amount of stable funding generally refers to the portion of assets requiring stable funding over a time horizon of one year or longer, each as calculated in accordance with the Detailed Regulation on Supervision of the Banking Business;

maintain a leverage ratio (defined as the ratio of core capital to total exposures) of not less than 3%, where (i) core capital includes paid-in capital, capital surplus, retained earnings and hybrid Tier I capital instruments and (ii) total exposures include on-balance sheet exposures and off-balance sheet exposures, each as calculated in accordance with the Detailed Regulation on Supervision of the Banking Business; and



submit monthly reports with respect to the maintenance of these ratios.

*Financial Exposure to Any Individual Customer or Major Shareholder*

Under the Bank Act, subject to certain exceptions, the sum of large exposures by a bank in other words, the total sum of its credits to single individuals, juridical persons or business groups that exceed 10% of the sum of Tier I and Tier II capital (less any capital deductions) generally must not exceed five times the sum of Tier I and Tier II capital (less any capital deductions). In addition, subject to certain exceptions, banks generally may not extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and any other transactions that directly or indirectly create credit risk) in excess of 20% of the sum of Tier I and Tier II capital (less any capital deductions) to a single individual or juridical person, or grant credit in excess of 25% of

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the sum of Tier I and Tier II capital (less any capital deductions) to a single group of companies as defined in the Monopoly Regulations and Fair Trade Act.

The Bank Act also provides for certain restrictions on extending credits to a major shareholder. A major shareholder is defined as:

a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 10%; (or 15% in the case of regional banks) in the aggregate of the bank's total issued and outstanding voting shares; or

a shareholder holding (together with persons who have a special relationship with such shareholder) in excess of 4% in the aggregate of the bank's (excluding regional banks) total issued and outstanding voting shares of a bank (excluding shares subject to the shareholding restrictions on non-financial business group companies as described below), where such shareholder is the largest shareholder or has actual control over the major business affairs of the bank through, for example, appointment and dismissal of the officers pursuant to the Enforcement Decree of the Bank Act. Non-financial business group companies primarily consist of: (i) any single shareholding group whose non-financial company assets comprise no less than 25% of its aggregate net assets; (ii) any single shareholding group whose non-financial company assets comprise no less than 2 trillion in aggregate; or (iii) any investment company under the Financial Investment Services and Capital Markets Act of which any single shareholding group identified in (i) or (ii) above, owns more than 4% of the total issued and outstanding shares. See Supervision and Regulation Principal Regulations Applicable to Banks Restrictions on Bank Ownership.

Under these restrictions, banks may not extend credits to a major shareholder (together with persons who have a special relationship with that shareholder) in an amount greater than the lesser of (x) 25% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) and (y) the relevant major shareholders' shareholding ratio multiplied by the sum of the bank's Tier I and Tier II capital (less any capital deductions). In addition, the total sum of credits granted to all major shareholders must not exceed 25% of the bank's Tier I and Tier II capital (less any capital deductions).

*Interest Rates*

Korean banks generally depend on deposits as their primary funding source. Under the Act on Registration of Credit Business and Protection of Finance Users, as last amended in March 2016, interest rates on loans made by registered banks in Korea to individuals or small corporations, as defined under the Framework Act on Small and Medium Enterprises, may not exceed 27.9% per annum. Such restriction is scheduled to expire on December 31, 2018. Historically, interest rates on deposits and lending were regulated by the Monetary Policy Committee. There are no controls on deposit interest rates in Korea, except for the prohibition on interest payments on current account deposits.

*Lending to Small- and Medium-Sized Enterprises*

In order to obtain funding from the Bank of Korea at concessionary rates for their small- and medium-sized enterprise loans, banks are required to allocate a certain minimum percentage of any quarterly increase in their Won currency lending to small- and medium-sized enterprises. Currently, this minimum percentage is 45% in the case of nationwide banks and 60% in the case of regional banks. If a bank does not comply with this requirement, the Bank of Korea may:

require the bank to prepay all or a portion of funds provided to that bank in support of loans to small- and medium-sized enterprises; or

lower the bank's credit limit.

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### *Disclosure of Management Performance*

For the purpose of protecting depositors and investors in commercial banks, the Financial Services Commission requires commercial banks to publicly disclose certain material matters, including:

financial condition and profit and loss of the bank and its subsidiaries;

fund raising by the bank and the appropriation of such funds;

any sanctions levied on the bank under the Bank Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry; and

except as may otherwise have been disclosed by a bank or its financial holding company listed on the KRX KOSPI Market in accordance with the Financial Investment Services and Capital Markets Act, occurrence of any of the following events or any other event as prescribed by the applicable regulations:

- (i) 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 that borrower is calculated pursuant to the criteria under the Detailed Regulation on the Supervision of the Banking Business), unless the loan exposure to that group is not more than 4 billion; and
- (ii) 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, unless the loss is not more than 1 billion.

### *Restrictions on Lending*

Pursuant to the Bank Act, commercial banks may not provide:

loans directly or indirectly secured by a pledge of a bank's own shares;

loans directly or indirectly to enable a natural or juridical person to buy the bank's own shares;

loans to any of the bank's officers or employees, other than *de minimis* loans of up to (i) 20 million in the case of a general loan, (ii) 50 million in the case of a general loan plus a housing loan or (iii) 60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions;

credit (including loans) secured by a pledge of shares of a subsidiary corporation of the bank or to enable a natural or juridical person to buy shares of a subsidiary corporation of the bank; or

loans to any officers or employees of a subsidiary corporation of the bank, other than general loans of up to 20 million or general and housing loans of up to 50 million in the aggregate.

*Regulations Relating to Retail Household Loans*

The Financial Services Commission has implemented a number of changes in recent years to the regulations relating to retail household lending by banks. Under the currently applicable regulations:

as to loans secured by collateral of housing (including apartments) located nationwide, the loan-to-value ratio (the aggregate principal amount of loans secured by such collateral over the appraised value of the collateral) should not exceed 70%;

as to loans secured by collateral of housing (including apartments) located in areas of excessive investment or housing (including apartments) located in areas of high speculation, in each case as designated by the government, (i) the loan-to-value ratio should not exceed 40%, except that the loan-to-value ratio for first-home buyers, low-income households with an annual income of less than 70 million (for first home buyers, 80 million) or buyers of low-price housing valued at less than 600 million should not exceed 50%;

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as to any new loans secured by collateral of housing to be extended to a household, any member of which has already received one or more loans secured by the collateral of housing, the maximum loan-to-value ratio is 10% lower than the applicable loan-to-value ratio described above;

as to loans secured by collateral of housing (including apartments) located in areas of excessive investment or housing (including apartments) located in areas of high speculation, in each case, as designated by the government, the borrower's debt-to-income ratio (calculated as (i) the aggregate annual total payment amount of (x) the principal of and interest on loans secured by such housing and (y) the interest on other debts of the borrower over (ii) the borrower's annual income) should not exceed 40%, except that the debt-to-income ratio for first-home buyers, low-income households with an annual income of less than 70 million or buyers of low-price housing valued at less than 600 million should not exceed 50%;

as to any new loans secured by collateral of housing to be extended to a household, any member of which has already received one or more loans secured by collateral of housing, the maximum debt-to-income ratio is 10% lower than the applicable debt-to-income ratio described above;

as to apartments located in areas of high speculation as designated by the government, a household is permitted to have only one new loan secured by such apartment; and

where a household has two or more loans secured by apartments located in areas of high speculation as designated by the government, the loan with the earliest maturity date must be repaid first and the number of loans must be eventually reduced to one.

*Restrictions on Investments in Property*

A bank may not invest in securities set forth below in excess of 100% of the sum of the bank's Tier I and Tier II capital (less any capital deductions):

debt securities (within the meaning of paragraph (3) of Article 4 of the Financial Investment Services and Capital Markets Act) the maturity of which exceeds three years, but excluding government bonds, monetary stabilization bonds issued by the Bank of Korea and bonds within the meaning of item 2, paragraph (6) of Article 11 of the Act on the Improvement of the Structure of the Financial Industry;

equity securities, but excluding securities within the meaning of item 1, paragraph (6) of Article 11 of the Act on the Improvement of the Structure of the Financial Industry;

derivatives linked securities (within the meaning of paragraph (7) of Article 4 of the Financial Investment Services and Capital Markets Act) the maturity of which exceeds three years; and  
beneficiary certificates, investment contracts and depositary receipts (within the meaning of paragraph (2) of Article 4 of the Financial Investment Services and Capital Markets Act) the maturity of which exceeds three years.

A bank may possess real estate property only to the extent necessary for the conduct of its business. The aggregate value of such property may not exceed 60% of the sum of the bank's Tier I and Tier II capital (less any capital deductions). Any property that a bank acquires by exercising its rights as a secured party, or which a bank is prohibited from acquiring under the Bank Act, must be disposed of within three years, unless specified otherwise by the regulations thereunder.

*Restrictions on Shareholdings in Other Companies*

Under the Bank Act, a bank may not own more than 15% of shares outstanding with voting rights of another corporation, except where, among other reasons:

that corporation engages in a category of financial businesses set forth by the Financial Services Commission;  
or

the acquisition of shares by the bank is necessary for the corporate restructuring of such corporation and is approved by the Financial Services Commission.

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In the above exceptional cases, the total investment in corporations in which the bank owns more than 15% of the outstanding shares with voting rights may not exceed (i) 20% of the sum of Tier I and Tier II capital (less any capital deductions) or (ii) 30% of the sum of Tier I and Tier II capital (less any capital deductions) where the acquisition satisfies the requirements determined by the Financial Services Commission.

The Bank 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 Bank Act, a single shareholder and persons who have a special relationship with that shareholder generally may acquire beneficial ownership of no more than 10% of a nationwide bank's total issued and outstanding shares with voting rights and no more than 15% of a regional bank's total issued and outstanding shares with voting rights. The Korean government, the KDIC and bank holding companies qualifying under the Financial Holding Company Act are not subject to this limit. However, pursuant to an amendment to the Bank Act which became effective on February 14, 2014, non-financial business group companies may not acquire beneficial ownership of shares of a nationwide bank in excess of 4% of that bank's outstanding voting shares (or 15% in the case of a regional bank), unless they satisfy certain requirements set forth by the Enforcement Decree of the Bank Act, obtain the approval of the Financial Services Commission and agree not to exercise voting rights in respect of shares in excess of the 4% limit (or the 15% limit in the case of a regional bank), in which case they may acquire beneficial ownership of up to 10% of a nationwide bank's outstanding voting shares. Such amendment grants an exception for non-financial business group companies which, at the time of the enactment of the amended provisions, held more than 4% of the shares of a bank.

Non-financial business group companies as defined under the Bank Act include:

- (1) any same shareholder group with aggregate net assets of all non-financial business companies belonging to such group of not less than 25% of the aggregate net assets of all members of such group;
- (2) any same shareholder group with aggregate assets of all non-financial business companies belonging to such group of not less than 2 trillion;
- (3) any mutual fund in which a same shareholder group identified in item (1) or (2) above beneficially owns and/or exercises the voting rights of more than 4% of the total issued and outstanding voting shares of such mutual fund;
- (4) any private equity fund with (a) a person falling under any of items (1) through (3) above as a limited partner holding not less than 10% of the total amount of contributions to the private equity fund, or (b) a person falling under any of items (1) through (3) above as a general partner, or (c) the total equity of the private equity fund acquired by each affiliate belonging to several enterprise groups subject to the limitation on mutual investment being 30% or more of the total amount of contributions to the private equity fund; or
- (5)



any investment purpose company in which a private equity fund falling under item (4) above acquires or holds shares in excess of 4% of the shares or equity of such company or exercises de facto control over significant managerial matters of such company through appointment or dismissal of executives or in any other manner.

In addition, if a foreign investor, as defined in the Foreign Investment Promotion Act, owns in excess of 4% of a nationwide bank's outstanding voting shares, non-financial business group companies may acquire beneficial ownership of up to 10% of that bank's outstanding voting shares (or 15% in the case of a regional bank), and in excess of 10% (or 15% in the case of a regional bank), 25% or 33% of that bank's outstanding voting shares with the approval of the Financial Services Commission in each instance, up to the number of shares owned by the foreign investor. Any other person (whether a Korean national or a foreign investor), with

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the exception of non-financial business group companies described above, may acquire no more than 10% of a nationwide bank's total voting shares issued and outstanding, unless they obtain approval from the Financial Services Commission in each instance where the total holding will exceed 10% (or 15% in the case of regional banks), 25% or 33% of the bank's total voting shares issued and outstanding provided that, in addition to the foregoing threshold shareholding ratios, the Financial Services Commission may, at its discretion, designate a separate and additional threshold shareholding ratio.

*Deposit Insurance System*

The Depositor Protection Act provides insurance for certain deposits of banks in Korea through a deposit insurance system. Under the Depositor Protection Act, all banks governed by the Bank Act are required to pay an insurance premium to the KDIC on a quarterly basis, and the rate is determined under the Enforcement Decree to the Depositor Protection Act. If the KDIC makes a payment on an insured amount, it will acquire the depositors' claims with respect to that payment amount. The KDIC insures a maximum of \$50 million per individual for deposits and interest in a single financial institution, regardless of when the deposits were made and the size of the deposits. Certain banks governed by the Bank Act, including us, are also required by the Deposit Insurance Act to pay a special contribution of 0.025% of average deposits for each quarter as repayment of the governmental funding provided to such banks in the wake of the financial crisis in Korea in the late 1990s. The Depositor Protection Act requires such special contribution to be paid until 2027.

*Restrictions on Foreign Exchange Position*

Under the Korean Foreign Exchange Transaction Law, each of a bank's net overpurchased and oversold positions may not exceed 50% of its shareholder's equity as of the end of the prior month.

*Laws and Regulations Governing Other Business Activities*

A bank must register with the Ministry of Strategy and Finance to enter the foreign exchange business, which is governed by the Foreign Exchange Transaction Act of Korea. A bank must obtain the permission of the Financial Services Commission to enter the securities business, which is governed by regulations under the Financial Investment Services and Capital Markets Act. Under these laws, a bank may engage in the foreign exchange business, securities repurchase business, governmental/public bond underwriting business and governmental bond dealing business.

*Regulations on Trust Business*

A bank must obtain approval from the Financial Services Commission to engage in trust businesses. The Trust Act and the Financial Investment Services and Capital Markets Act govern the trust activities of banks, and they are subject to various legal and accounting procedures and requirements, including the following:

under the Trust Act, assets accepted in trust by a bank in Korea must be segregated from other assets in the accounts of that bank; and

depositors and other general creditors cannot obtain or assert claims against the assets comprising the trust accounts in the event the bank is liquidated or wound-up.

The bank must make a special reserve of 25% or more of fees from each unspecified money trust account for which a bank guarantees the principal amount and a fixed rate of interest until the total reserve for that account equals 5% of the trust amount. Since January 1999, the Korean government has prohibited Korean banks from offering new guaranteed fixed rate trust account products whose principal and interest are guaranteed.

Under the Financial Investment Services and Capital Markets Act, which became effective in February 2009, a bank with a trust business license (such as us) is permitted to offer both specified money trust account products and unspecified money trust account products. Previously, banks were not permitted to offer unspecified money trust account products pursuant to the Indirect Investment Asset Management Act, which is no longer in effect following the effectiveness of the Financial Investment Services and Capital Markets Act.

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***Regulations on Credit Card Business***

*General*

In order to enter the credit card business, a company must obtain a license from the Financial Services Commission. Credit card businesses are governed by the Specialized Credit Financial Business Act, enacted on August 28, 1997 and last amended on April 18, 2017, which sets forth specific requirements with respect to the credit card business as well as generally prohibiting unsound business practices relating to the credit card business which may infringe on the rights of credit card holders or negatively affect the soundness of the credit card industry. Credit card companies, including our wholly-owned subsidiary, Woori Card, are regulated by the Financial Services Commission and the Financial Supervisory Service.

*Disclosure and Reports*

Under the Specialized Credit Financial Business Act and the regulations thereunder, a credit card company is required to disclose on a periodic and on-going basis certain material matters and events. In addition, a credit card company must submit its business reports with respect to its results of operations to the Governor of the Financial Supervisory Service within one month from the end of each quarter for quarterly reports and within 10 days from the end of each month for monthly reports.

*Restrictions on Funding*

Under the Specialized Credit Financial Business Act and the regulations thereunder, a credit card company must ensure that its total assets do not exceed an amount equal to six times its equity capital and that the ratio of its adjusted equity capital to its adjusted total assets is not less than 8%. However, if a credit card company is unable to comply with such limit upon the occurrence of unavoidable events, such as drastic changes in the domestic and global financial markets, such limit may be adjusted through a resolution of the Financial Services Commission.

*Risk of Loss Due to Lost, Stolen, Forged or Altered Credit Cards*

Under the Specialized Credit Financial Business Act, a credit card company is liable for any loss arising from the unauthorized use of credit cards or debit cards after it has received notice from the holder of the loss or theft of the card. A credit card company is also responsible for any losses resulting from the use of forged or altered credit cards, debit cards and pre-paid cards. A credit card company may, however, transfer all or part of this latter risk of loss to holders of credit card in the event of willful misconduct or gross negligence by holders of credit card if the terms and conditions of the agreement entered between the credit card company and members of such cards specifically provide for that transfer.

For these purposes, disclosure of a customer's password that is made intentionally or through gross negligence, or the transfer of or giving as collateral of the credit card or debit card, is considered willful misconduct or gross negligence. However, a disclosure of a cardholder's password that is made under irresistible force or threat to cardholder or his/her relatives' life or health will not be deemed as willful misconduct or negligence of the cardholder.

Each credit card company must institute appropriate measures to fulfill these obligations, such as establishing provisions, purchasing insurance or joining a cooperative association.

Pursuant to the Enforcement Decree to the Specialized Credit Financial Business Act, a credit card company will be liable for any losses arising from loss or theft of a credit card (which was not from the holder's willful misconduct or

negligence) during the period beginning 60 days before the notice by the holder to the credit card company.

Pursuant to the Specialized Credit Financial Business Act, the Financial Services Commission may either restrict the limit or take other necessary measures against the credit card company with respect to such matters as

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the maximum limits on the amount per credit card, details of credit card terms and conditions, management of credit card merchants and collection of claims, including the following:

maximum limits for cash advances on credit cards;

use restrictions on debit cards with respect to per day or per transaction usage;

aggregate issuance limits and maximum limits on the amount per card on pre-paid cards; and

other matters prescribed by the Enforcement Decree to the Specialized Credit Financial Business Act.

*Lending Ratio in Ancillary Business*

Pursuant to the Enforcement Decree to the Specialized Credit Financial Business Act, a credit card company must maintain an aggregate quarterly average outstanding lending balance to credit cardholders (including cash advances and credit card loans, but excluding restructured loans) no greater than the sum of (i) its aggregate quarterly average outstanding credit card balance arising from the purchase of goods and services and (ii) the aggregate quarterly debit card transaction volume.

*Issuance of New Cards and Solicitation of New Cardholders*

The Enforcement Decree to the Specialized Credit Financial Business Act establishes the conditions under which a credit card company may issue new cards and solicit new members. New credit cards may be issued only to the following persons:

persons who are at least 19 years old when they apply for a credit card;

persons whose capability to pay bills as they come due has been verified using standards established by the credit card company; and

in the case of minors who are 18 years old, persons who submit documents evidencing employment as of the date of the credit card application, such as an employment certificate, or persons for whom the issuance of a credit card is necessitated by governmental policies, such as financial aid.

In addition, a credit card company may not solicit credit card members by:

providing or promising to provide economic benefits in excess of 10% of the annual credit card fee (in the case of credit cards with annual fees that are less than the average of the annual fees charged by the major credit cards in Korea, the annual fee will be deemed to be equal to such average annual fee) in connection

with issuing a credit card; provided, however, that providing or promising to provide economic benefits not exceeding the amount of the annual credit card fee to an applicant that becomes a credit card member through an online platform is permissible;

soliciting applicants on roads, public places or along corridors used by the general public;

soliciting applicants through visits, except those visits made upon prior consent and visits to a business area;

soliciting applicants through the Internet without verifying whether the applicant is who he or she purports to be, by means of a certified digital signature under the Digital Signature Act; and

soliciting applicants through pyramid sales methods.

*Compliance Rules on Collection of Receivable Claims*

Pursuant to Supervisory Regulation on the Specialized Credit Financial Business, a credit card company may not:

exert violence or threaten violence;

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inform a related party (a guarantor of the debtor, blood relative or fiancée of the debtor, a person living in the same household as the debtor or a person working in the same workplace as the debtor) of the debtor's obligations without just cause;

provide false information relating to the debtor's obligation to the debtor or his or her related parties;

threaten to sue or sue the debtor for fraud despite lack of affirmative evidence to establish that the debtor has submitted forged or false documentation with respect to his/her ability to make payment;

visit or telephone the debtor during late evening hours (between the hours of 9:00 p.m. and 8:00 a.m.); and

utilize other uncustomary methods to collect the receivables that interfere with the privacy or the peace in the workplace of the debtor or his or her related parties.

***Regulations on Class Actions Regarding Securities***

The Law on Class Actions Regarding Securities was enacted as of January 20, 2004 and last amended on May 28, 2013. The Law on Class Actions Regarding Securities governs class actions suits instituted by one or more representative plaintiff(s) on behalf of 50 or more persons who claim to have been damaged in a capital markets transaction involving securities issued by a listed company in Korea.

Applicable causes of action with respect to such suits include:

claims for damages caused by misleading information contained in a securities statement;

claims for damages caused by the filing of a misleading business report, semi-annual report, or quarterly report;

claims for damages caused by insider trading or market manipulation; and

claims instituted against auditors for damages caused by accounting irregularities.

Any such class action may be instituted upon approval from the presiding court and the outcome of such class action will have a binding effect on all potential plaintiffs who have not joined the action, with the exception of those who have filed an opt out notice with such court.

***Regulations on Financial Investment Business***

*General*



The Financial Investment Services and Capital Markets Act, which became effective in February 2009, regulates and governs the financial investment business in Korea. The entities that regulate and supervise financial investment companies are the Financial Services Commission, the Financial Supervisory Service and the Securities and Futures Commission.

Under the Financial Investment Services and Capital Markets Act, a company must obtain a license from the Financial Services Commission to commence a financial investment business such as a brokerage business, a dealing business or an underwriting business, or register with the Financial Services Commission to commence a financial investment business such as an investment advisory business or a discretionary investment management business. A bank is permitted to engage in certain types of financial investment business as specified under the Enforcement Decree of the Bank Act. Prior to commencing a financial investment business, a bank must file a report with the Financial Services Commission and apply for a license pursuant to the Financial Investment Services and Capital Markets Act.

*Consolidation of Capital Markets-Related Laws*

Prior to the effectiveness of the Financial Investment Services and Capital Markets Act, there were separate laws regulating various types of financial institutions depending on the type of financial institution (e.g.,

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securities companies, futures companies, trust business companies and asset management companies) and subjecting financial institutions to different licensing and ongoing regulatory requirements (e.g., the Korean Securities Exchange Act, the Futures Business Act and the Indirect Investment Asset Management Business Act). By applying one uniform set of rules to the same financial business having the same economic function, the Financial Investment Services and Capital Markets Act attempts to improve and address issues caused by the previous regulatory system under which the same economic function relating to capital markets-related businesses was governed by multiple regulations. To this end, the Financial Investment Services and Capital Markets Act categorizes capital markets-related businesses into six different functions:

dealing, trading and underwriting of financial investment products (as defined below);

brokerage of financial investment products;

establishment of collective investment schemes and the management thereof;

investment advice;

discretionary investment management; and

trusts (together with the five businesses set forth above, the Financial Investment Businesses ).

Accordingly, all financial businesses relating to financial investment products have been reclassified as one or more of the Financial Investment Businesses described above, and financial institutions are subject to the regulations applicable to their relevant Financial Investment Businesses, regardless of the type of the financial institution. For example, under the Financial Investment Services and Capital Markets Act, derivative businesses conducted by former securities companies and future companies will be subject to the same regulations.

Banking and insurance businesses are not subject to the Financial Investment Services and Capital Markets Act and will continue to be regulated under separate laws. However, they may become subject to the Financial Investment Services and Capital Markets Act if their activities involve any financial investment businesses requiring a license pursuant to the Financial Investment Services and Capital Markets Act.

*Comprehensive Definition of Financial Investment Products*

In an effort to encompass the various types of securities and derivative products available in the capital markets, the Financial Investment Services and Capital Markets Act sets forth a comprehensive term financial investment products, defined to mean all financial products with a risk of loss in the invested amount (in contrast to deposits, which are financial products for which the invested amount is protected or preserved). Financial investment products are classified into two major categories: (i) securities (financial investment products in which the risk of loss is limited to the invested amount) and (ii) derivatives (financial investment products in which the risk of loss may exceed the invested amount). As a result of the general and broad definition of financial investment products, a variety of financial products may be defined as a financial investment product, which would enable Financial Investment

Companies (defined below) to handle a broader range of financial products. Under the Financial Investment Services and Capital Markets Act, entities formerly licensed as securities companies, asset management companies, futures companies and other entities engaging in any Financial Investment Business are classified as Financial Investment Companies.

*New License System and the Conversion of Existing Licenses*

Under the Financial Investment Services and Capital Markets Act, Financial Investment Companies are able to choose the type of Financial Investment Business in which to engage (through a check the box method set forth in the relevant license application), by specifying the desired (i) Financial Investment Business, (ii) financial investment product and (iii) target customers to which financial investment products may be sold or distributed (that is, general investors or professional investors). Licenses will be issued under the specific business sub-categories described in the foregoing sentence. For example, it would be possible for a Financial Investment Company to obtain a license to engage in the Financial Investment Business of (i) dealing (ii) over the counter derivatives products or (iii) only with sophisticated investors.

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Financial institutions that engage in business activities constituting a Financial Investment Business are required to take certain steps, such as renewal of their license or registration, in order to continue engaging in such business activities. Financial institutions that are not licensed Financial Investment Companies are not permitted to engage in any Financial Investment Business, subject to the following exceptions: (i) banks and insurance companies are permitted to engage in certain categories of Financial Investment Businesses for a period not exceeding six months commencing on the effective date of the Financial Investment Services and Capital Markets Act; and (ii) other financial institutions that engaged in any Financial Investment Business prior to the effective date of the Financial Investment Services and Capital Markets Act (whether in the form of a concurrent business or an incidental business) are permitted to continue such Financial Investment Business for a period not exceeding six months commencing on the effective date of the Financial Investment Services and Capital Markets Act.

*Expanded Business Scope of Financial Investment Companies*

Under the previous regulatory regime in Korea, it was difficult for a financial institution to explore a new line of business or expand upon its existing line of business. For example, previously a financial institution licensed as a securities company generally was not permitted to engage in the asset management business. In contrast, under the Financial Investment Services and Capital Markets Act, pursuant to the integration of its current businesses involving financial investment products into a single Financial Investment Business, a licensed Financial Investment Company is permitted to engage in all types of Financial Investment Businesses, subject to satisfying relevant regulations (for example, maintaining an adequate Chinese Wall, to the extent required). As to incidental businesses (that is, a financial related business which is not a Financial Investment Business), the Financial Investment Services and Capital Markets Act generally allows a Financial Investment Company to freely engage in such incidental businesses by shifting away from the previous positive-list system towards a more comprehensive system. In addition, a Financial Investment Company is permitted to (i) outsource marketing activities by contracting introducing brokers that are individuals but not employees of the Financial Investment Company, (ii) engage in foreign exchange businesses related to their Financial Investment Business and (iii) participate in the settlement network, pursuant to an agreement among the settlement network participants.

*Improvement in Investor Protection Mechanism*

While the Financial Investment Services and Capital Markets Act widens the scope of financial businesses in which financial institutions are permitted to engage, a more rigorous investor-protection mechanism is also imposed upon Financial Investment Companies dealing in financial investment products. The Financial Investment Services and Capital Markets Act distinguishes general investors from sophisticated investors and provides new or enhanced protections to general investors. For instance, the Financial Investment Services and Capital Markets Act expressly provides for a strict know-your-customer rule for general investors and imposes an obligation that Financial Investment Companies should market financial investment products suitable to each general investor, using written explanatory materials. Under the Financial Investment Services and Capital Markets Act, a Financial Investment Company could be liable if a general investor proves (i) damage or losses relating to such general investor's investment in financial investment products solicited by such Financial Investment Company and (ii) the absence of the requisite written explanatory materials, without having to prove fault or causation. With respect to any conflicts of interest between Financial Investment Companies and investors, the Financial Investment Services and Capital Markets Act expressly requires (i) disclosure of any conflict of interest to investors and (ii) mitigation of conflicts of interest to a comfortable level or abstention from the relevant transaction.

*Other Changes to Securities / Fund Regulations*

The Financial Investment Services and Capital Markets Act changed various securities regulations including those relating to public disclosure, insider trading and proxy contests, which were previously governed by the Korean Securities Exchange Act. For example, the 5% and 10% reporting obligations under the Korean

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Securities Exchange Act have become more stringent. The Indirect Investment and Asset Management Business Act strictly limited the kind of vehicles that could be utilized under a collective investment scheme, restricting the range of potential vehicles to trusts and corporations, and the type of funds that can be used for investments. However, under the Financial Investment Services and Capital Markets Act, these restrictions have been significantly liberalized, permitting all vehicles that may be created under Korean law, such as limited liability companies or partnerships, to be used for the purpose of collective investments and allowing investment funds to be more flexible as to their investments.

***Act on the Corporate Governance of Financial Companies***

The Act on the Corporate Governance of Financial Companies, which became effective on August 1, 2016, was enacted to address the need for strengthened regulations on corporate governance of financial institutions and to serve as a uniform set of regulations on corporate governance matters applicable to financial institutions across a variety of industry sectors. It contains several key measures, including (i) eligibility requirements for officers of financial institutions and standards for determining whether officers of financial institutions may hold concurrent positions in other companies, (ii) standards for composition and operation of the board of directors of financial institutions, (iii) standards for establishment, composition and operation of various committees of the board of directors of financial institutions, (iv) regulations on internal control and risk management, (v) requirements and procedures for the approval of a change of major shareholders and (vi) special regulations to protect the rights of minority shareholders of financial institutions.

**Item 4.C. *Organizational Structure***

The following chart provides an overview of our structure, including our significant subsidiaries and our ownership of such subsidiaries as of the date of this annual report:

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We are the direct or indirect parent company of a number of subsidiaries. The following table provides summary information for our subsidiaries (other than structured companies) that are consolidated in our consolidated financial statements as of and for the year ended December 31, 2017:

<b>Subsidiary</b>	<b>Percentage of Ownership</b>	<b>Total Assets</b>	<b>Shareholders Equity</b>	<b>Operating Revenue</b>	<b>Net Income</b>
			<b>(in millions of Won)</b>		
Woori Card Co., Ltd.	100.0%	8,605,993	1,632,288	1,771,157	101,214
Woori Investment Bank Co., Ltd.	59.8%	1,880,157	291,548	183,376	20,023
Woori FIS Co., Ltd.	100.0%	103,932	32,546	252,460	1,940
Woori Finance Research Institute Co., Ltd.	100.0%	3,790	3,441	4,733	83
Woori Credit Information Co., Ltd.	100.0%	33,298	27,124	31,580	861
Woori Fund Service Co., Ltd.	100.0%	12,653	11,411	9,021	1,398
Woori Private Equity Asset Management Co., Ltd.	100.0%	42,894	40,225	7,257	(4,114)
Korea BTL Infrastructure Fund.	99.9%	786,480	786,180	30,240	26,390
Woori America Bank.	100.0%	1,954,301	275,053	81,337	11,869
Woori Bank (China) Limited.	100.0%	4,960,637	501,953	388,913	13,809
PT Bank Woori Saudara Indonesia 1906, Tbk	79.9%	2,230,617	485,446	192,485	38,488
AO Woori Bank.	100.0%	201,704	52,603	15,656	4,748
Banco Woori Bank do Brasil S.A.	100.0%	213,889	32,346	20,455	1,843
Woori Global Market Asia Limited	100.0%	290,226	111,884	11,345	1,922
Woori Finance Cambodia	100.0%	51,304	18,431	5,895	983
Woori Finance Myanmar	100.0%	18,236	12,929	2,506	791
Wealth Development Bank Corp.	51.0%	191,049	34,240	13,632	1,323
Woori Bank Vietnam Limited	100.0%	775,758	143,598	29,698	2,436

**Item 4.D. Property, Plants and Equipment**

Our registered office and corporate headquarters, with a total area of approximately 97,222 square meters, are located at 51, Sogong-ro, Jung-gu, Seoul, Korea. Information regarding certain of our properties in Korea as of December 31, 2017 is presented in the following table:

<b>Type of Facility/Building</b>	<b>Location</b>	<b>Area (square meters)</b>
Woori Bank registered office and corporate headquarters	51, Sogong-ro, Jung-gu, Seoul, Korea 04632	97,222
Woori FIS registered office and corporate headquarters	17, World Cup buk-ro 60-gil, Mapo-gu, Seoul, Korea 03921	37,442

As of December 31, 2017, we had a network of 876 banking branches in Korea, 233 of which are housed in buildings owned by us, while the remaining branches are leased properties. Lease terms are generally from two to three years and seldom exceed five years. We also have subsidiaries in the United States, China, Hong Kong, Russia, Indonesia,

Cambodia, Brazil, Myanmar, the Philippines and Vietnam and branches, agencies and representative offices across the world. See Item 4.B. Business Overview Capital Markets Activities International Banking. We do not own any material properties outside of Korea.

The net book value of all the properties owned by us as of December 31, 2017 was 2,478 billion.

**Item 4A. UNRESOLVED STAFF COMMENTS**

We do not have any unresolved comments from the U.S. Securities and Exchange Commission staff regarding our periodic reports under the Exchange Act.



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The following discussion is based on our consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB. The consolidated financial statements include the accounts of subsidiaries over which substantive control is exercised through either majority ownership of voting stock and/or other means. Investments in joint ventures and associates (which are companies over which we have the ability to exercise significant influence) are accounted for by the equity method of accounting and are reported in investments in joint ventures and associates.

***Trends in the Korean Economy***

Our financial position and results of operations have been and will continue to be significantly affected by financial and economic conditions in Korea. Substantial growth in lending in Korea to small- and medium-sized enterprises in recent years, and financial difficulties experienced by such enterprises as a result of, among other things, adverse changes in economic conditions in Korea and globally, may lead to increasing delinquencies and a deterioration in overall asset quality in the credit exposures of Korean banks to small- and medium-sized enterprises. Our loans to small- and medium-sized enterprises increased from 68,434 billion as of December 31, 2016 to 74,906 billion as of December 31, 2017. In 2017, we recorded charge-offs of 325 billion in respect of our Won-denominated loans to small- and medium-sized enterprises, compared to charge-offs of 469 billion in 2016. See Item 3.D. Risk Factors Risks relating to our corporate credit portfolio The largest portion of our exposure is to small- and medium-sized enterprises, and financial difficulties experienced by companies in this segment may result in a deterioration of our asset quality and have an adverse impact on us.

In recent years, commercial banks, consumer finance companies and other financial institutions in Korea have also made significant investments and engaged in aggressive marketing in consumer lending (including mortgage and home equity loans), leading to substantially increased competition in this segment. In 2014 and 2015, the Korean government implemented several measures to encourage consumer spending and revive the housing market in Korea, including loosening regulations on mortgage lending, which contributed to an increase in our consumer loan portfolio. However, the Korean government introduced measures in the second half of 2016 and 2017 to tighten regulations on mortgage lending and housing subscription in response to the rapid growth in consumer debt and concerns over speculative investments in real estate in certain areas. Notwithstanding such measures, demand for residential property in certain areas, including Seoul, has continued to increase, and our consumer loan portfolio increased from 104,484 billion as of December 31, 2016 to 109,290 billion as of December 31, 2017. Nevertheless, a decrease in housing prices as a result of the implementation of such measures, together with the high level of consumer debt and rising interest rate levels, could result in declines in consumer spending and reduced economic growth, which may lead to increasing delinquencies and a deterioration in asset quality. In 2017, we recorded charge-offs of 147 billion and provisions for credit losses of 152 billion in respect of our consumer loan portfolio, compared to charge-offs of 155 billion and provisions for credit losses of 77 billion in 2016. See Item 3.D. Risk Factors Risks relating to our consumer credit portfolio.

The Korean economy is closely tied to, and is affected by developments in, the global economy. The overall prospects for the Korean and global economy in 2018 and beyond remain uncertain. In recent years, the global financial markets have experienced significant volatility as a result of, among other things:

the financial difficulties affecting many governments worldwide, in particular in Latin America and Europe;

the slowdown of economic growth in China and other major emerging market economies;

interest rate fluctuations as well as the possibility of further increases in policy rates by the U.S. Federal Reserve and other central banks; and

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political and social instability in various countries in the Middle East, including Syria, Iraq and Egypt, as well as the referendum in the United Kingdom in June 2016, in which a majority of voters voted in favor of Brexit. In light of the high level of interdependence of the global economy, unfavorable changes in the global financial markets, including as a result of any of the foregoing developments, could have a material adverse effect on the Korean economy and financial markets, and in turn on our business, financial condition and results of operations.

We are also exposed to adverse changes and volatility in the global and Korean financial markets as a result of our liabilities and assets denominated in foreign currencies and our holdings of trading and investment securities, including structured products. The value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely in recent years. See Item 3.A. Selected Financial Data Exchange Rates. A depreciation of the Won will increase our cost of servicing our foreign currency-denominated debt, while continued exchange rate volatility may also result in foreign exchange losses for us. Furthermore, as a result of changing global and Korean economic conditions, there has been volatility in securities prices, including the stock prices of Korean and foreign companies in which we hold an interest. Such volatility has resulted in and may lead to further trading and valuation losses on our trading and investment securities portfolio as well as impairment losses on our investments in joint ventures and associates.

As a result of uncertain conditions in the Korean and global economies and financial markets, as well as factors such as fluctuations in oil and commodity prices, interest and exchange rate fluctuations, higher unemployment, lower consumer confidence, stock market volatility, potential tightening of fiscal and monetary policies and continued tensions with North Korea, the economic outlook for the financial services sector in Korea in 2018 and for the foreseeable future remains uncertain.

**Changes in Securities Values, Exchange Rates and Interest Rates**

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

	June 30, 2013	Dec. 31, 2013	June 30, 2014	Dec. 31, 2014	June 30, 2015	Dec. 31, 2015	June 30, 2016	Dec. 31, 2016	June 30, 2017
Exchange rates <sup>(1)</sup>	1,863.32	2,011.34	2,002.21	1,915.59	2,074.20	1,961.31	1,970.35	2,026.46	2,391.79
Bond rates <sup>(2)</sup>	1,141.45	1,055.25	1,011.60	1,090.89	1,117.34	1,169.26	1,154.15	1,203.73	1,143.75
Bond rates <sup>(3)</sup>	3.5%	3.6%	3.4%	2.8%	2.5%	2.6%	2.3%	2.8%	2.8%
	2.9%	2.8%	2.6%	2.1%	1.8%	1.7%	1.3%	1.6%	1.7%

(1) Represents the noon buying rate on the dates indicated.

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

(3) Measured by the yield on three-year treasury bonds issued by the Ministry of Strategy and Finance of Korea.

**Critical Accounting Policies**

The notes to our consolidated financial statements contain a summary of our significant accounting policies, including a discussion of recently issued accounting pronouncements. Certain of these policies are critical to the portrayal of our

financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. We discuss these critical accounting policies below.

***Impairment of Loans and Allowance for Credit Losses***

We evaluate our loans and receivables portfolio for impairment on an ongoing basis. We have established an allowance for credit losses, which is available to absorb losses in our loans and receivables portfolio. If we believe that additions or changes to the allowance for credit losses are required, we record provisions for credit

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losses (as part of our impairment loss for credit loss), which are treated as charges against current income. Loan exposures that we deem to be uncollectible, including actual loan losses, net of recoveries of previously written-off amounts, are charged directly against the allowance for credit losses.

We have established our allowance for credit losses as of December 31, 2015, 2016 and 2017 in accordance with International Accounting Standard 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 *Financial Instruments* is effective, and replaces International Accounting Standard 39, for annual periods commencing on or after January 1, 2018. See Item 5.B. Liquidity and Capital Resources Recent Accounting Pronouncements.

*International Accounting Standard 39*

Our accounting policies under International Accounting Standard 39 for losses arising from the impairment of loans and receivables and our allowance for credit loss are described in Notes 2-(9)-6) and 3-(4) of the notes to our consolidated financial statements. We base the level of our allowance for credit losses on an evaluation of the risk characteristics of our loan portfolio. The evaluation considers factors such as historical loss experience, the financial condition of our borrowers and current economic conditions.

Our allowance for credit losses represents our management's best estimate of losses incurred in the loans and receivables portfolio as of the date of the statement of financial position. Our management is required to exercise judgment in making assumptions and estimates when calculating the allowance for credit losses on both individually and collectively assessed loans and advances.

The determination of the allowance required for loans and receivables that are deemed to be individually significant often requires the use of considerable management judgment concerning such matters as economic conditions, the financial performance of the counterparty and the value of any collateral held for which there may not be a readily accessible market. Once we have identified loans and receivables as impaired, we generally value them based on the present value of expected future cash flows discounted at the original effective interest rate of the applicable loan or receivable and compare such present value against the carrying amount of such loan or receivable, which amount is subject to various estimates by our management such as the operating cash flow of the borrower, net realizable value of any collateral held and the timing of anticipated receipts. The actual amount of the future cash flows and their timing may differ from the estimates used by our management and consequently may cause actual losses to differ from the reported allowances.

The allowance for portfolios of smaller-balance homogenous loans and receivables, such as those to individuals and small business customers, and for those loans which are individually significant but for which no objective evidence of impairment exists, is determined on a collective basis. The collective allowance is calculated on a portfolio basis using statistical methodology based on our historical loss experience, which incorporates numerous estimates and judgments. We perform a regular review of the models and underlying data and assumptions.

Our consolidated financial statements for the year ended December 31, 2017 included a total allowance for credit losses of 1,830 billion as of that date. We recorded provisions for credit losses of 862 billion in 2017.

We believe that the accounting estimates related to impairment of loans and receivables and our allowance for credit losses are a critical accounting policy because: (1) they are highly susceptible to change from period to period because they require us to make assumptions about future default rates and losses relating to our loan portfolio; and (2) any significant difference between our estimated losses on loans and receivables (as reflected in our allowance for credit losses) and actual losses on loans and receivables could require us to record additional provisions for credit losses which, if significant, could have a material impact on our profit. Our assumptions about estimated losses require

significant judgment because actual losses have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

*IFRS 9*

IFRS 9 introduces a new impairment model which requires the calculation of allowance for credit losses based on expected credit losses instead of incurred credit losses (as is the case under International Accounting

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Standard 39) by assessing changes in expected credit losses and recognizing such changes as impairment loss (or reversal of impairment loss) in profit or loss. Under IFRS 9, the allowance required to be established with respect to a loan or receivable is the amount of the expected 12-month credit loss or the expected lifetime credit loss for the applicable loan or receivable, according to the three stages of credit risk deterioration since initial recognition, as follows:

Stage 1 (loans and receivables for which credit risk has not significantly increased since initial recognition): the allowance for credit losses must cover expected credit losses due to possible defaults on the relevant loan or receivable within a 12-month period from the reporting date.

Stage 2 (loans and receivables for which credit risk has significantly increased since initial recognition): the allowance for credit losses must cover expected credit losses from all possible defaults during the expected lifetime of the relevant loan or receivable.

Stage 3 (credit-impaired loans and receivables): the allowance for credit losses must cover expected credit losses from all possible defaults during the expected lifetime of the relevant loan or receivable.

For further information regarding IFRS 9, see Note 2-(1)-2) of the notes to our consolidated financial statements.

We expect that the new model for calculating expected credit losses for loans and receivables under IFRS 9 will continue to require significant management judgment and estimates, regarding matters such as the significance of changes in credit risk since initial recognition and the amount of expected credit losses for our loans and receivables.

### ***Valuation of Financial Assets and Liabilities***

Our accounting policy for determining the fair value of financial assets and liabilities is described in Notes 2-(9)-5), 3-(3) and 11 of the notes to our consolidated financial statements.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial asset or liability is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data and, as such, the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgment to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values are discussed in Notes 2-(9)-5) and 11 of the notes to our consolidated financial statements. The main assumptions and estimates which our management considers when applying a model with valuation techniques are:

The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although judgment may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates.

Selecting an appropriate discount rate for the instrument. The determination of this rate is based on an assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate.

Judgment to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective (for example, valuation of complex derivative products).

The financial instruments carried at fair value have been categorized under the three levels of the IFRS fair value hierarchy as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.



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Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is a market-based measure considered from the perspective of a market participant. As such, even when market assumptions are not readily available, our own assumptions are intended to reflect those that market participants would use in pricing the asset or liability at the measurement date.

Our consolidated financial statements for the year ended December 31, 2017 included financial assets measured at fair value using a valuation technique of 17,622 billion, representing 82.9% of total financial assets measured at fair value, and financial liabilities measured at fair value using a valuation technique of 3,467 billion, representing 99.2% of total financial liabilities measured at fair value. As used herein, the fair value using a valuation technique means the fair value at Level 2 and Level 3 in the fair value hierarchy.

We believe that the accounting estimates related to the determination of the fair value of financial instruments are a critical accounting policy because: (1) they may be highly susceptible to change from period to period based on factors beyond our control; and (2) any significant difference between our estimate of the fair value of these financial instruments on any particular date and either their estimated fair value on a different date or the actual proceeds that we receive upon sale of these financial instruments could result in valuation losses or losses on disposal which may have a material impact on our profit. Our assumptions about the fair value of financial instruments we hold require significant judgment because actual valuations have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

***Deferred Tax Assets***

Our accounting policy for the recognition of deferred tax assets is described in Notes 2-(22) and 3-(2) of the notes to our consolidated financial statements.

The recognition of deferred tax assets relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

We recognize deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, unused tax losses and unused tax credits. Deferred tax assets are recognized only to the extent it is probable that sufficient taxable profit will be available against which those deductible temporary differences, unused tax losses or unused tax credits can be utilized. This assessment requires significant management judgment and assumptions. In determining the amount of deferred tax assets, we use forecasted operating results, which are based on historical financial performance, approved business plans, including a review of the eligible carry-forward periods, available tax planning opportunities and other relevant considerations.

Our consolidated financial statements for the year ended December 31, 2017 included deferred tax assets and liabilities of 280 billion and 23 billion, respectively, as of that date.

We believe that the estimates related to our recognition and measurement of deferred tax assets are a critical accounting policy because: (1) they may be highly susceptible to change from period to period based on our assumptions regarding our future profitability; and (2) any significant difference between our estimates of future

profits on any particular date and estimates of such future profits on a different date could result in an income tax expense or benefit which may have a material impact on our net income from period to period. Our assumptions about our future profitability require significant judgment and are inherently subjective.

*Goodwill*

Our accounting policy for goodwill is described in Notes 2-(13) and 3-(1) of the notes to our consolidated financial statements.

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Goodwill is recognized as the excess of (i) the sum of the consideration transferred and the amount of any non-controlling interest in the acquiree over (ii) the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed. If the net amount of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed exceeds the sum of the consideration transferred and the amount of any non-controlling interest in the acquiree, such excess is recognized as a gain as of the acquisition date.

Goodwill is not depreciated and is stated at cost less accumulated impairment losses. However, goodwill that forms part of the carrying amount of an investment in an associate or a joint venture is not separately recognized and an impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate or the joint venture.

The review of goodwill impairment reflects our management's best estimate of the certain factors. For example:

The future cash flows of the cash generating units, or CGUs, are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they necessarily and appropriately reflect our management's view of future business prospects at the time of the assessment.

The rates used to discount future expected cash flows are based on the costs of capital assigned to individual CGUs and can have a significant effect on their valuation. The cost of capital percentage is generally derived from a Capital Asset Pricing Model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the inherent risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond our control and therefore require the exercise of significant judgment and are consequently subject to uncertainty.

A decline in a CGU's expected cash flows or an increase in its cost of capital reduces the CGU's estimated recoverable amount. If this is lower than the carrying value of the CGU, a charge for impairment of goodwill is recognized in the statement of comprehensive income for the year.

The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. In such market conditions, our management retests goodwill for impairment more frequently than once a year to ensure that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.

Our consolidated financial statements for the year ended December 31, 2017 included the value of goodwill of 109 billion as of that date.

We believe that the accounting estimates related to the fair values of our acquired goodwill are a critical accounting policy because: (1) they may be highly susceptible to change from period to period since they require assumptions about future cash flows, run-off rates and profitability; and (2) any significant changes in our estimates from period to period could result in the recognition of impairment losses which may have a material impact on our net income. Our assumptions about estimated future cash flows, run-off rates and profitability require significant judgment and the fair values of the goodwill could fluctuate in the future, based on a variety of factors.

***Defined Benefit Obligations***

Our accounting policy for the recognition of defined benefit obligations is described in Notes 2-(21) and 3-(5) of the notes to our consolidated financial statements.

We operate both defined contribution and defined benefit pension plans for our employees. Contributions to the defined contribution plan are recognized as employee benefit expenses in the period in which an employee has rendered services entitling them to the contributions. For defined benefit pension plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the

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end of each reporting period. Remeasurement, which comprises actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in our statement of financial position with a charge or credit recognized in other comprehensive income in the period in which it occurs.

Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current and past service costs, as well as gains and losses on curtailments and settlements), net interest expense (income) and remeasurement. We present the service cost and net interest expense (income) components in profit or loss, and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The defined benefit obligations recognized in our consolidated statement of financial position represent the actual deficit or surplus in our defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans. Liabilities for termination benefits are recognized at the earlier of either (i) when we are not able to cancel our proposal for termination benefits, or (ii) when we have recognized the cost of restructuring that accompanies the payment of termination benefits.

We believe that the estimates related to our recognition of defined benefit obligations are a critical accounting policy because: (1) they may be highly susceptible to change from period to period because they require us to make assumptions about discount rates, future wage growth rates, retirement rates and mortality rates; and (2) any significant remeasurement of net defined benefit obligations may have a material impact on our other comprehensive income and retained earnings. Our actuarial assumptions require significant judgment due to the complexities involved in the valuation of our defined benefit obligations and their long-term nature.

For an analysis of the sensitivity of our defined benefit obligations to changes in actuarial assumptions, see Note 24 of the notes to our consolidated financial statements.

**Results of Operations*****Net Interest Income***

The following table shows, for the periods indicated, the principal components of our interest income:

	Year ended December 31,			Percentage change	
	2015	2016	2017	2016/2015	2017/2016
	(in billions of Won)			(% )	
<b>Interest income</b>					
Due from banks	81	75	83	(7.4)%	10.7%
Loans	7,700	7,635	7,836	(0.8)	2.6
Financial assets at fair value through profit or loss	63	63	53		(15.9)
Investment financial assets <sup>(1)</sup>	808	700	548	(13.4)	(21.7)
Other receivables	46	39	31	(17.4)	(18.4)

Total interest income	8,698	8,512	8,551	(2.1)	0.5
<b>Interest expense</b>					
Deposits	2,888	2,547	2,380	(11.8)	(6.6)
Borrowings	217	215	238	(0.9)	10.7
Debentures	708	619	639	(12.6)	3.2
Others	123	111	73	(9.8)	(34.2)
Total interest expense	3,936	3,492	3,330	(11.3)	(4.6)
Net interest income	4,762	5,020	5,221	5.4%	4.0%
Net interest margin <sup>(2)</sup>	1.74%	1.71%	1.74%		

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(1) Includes available-for-sale financial assets and held-to-maturity financial assets.

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

*Comparison of 2017 to 2016*

*Interest income.* Interest income increased 0.5% from 8,512 billion in 2016 to 8,551 billion in 2017, primarily as a result of a 2.6% increase in interest on loans, which was partially offset by a 21.7% decrease in interest on investment financial assets. The average balance of our interest-earning assets increased 1.8% from 294,264 billion in 2016 to 299,691 billion in 2017, principally due to growth in our loan portfolio as well as financial assets portfolio. The effect of this increase was partially offset by a 4 basis point decrease in the average yield on our interest-earning assets from 2.89% in 2016 to 2.85% in 2017, which reflected a decrease in the general level of interest rates in Korea in 2017 compared to 2016.

The 2.6% increase in interest on loans from 7,635 billion in 2016 to 7,836 billion in 2017 was primarily due to:

a 7.3% increase in the average volume of general purpose household loans from 61,918 billion in 2016 to 66,420 billion in 2017, which was enhanced by a 3 basis point increase in the average yield of such loans from 3.41% in 2016 to 3.44% in 2017; and

a 5.6% increase in the average volume of mortgage loans from 45,007 billion in 2016 to 47,545 billion in 2017, which was enhanced by a 2 basis point increase in the average yield of such loans from 2.94% in 2016 to 2.96% in 2017.

The effect of the above increases was offset in part by a 2.9% decrease in the average volume of commercial and industrial loans from 98,202 billion in 2016 to 95,349 billion in 2017, which in turn was partially offset by a 1 basis point increase in the average yield on such loans from 3.28% in 2016 to 3.29% in 2017.

The increase in the average volume of general purpose household loans and mortgage loans was primarily due to increased demand for such loans among consumers in Korea. The average yields on general purpose household loans and mortgage loans increased mainly due to an increase in interest rates for loans in Korea commencing in the second half of 2017. The decrease in the average volume of commercial and industrial loans mainly reflected a decrease in loans to certain large corporate borrowers, primarily as a result of our efforts to decrease our exposure to such borrowers and diversify our loan portfolio.

Overall, the average volume of our loans increased 1.3% from 234,287 billion in 2016 to 237,340 billion in 2017, and the average yield on our loans increased 4 basis points, from 3.26% in 2016 to 3.30% in 2017.

Our financial assets portfolio consists primarily of investment financial assets, a majority of which comprises debt securities, including those issued by Korean financial institutions, corporations and government-owned or -controlled enterprises. The 21.9% decrease in interest on investment financial assets from 700 billion in 2016 to 548 billion in 2017 was primarily due to a 56 basis point decrease in the average yield on such assets from 2.23% in 2016 to 1.67% in 2017, which was partially offset by a 4.9% increase in the average balance of such assets from 31,348 billion in 2016 to 32,881 billion in 2017. The decrease in the average yield on investment financial assets resulted mainly from the decrease in the general level of interest rates in Korea in 2017 compared to 2016. The increase in the average balance of investment financial assets principally reflected an increase in the amount of financial institution bonds that

we held as investment financial assets.

*Interest expense.* Interest expense decreased 4.6% from 3,492 billion in 2016 to 3,330 billion in 2017, primarily due to a 6.6% decrease in interest expense on deposits. The average balance of interest-bearing liabilities increased 1.9% from 280,732 billion in 2016 to 286,164 billion in 2017, principally due to an increase in the average balance of deposits and debentures. The effect of this increase was more than offset by a decrease of 8 basis points in the average cost of interest-bearing liabilities from 1.24% in 2016 to 1.16% in 2017, which was driven mainly by a decrease in the average cost of debentures and deposits.



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The 6.6% decrease in interest expense on deposits from 2,547 billion in 2016 to 2,380 billion in 2017 resulted mainly from a 7.3% decrease in interest expense on Won-denominated time and savings deposits from 2,166 billion in 2016 to 2,008 billion in 2017. The decrease in interest expense on Won-denominated time and savings deposits was mainly due to a 12 basis point decrease in the average cost of such deposits from 1.20% in 2016 to 1.08% in 2017, which was partially offset by a 2.9% increase in the average balance of such deposits from 181,073 billion in 2016 to

186,277 billion in 2017. The decrease in the average cost of Won-denominated time and savings deposits was primarily attributable to the decrease in the general level of interest rates in Korea in 2017 compared to 2016, while the increase in the average volume of such deposits mainly reflected customers' continuing preference for low-risk products and institutions in Korea in light of the continuing uncertainty in financial markets in 2017.

Overall, the average volume of our deposits increased 2.7% from 217,696 billion in 2016 to 223,593 billion in 2017, while the average cost of our deposits decreased 11 basis points from 1.17% in 2016 to 1.06% in 2017.

Interest expense on debentures increased 3.2% from 619 billion in 2016 to 639 billion in 2017, primarily due to a 12.5% increase in the average balance of debentures from 22,988 billion in 2016 to 25,865 billion in 2017, which was mainly attributable to our increased use of debentures to meet our funding needs. Such increase was partially offset by a 22 basis point decrease in the average cost of debentures from 2.69% in 2016 to 2.47% in 2017, which mainly reflected the lower interest rate environment in Korea in 2017 compared to 2016.

*Net interest margin.* Net interest margin represents the ratio of net interest income to average interest-earning assets. Our overall net interest margin increased from 1.71% in 2016 to 1.74% in 2017, as a 4.0% increase in net interest income from 5,020 billion in 2016 to 5,221 billion in 2017 outpaced a 1.8% increase in the average balance of our interest-earning assets from 294,264 billion in 2016 to 299,691 billion in 2017. The effect of the increase in interest income was enhanced by a decrease in interest expense, resulting in an increase in net interest income, while the growth in average interest-earning assets was largely matched by a 1.9% increase in average interest-bearing liabilities from 280,732 billion in 2016 to 286,164 billion in 2017. The increase in net interest margin was driven mainly by an increase in our net interest spread, which represents the difference between the average yield on our interest-earning assets and the average cost of our interest-bearing liabilities, from 1.65% in 2016 to 1.69% in 2017. The increase in our net interest spread reflected a larger decrease in the average cost of our interest-bearing liabilities, compared to the decrease in the average yield on our interest-earning assets from 2016 to 2017, which was primarily attributable to the earlier adjustment of interest rates on interest-earning assets compared to interest rates on interest-bearing liabilities in the context of an increase in the general level of interest rates in Korea commencing in the second half of 2017.

*Comparison of 2016 to 2015*

*Interest income.* Interest income decreased 2.1% from 8,698 billion in 2015 to 8,512 billion in 2016, primarily as a result of a 13.4% decrease in interest on investment financial assets, which was enhanced by a 0.8% decrease in interest on loans. The average balance of our interest-earning assets increased 7.7% from 273,275 billion in 2015 to 294,264 billion in 2016, principally due to the growth of our loan portfolio. The effect of this increase was more than offset by a 29 basis point decrease in the average yield on our interest-earning assets from 3.18% in 2015 to 2.89% in 2016, which reflected a decrease in the general level of interest rates in Korea in 2016 compared to 2015.

The 13.4% decrease in interest on investment financial assets from 808 billion in 2015 to 700 billion in 2016 was primarily due to a 51 basis point decrease in the average yield on such assets from 2.74% in 2015 to 2.23% in 2016, which was partially offset by a 6.2% increase in the average balance of such assets from 29,513 billion in 2015 to 31,348 billion in 2016. The decrease in the average yield on investment financial assets resulted mainly from the decrease in the general level of interest rates in Korea in 2016. The increase in the average balance of investment financial assets principally reflected an increase in the amount of financial institution bonds we held as investment

financial assets.

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The 0.8% decrease in interest on loans from 7,700 billion in 2015 to 7,636 billion in 2016 was primarily due to a 40 basis point decrease in the average yield on commercial and industrial loans from 3.68% in 2015 to 3.28% in 2016, which was partially offset by a 3.1% increase in the average volume of such loans from 95,241 billion in 2015 to 98,202 billion in 2016. The effect of the such decrease was offset in part by a 29.4% increase in the average volume of mortgage loans from 34,770 billion in 2015 to 45,007 billion in 2016, which in turn was partially offset by a 26 basis point decrease in the average yield on such loans from 3.20% in 2015 to 2.94% in 2016.

The average yields on commercial and industrial loans and mortgage loans decreased mainly due to the decrease in the general level of interest rates in Korea in 2016. The increase in the average volume of commercial and industrial loans was primarily due to increased demand from corporate borrowers as well as our marketing efforts to increase our corporate lending. The increase in the average volume of mortgage loans mainly reflected increased demand for such loans from customers, primarily as a result of the decrease in the general level of interest rates in Korea in 2016.

Overall, the average volume of our loans increased 7.4% from 218,213 billion in 2015 to 234,287 billion in 2016, and the average yield on our loans decreased 27 basis points, from 3.53% in 2015 to 3.26% in 2016.

*Interest expense.* Interest expense decreased 11.3% from 3,936 billion in 2015 to 3,492 billion in 2016, primarily due to an 11.8% decrease in interest expense on deposits, which was enhanced by a 12.6% decrease in interest expense on debentures. The average balance of interest-bearing liabilities increased 7.7% from 260,546 billion in 2015 to 280,732 billion in 2016, principally due to an increase in the average balance of deposits. The effect of this increase was more than offset by a decrease of 27 basis points in the average cost of interest-bearing liabilities from 1.51% in 2015 to 1.24% in 2016, which was driven mainly by a decrease in the average cost of deposits.

The 11.8% decrease in interest expense on deposits from 2,888 billion in 2015 to 2,547 billion in 2016 resulted mainly from a 15.8% decrease in interest expense on time and savings deposits from 2,573 billion in 2015 to 2,166 billion in 2016. The decrease in interest expense on time and savings deposits was mainly due to a 33 basis point decrease in the average cost of such deposits from 1.53% in 2015 to 1.20% in 2016, which was partially offset by a 7.6% increase in the average balance of such deposits from 168,212 billion in 2015 to 181,073 billion in 2016. The decrease in the average cost of time and savings deposits was primarily attributable to the decrease in the general level of interest rates in Korea in 2016, while the increase in the average volume of such deposits mainly reflected customers continuing preference for low-risk products and institutions in Korea in light of the continuing uncertainty in financial markets in 2016.

Overall, the average volume of our deposits increased 10.1% from 197,762 billion in 2015 to 217,696 billion in 2016, while the average cost of our deposits decreased 29 basis points from 1.46% in 2015 to 1.17% in 2016.

The 12.6% decrease in interest expense on debentures from 708 billion in 2015 to 619 billion in 2016 was primarily due to a 36 basis point decrease in the average cost of debentures from 3.05% in 2015 to 2.69% in 2016, mainly caused by the lower interest rate environment in Korea in 2016. Such decrease was further enhanced by a 1.1% decrease in the average balance of debentures from 23,232 billion in 2015 to 22,988 billion in 2016, mainly caused by a decrease in debentures in foreign currency due to the maturity in 2016 of a large amount of such previously issued debentures.

*Net interest margin.* Our overall net interest margin decreased from 1.74% in 2015 to 1.71% in 2016, as a 7.7% increase in the average balance of our interest-earning assets from 273,275 billion in 2015 to 294,264 billion in 2016 outpaced a 5.4% increase in net interest income from 4,762 billion in 2015 to 5,020 billion in 2016. The growth in average interest-earning assets was matched by a 7.7% increase in average interest-bearing liabilities from 260,546 billion in 2015 to 280,732 billion in 2016, while the decrease in interest income was more than offset by the

decrease in interest expense, resulting in an increase in net interest income. The decrease in net interest margin was driven mainly by a decrease in our net interest

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spread from 1.67% in 2015 to 1.65% in 2016. The decrease in our net interest spread reflected a larger decrease in the average yield on our interest-earning assets compared to the decrease in the average cost of our interest-bearing liabilities from 2015 to 2016, primarily due to the earlier adjustment of interest rates on interest-earning assets compared to interest rates on interest-bearing liabilities in the context of the lower interest rate environment in Korea in 2016.

***Impairment Losses due to Credit Loss***

Impairment losses due to credit loss include provisions for credit losses, provisions for guarantees and provisions for unused commitments, in each case net of reversal of provisions.

***Comparison of 2017 to 2016***

Our impairment losses due to credit loss decreased 5.9% from 834 billion in 2016 to 785 billion in 2017, primarily due to a 3.3% decrease in provisions for credit losses, net of reversal of provisions for credit losses, and a reversal of provisions for loan commitments.

The 3.3% decrease in provisions for credit losses from 891 billion in 2016 to 862 billion in 2017 was mainly attributable to a reversal of provisions primarily caused by debt-to-equity swaps of certain corporate bonds and changes in exchange rates, which was partially offset by an increase in provisions for credit losses on consumer loans.

Provisions for loan commitments changed from net provisions of 3 billion in 2016 to a net reversal of provisions of 22 billion in 2017, principally as a result of our efforts to eliminate undrawn loan commitments of corporate borrowers by monitoring the credit activity of such borrowers.

***Comparison of 2016 to 2015***

Our impairment losses due to credit loss decreased 13.7% from 966 billion in 2015 to 834 billion in 2016, primarily due to a 19.9% decrease in provisions for credit losses, net of reversal of provisions for credit losses, which was offset in part by a 57.1% decrease in reversal of provisions for guarantees.

The 19.9% decrease in provisions for credit losses from 1,112 billion in 2015 to 891 billion in 2016 was mainly attributable to our management's efforts to improve the overall asset quality of our loan portfolio by increasing the proportion of loans with higher asset quality and strengthening credit review and monitoring procedures.

The 57.1% decrease in reversal of provisions for guarantees from 140 billion in 2015 to 60 billion in 2016 was mainly attributable to a significant reversal in 2015 of provisions for guarantees provided in respect of certain corporate customers, which was not repeated in 2016.

***Allowance for Credit Losses***

For information on our allowance for credit losses, see Critical Accounting Policies Impairment of Loans and Allowance for Credit Losses and Item 4.B. Business Overview Assets and Liabilities Loan Portfolio Allocation and Analysis of Allowances for Credit Losses.

**Table of Contents***Corporate Loans*

The following table shows, for the periods indicated, certain information regarding our impaired corporate loans (including government loans and bank loans):

	<b>As of December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Impaired corporate loans as a percentage of total corporate loans	2.1%	1.5%	1.2%
Allowance for credit losses for corporate loans as a percentage of total corporate loans	1.3	1.2	1.0
Allowance for credit losses for corporate loans as a percentage of impaired corporate loans	63.0	80.2	82.6
Net charge-offs of corporate loans as a percentage of total corporate loans	0.7	0.4	0.2

During 2017, impaired corporate loans, allowance for credit losses for corporate loans and net charge-offs, each as a percentage of total corporate loans, decreased due to an improvement in the overall credit quality of our corporate loans, as well as an increase in the total amount of our corporate loans from 125,643 billion as of December 31, 2016 to 136,676 billion as of December 31, 2017. However, allowance for credit losses for corporate loans as a percentage of impaired corporate loans increased during 2017, as a 9.5% decrease in allowance for credit losses for corporate loans from 1,528 billion as of December 31, 2016 to 1,383 billion as of December 31, 2017 was outpaced by a 13.6% decrease in impaired corporate loans from 1,905 billion as of December 31, 2016 to 1,646 billion as of December 31, 2017, which was mainly attributable to debt-to-equity conversions of such loans.

During 2016, impaired corporate loans, allowance for credit losses for corporate loans and net charge-offs, each as a percentage of total corporate loans, decreased due to an improvement in the overall credit quality of our corporate loans, notwithstanding a decrease in the total amount of our corporate loans from 127,622 billion as of December 31, 2015 to 125,643 billion as of December 31, 2016. However, allowance for credit losses for corporate loans as a percentage of impaired corporate loans increased during 2016, as a 10.1% decrease in allowance for credit losses for corporate loans from 1,700 billion as of December 31, 2015 to 1,528 billion as of December 31, 2016 was outpaced by a 29.4% decrease in impaired corporate loans from 2,697 billion as of December 31, 2015 to 1,905 billion as of December 31, 2016, which was mainly attributable to redemptions and debt-to-equity conversions of such loans.

*Consumer Loans and Credit Card Balances*

The following table shows, for the periods indicated, certain information regarding our impaired loans to the consumer sector, excluding credit card balances:

	<b>As of December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Impaired consumer loans as a percentage of total consumer loans	0.4%	0.3%	0.3%
Allowance for credit losses for consumer loans as a percentage of total consumer loans	0.2	0.2	0.2
Allowance for credit losses for consumer loans as a percentage of impaired consumer loans	57.1	52.5	64.7
Net charge-offs of consumer loans as a percentage of total consumer loans	0.2	0.1	0.1

During 2017, impaired consumer loans, allowance for credit losses for consumer loans and net charge-offs of consumer loans, each as a percentage of total consumer loans, remained stable. However, allowance for credit losses for consumer loans as a percentage of impaired consumer loans increased, as the degree of overall impairment of our impaired consumer loans became more severe in 2017 compared to 2016, resulting in a 22.0% increase in the level of our allowance for credit losses for consumer loans from 168 billion as of December 31, 2016 to 205 billion as of December 31, 2017, which outpaced a 13.9% increase in impaired consumer loans from 303 billion as of December 31, 2016 to 345 billion as of December 31, 2017.

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During 2016, impaired consumer loans and net charge-offs of consumer loans, each as a percentage of total consumer loans, decreased mainly as a result of an improvement in the overall credit quality of our consumer loans by increasing the proportion of such loans extended to consumer borrowers with higher credit scores and strengthening credit review and monitoring procedures, which was enhanced by an increase in the total amount of our consumer loans from 93,448 billion as of December 31, 2015 to 104,484 billion as of December 31, 2016. Allowance for credit losses for consumer loans as a percentage of impaired consumer loans also decreased, as the degree of impairment of our impaired consumer loans was not as severe in 2016 compared to 2015. Allowance for credit losses for consumer loans as a percentage of total consumer loans remained stable.

The following table shows, for the periods indicated, certain information regarding our impaired credit card balances:

	<b>As of December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Impaired credit card balances as a percentage of total credit card balances <sup>(1)</sup>	2.4%	2.3%	2.2%
Allowance for credit losses for credit card balances as a percentage of total credit card balances <sup>(1)</sup>	2.4	2.3	2.7
Allowance for credit losses for credit card balances as a percentage of impaired credit card balances <sup>(1)</sup>	101.4	102.0	102.2
Net charge-offs of credit card balances as a percentage of total credit card balances <sup>(1)</sup>	2.7	3.0	2.6

<sup>(1)</sup> Includes corporate credit card balances.

During 2017, impaired credit card balances and net charge-offs of credit card balances, each as a percentage of total credit card balances, decreased mainly as a result of an improvement in the overall credit quality of our credit card portfolio, which was enhanced by an increase in the total amount of our credit card balances from 6,674 billion as of December 31, 2016 to 6,827 billion as of December 31, 2017. However, allowance for credit losses for credit card balances as a percentage of impaired credit card balances and as a percentage of total credit card balances increased, as the degree of overall impairment of our impaired credit card balances became more severe in 2017 compared to 2016, resulting in an increase in the level of our allowance for credit losses for credit card balances from 155 billion as of December 31, 2016 to 182 billion as of December 31, 2017.

During 2016, impaired credit card balances and allowance for credit losses for credit card balances, each as a percentage of total credit card balances, decreased mainly as a result of an improvement in the overall credit quality of our credit card portfolio, which was enhanced by an increase in the total amount of our credit card balances from 6,099 billion as of December 31, 2015 to 6,674 billion as of December 31, 2016. However, allowance for credit losses for credit card balances as a percentage of impaired credit card balances remained relatively stable at 102.0% in 2016, compared to 101.4% in 2015.

**Net Fees and Commissions Income**

The following table shows, for the periods indicated, the components of our net fees and commissions income:

<b>Year ended December 31,</b>			<b>Percentage change</b>	
<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2016/2015</b>	<b>2017/2016</b>
<b>(in billions of Won)</b>			<b>(%)</b>	



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Fees and commissions income	1,757	1,865	2,069	6.1%	10.9%
Fees and commissions expense	(781)	(928)	(999)	18.8	7.7
Total fees and commissions income, net	976	937	1,070	(4.0)%	14.2%

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**Table of Contents***Comparison of 2017 to 2016*

Our net fees and commissions income increased 14.2% from 937 billion in 2016 to 1,070 billion in 2017, as a 10.9% increase in fees and commissions income from 1,865 billion in 2016 to 2,069 billion in 2017 outpaced a 7.7% increase in fees and commissions expense from 928 billion in 2016 to 999 billion in 2017. The 10.9% increase in fees and commissions income was mainly the result of a 12.3% increase in credit card fees from 955 billion in 2016 to 1,072 billion in 2017, which primarily reflected an increase in the average volume of credit card receivables as well as an increase in credit card issuances. Such increase was enhanced by a 75.3% increase in other fee income from 93 billion in 2016 to 163 billion in 2017, which was primarily attributable to an increase in fee income from trust management services. The 7.7% increase in fees and commissions expense was principally due to an 8.8% increase in credit card commissions from 761 billion in 2016 to 828 billion in 2017, which mainly reflected the increase in the average volume of credit card receivables.

For further information regarding our net fees and commissions income, see Note 35 of the notes to our consolidated financial statements included elsewhere in this annual report.

*Comparison of 2016 to 2015*

Our net fees and commissions income decreased 4.0% from 976 billion in 2015 to 937 billion in 2016, as an 18.8% increase in fees and commissions expense from 781 billion in 2015 to 928 billion in 2016 outpaced a 6.1% increase in fees and commissions income from 1,757 billion in 2015 to 1,865 billion in 2016. The 18.8% increase in fees and commissions expense was primarily due to an 18.2% increase in credit card commissions from 644 billion in 2015 to 761 billion in 2016, which mainly reflected an increase in the average volume of credit card receivables as well as an increase in credit card issuances. The 6.1% increase in fees and commissions income was mainly the result of a 12.1% increase in credit card fees from 852 billion in 2015 to 955 billion in 2016, which primarily reflected the increase in the average volume of credit card receivables.

For further information regarding our net fees and commissions income, see Note 35 of the notes to our consolidated financial statements included elsewhere in this annual report.

*Net Gain on Financial Assets*

The following table shows, for the periods indicated, the components of our net gain on financial assets:

	Year ended December 31,			Percentage change	
	2015	2016	2017	2016/2015	2017/2016
	(in billions of Won)			(% )	
Gain (loss) on financial assets at fair value through profit or loss, net	240	114	(105)	(52.5)%	N/M <sup>(2)</sup>
Gain (loss) on available-for-sale financial assets, net <sup>(1)</sup>	(3)	(1)	193	(66.7)	N/M <sup>(2)</sup>
<b>Total net gain on financial assets</b>	<b>237</b>	<b>113</b>	<b>88</b>	<b>(52.3)%</b>	<b>(22.1)%</b>

- (1) Includes impairment losses on available-for-sale financial assets of 135 billion in 2015, 50 billion in 2016 and 31 billion in 2017.
- (2) N/M = not meaningful.

*Comparison of 2017 to 2016*

Our net gain on financial assets decreased 22.1% from 113 billion in 2016 to 88 billion in 2017, primarily as a result of a change in net gain (loss) on financial assets at fair value through profit or loss from a net gain of 114 billion in 2016 to a net loss of 105 billion in 2017, which was partially offset by a change in net gain (loss) on available-for-sale financial assets from a net loss of 1 billion in 2016 to a net gain of 193 billion in 2017.

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The change in net gain (loss) on financial assets at fair value through profit or loss was principally due to a 96.8% decrease in gain on financial assets held for trading from 186 billion in 2016 to 6 billion in 2017, which was enhanced by 56.3% increase in net loss on financial assets designated at fair value through profit or loss from 71 billion in 2016 to 111 billion in 2017. The 96.8% decrease in gain on financial assets held for trading was primarily due to a change in net gain (loss) on currency derivatives from a net gain of 121 billion in 2016 to a net loss of 155 billion in 2017, which was partially offset by a 235.3% increase in gains on equity derivatives from 34 billion in 2016 to 114 billion in 2017.

The 56.3% increase in net loss on financial assets designated at fair value through profit or loss resulted mainly from a 47.4% increase in net loss on equity-linked securities from 76 billion in 2016 to 112 billion in 2017, which was primarily attributable to an increase in losses on investments in securities linked to certain indices. Such losses were offset in part through derivative transactions and fees and commissions income generated in connection therewith. For further information regarding our net gain (loss) on financial assets at fair value through profit or loss, see Note 37 of the notes to our consolidated financial statements included elsewhere in this annual report.

The change in net gain (loss) on available-for-sale financial assets was principally due to a more than four-fold increase in gains on transaction of such securities from 48 billion in 2016 to 224 billion in 2017. Such increase mainly reflected an increase in the number of such transactions in 2017 compared to 2016.

Unrealized gains and losses (other than impairment losses) on available-for-sale financial assets are recorded in our statement of financial position as part of accumulated other comprehensive income, under other equity. In 2017, we recognized a net loss on valuation of available-for-sale financial assets of 85 billion as part of other comprehensive income (loss) net of tax.

*Comparison of 2016 to 2015*

Our net gain on financial assets decreased 52.3% from 237 billion in 2015 to 113 billion in 2016, primarily as a result of a 52.5% decrease in net gain on financial assets at fair value through profit or loss from 240 billion in 2015 to 114 billion in 2016.

The 52.5% decrease in net gain on financial assets at fair value through profit or loss was principally due to a change in net gain (loss) on financial assets designated at fair value through profit or loss from a net gain of 69 billion in 2015 to a net loss of 71 billion in 2016. Such change in net gain (loss) on financial assets designated at fair value through profit or loss resulted mainly from a change in net gain (loss) on equity-linked securities from a net gain of 68 billion in 2015 to a net loss of 76 billion in 2016, which was primarily attributable to an increase in losses on investments in securities linked to certain foreign indices. For further information regarding our net gain (loss) on financial assets at fair value through profit or loss, see Note 37 of the notes to our consolidated financial statements included elsewhere in this annual report.

In 2016, we recognized a net gain on valuation of available-for-sale financial assets of 13 billion as part of other comprehensive income (loss) net of tax.

*General and Administrative Expenses*

The following table shows, for the periods indicated, the components of our general and administrative expenses:

	Year ended December 31,			Percentage change	
	2015	2016	2017	2016/2015	2017/2016
	(in billions of Won)			(% )	
Employee benefits	1,853	2,125	2,324	14.7%	9.4%
Depreciation and amortization	237	248	184	4.6	(25.8)
Other general and administrative expenses	1,061	1,105	1,023	4.1	(7.4)
General and administrative expenses	3,151	3,478	3,531	10.4%	1.5%

**Table of Contents***Comparison of 2017 to 2016*

Our general and administrative expenses increased 1.5% from 3,478 billion in 2016 to 3,531 billion in 2017, primarily as a result of a 9.4% increase in employee benefits from 2,125 billion in 2016 to 2,324 billion in 2017, which was partially offset by a 7.4% decrease in other general and administrative expenses from 1,105 billion in 2016 to 1,023 billion in 2017 and a 25.8% decrease in depreciation and amortization from 248 billion in 2016 to 184 billion in 2017. The 9.4% increase in employee benefits was principally due to a 67.6% increase in redundancy payments from 179 billion in 2016 to 300 billion in 2017, resulting mainly from the early retirement program we implemented in September 2017. Such increase was enhanced by a 19.9% increase in other short-term employee benefits from 467 billion in 2016 to 560 billion in 2017, which mainly reflected an increase in benefit levels for our employees. The 7.4% decrease in other general and administrative expenses was mainly due to an 18.8% decrease in service charges from 245 billion in 2016 to 199 billion in 2017, principally reflecting a decrease in the number of our banking branches, and a 32.9% decrease in miscellaneous other expenses from 70 billion in 2016 to 47 billion in 2017. The 25.8% decrease in depreciation and amortization was also mainly due to the decrease in the number of our banking branches.

For further information regarding our general and administrative expenses, see Note 40-(1) of the notes to our consolidated financial statements included elsewhere in this annual report.

*Comparison of 2016 to 2015*

Our general and administrative expenses increased 10.4% from 3,151 billion in 2015 to 3,478 billion in 2016, primarily as a result of a 14.7% increase in employee benefits from 1,853 billion in 2015 to 2,125 billion in 2016, which was enhanced by a 4.1% increase in other general and administrative expenses from 1,061 billion in 2015 to 1,105 billion in 2016. The 14.7% increase in employee benefits was principally due to a 145.2% increase in redundancy payments from 73 billion in 2015 to 179 billion in 2016, resulting mainly from our implementation of an early retirement program in April and December 2016. Such increase was enhanced by a 22.6% increase in other short-term employee benefits from 381 billion in 2015 to 467 billion in 2016 and a 4.8% increase in short-term employee salaries from 1,263 billion in 2015 to 1,323 billion in 2016, both of which mainly reflected increases in benefit levels and average wages of our employees. The 4.1% increase in other general and administrative expenses was mainly due to a 28.8% increase in advertising expense from 59 billion in 2015 to 76 billion in 2016, principally reflecting our increased marketing efforts, as well as a 5.4% increase in rent from 296 billion in 2015 to 312 billion in 2016.

For further information regarding our general and administrative expenses, see Note 40-(1) of the notes to our consolidated financial statements included elsewhere in this annual report.

*Net Other Operating Expenses*

The following table shows, for the periods indicated, the components of our net other operating expenses:

	Year ended December 31,			Percentage change	
	2015	2016	2017	2016/2015	2017/2016
	(in billions of Won)			(%)	
Other operating income	3,782	5,208	3,737	37.7%	(28.2)%
Other operating expenses	(4,392)	(5,575)	(3,768)	26.9	(32.4)

Total net other operating expenses	(610)	(367)	(31)	(39.8)%	(91.6)%
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*Comparison of 2017 to 2016*

Our net other operating expenses decreased 91.6% from 367 billion in 2016 to 31 billion in 2017, primarily due to a 32.4% decrease in other operating expenses from 5,575 billion in 2016 to 3,768 billion in 2017, which was partially offset by a 28.2% decrease in other operating income from 5,208 billion in 2016 to 3,737 billion in 2017.

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Other operating income includes principally gains on transaction of foreign exchange, gains on disposal of loans and receivables, gains on fair value of hedged items and miscellaneous other operating income. The 28.2% decrease in other operating income was attributable mainly to a 29.2% decrease in gains on transaction of foreign exchange from 4,792 billion in 2016 to 3,391 billion in 2017. This decrease, which primarily reflected lower exchange rate volatility in 2017, was more than offset by a greater decrease in loss on transaction of foreign exchange, which is recorded as part of other operating expenses. On a net basis, our net gain on transaction of foreign exchange increased more than five-fold from 86 billion in 2016 to 504 billion in 2017. The decrease in gains on transaction of foreign exchange was enhanced by a 45.5% decrease in gains on fair value hedged items from 99 billion in 2016 to 54 billion in 2017, as well as a 23.2% decrease in other miscellaneous operating income from 112 billion in 2016 to 86 billion in 2017, which was primarily due to a 60.7% decrease in amounts receivable from other creditor financial institutions under the terms of borrower debt restructuring programs from 75 billion in 2016 to 29 billion in 2017.

Other operating expenses include principally losses on transaction of foreign exchange, deposit insurance premiums, contributions to miscellaneous funds, losses related to derivatives and miscellaneous other operating expenses. The 32.4% decrease in other operating expenses was primarily the result of a 38.7% decrease in loss on transaction of foreign exchange from 4,706 billion in 2016 to 2,887 billion in 2017, which mainly reflected lower exchange rate volatility in 2017. This decrease was partially offset by a decrease in gains on transaction of foreign exchange, which is recorded as part of other operating income as discussed above.

For further information regarding our net other operating expense, see Notes 40-(2) and (3) of the notes to our consolidated financial statements included elsewhere in this annual report.

*Comparison of 2016 to 2015*

Our net other operating expenses decreased 39.8% from 610 billion in 2015 to 367 billion in 2016, as the effect of a 26.9% increase in other operating expenses from 4,392 billion in 2015 to 5,575 billion in 2016 was more than offset by a 37.7% increase on other operating income from 3,782 billion in 2015 to 5,208 billion in 2016.

The 37.7% increase in other operating income was attributable mainly to a 43.0% increase in gains on transaction of foreign exchange from 3,352 billion in 2015 to 4,792 billion in 2016. This increase, which was principally due to higher exchange rate volatility in 2016, was partially offset by an increase in loss on transaction of foreign exchange, which is recorded as part of other operating expenses. On a net basis, our net gain (loss) on transaction of foreign exchange changed from a net loss of 78 billion in 2015 to a net gain of 86 billion in 2016. The increase in gains on transaction of foreign exchange was enhanced by a more than three-fold increase in gains on fair value hedged items from 25 billion in 2015 to 99 billion in 2016. Such increases were offset in part by a 100% decrease in gains on transaction of derivatives from 59 billion in 2015 to less than 1 billion in 2016, as well as a 29% decrease in miscellaneous other income from 159 billion in 2015 to 112 billion in 2016, which was primarily due to a decrease in amounts receivable from other creditor institutions under the terms of borrower debt restructuring programs from 137 billion in 2015 to 75 billion in 2016.

The 26.9% increase in other operating expenses was primarily the result of a 37.2% increase in loss on transaction of foreign exchange from 3,430 billion in 2015 to 4,706 billion in 2016, which mainly reflected higher exchange rate volatility during 2016. This increase was more than offset by an increase in gains on transaction of foreign exchange, which is recorded as part of other operating income as discussed above. The increase in loss on transaction of foreign exchange was enhanced by a more than four-fold increase in losses related to derivatives from 21 billion in 2015 to 99 billion in 2016. Such increases were offset in part by a 26.3% decrease in miscellaneous other operating expenses from 232 billion in 2015 to 171 billion in 2016, which was primarily due to a 29.7% decrease in amounts payable to other creditor financial institutions under the terms of borrower debt restructuring programs from 155 billion in 2015



to 109 billion in 2016, as well as a 100.0% decrease in losses on fair value hedged items from 57 billion in 2015 to less than 1 billion in 2016.

For further information regarding our net other operating expense, see Notes 40-(2) and (3) of the notes to our consolidated financial statements included elsewhere in this annual report.

**Table of Contents****Share of Losses of Joint Ventures and Associates***Comparison of 2017 to 2016*

Our share of losses of joint ventures and associates increased more than five-fold from 20 billion in 2016 to 101 billion in 2017. Such increase was primarily attributable to a significant increase in impairment losses from 1 billion in 2016 to 115 billion in 2017, which mainly reflected a 103 billion impairment loss we recorded in respect of our 14.2% equity interest in Kumho Tire Co., Inc. (which we had acquired in 2010 as a result of a debt-to-equity swap in connection with its workout), due to further deterioration in its financial condition in 2017. For further information regarding our investments in joint ventures and associates, see Note 13 of the notes to our consolidated financial statements included elsewhere in this annual report.

*Comparison of 2016 to 2015*

Our share of losses of joint ventures and associates decreased 72.1% from 70 billion in 2015 to 20 billion in 2016. Such decrease was primarily attributable to a significant decrease in impairment losses from 56 billion in 2015 to 1 billion in 2016, which mainly reflected impairment losses we had recorded in respect of our equity interests in Osung LST Co., Ltd. and Poonglim Industrial Co., Ltd. in 2015, which were not repeated in 2016. For further information regarding our investments in joint ventures and associates, see Note 13 of the notes to our consolidated financial statements included elsewhere in this annual report.

**Other Net Non-operating Income (Loss)**

The following table shows, for the periods indicated, the components of our other net non-operating income (loss):

	Year ended December 31,			Percentage change	
	2015	2016	2017	2016/2015	2017/2016
	(in billions of Won)			(% )	
Other non-operating income	273	132	84	(51.6)%	(36.4)%
Other non-operating expenses	(102)	(133)	(190)	30.4	42.9
Total other net non-operating income (loss)	171	(1)	(106)	N/M <sup>(1)</sup>	N/M <sup>(1)</sup>

<sup>(1)</sup> N/M = not meaningful.

*Comparison of 2017 to 2016*

Our net other net non-operating loss increased significantly from 1 billion in 2016 to 106 billion in 2017, as the effect of a 42.9% increase in other non-operating expenses from 133 billion in 2016 190 billion in 2017 was enhanced by a 36.4% decrease in other non-operating income from 132 billion in 2016 to 84 billion in 2017.

Other non-operating income includes principally gains on disposal of investment in joint ventures and associates, gains on disposal of premises and equipment and other assets, rental income and miscellaneous other non-operating income. The 36.4% decrease in other non-operating income was attributable mainly to a 66.7% decrease in miscellaneous other non-operating income from 96 billion in 2016 to 32 billion in 2017, which was partially offset by

a 73.9% increase in gains on disposal of investment in joint ventures and associates from 23 billion in 2016 to 40 billion in 2017. The increase in gains on disposal of investment in joint ventures and associates was primarily attributable to an increase in the number of such transactions in 2017 compared to 2016.

Other non-operating expenses include principally donations, depreciation on investment properties, losses on disposal of investment in joint ventures and associates and miscellaneous other non-operating expenses. The 42.9% increase in other non-operating expenses was attributable mainly to a 122.7% increase in donations from 44 billion in 2016 to 98 billion in 2017 and a 160.0% increase in losses on disposal of investment in joint ventures and associates from 15 billion in 2016 to 39 billion in 2017, which were partially offset by a 35.6% decrease in miscellaneous other non-operating expenses from 59 billion in 2016 to 38 billion in 2017. The

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increase in donations mainly reflected our donation of issuance fees of dormant cashier's checks for the past five years to the Korea Inclusive Finance Agency in accordance with the amended Microfinance Support Act. The increase in losses on disposal of investment in joint ventures and associates was primarily attributable to an increase in the number of such transactions in 2017 compared to 2016.

*Comparison of 2016 to 2015*

Our net other net non-operating income (loss) changed from net income of 171 billion in 2015 to a net loss of 1 billion in 2016, as the effect of a 51.6% decrease in other non-operating income from 273 billion in 2015 to 132 billion in 2016 was enhanced by a 30.4% increase in other non-operating expenses from 102 billion in 2015 to 133 billion in 2016.

The 51.6% decrease in other non-operating income was attributable mainly to a 50.8% decrease in miscellaneous other non-operating income from 195 billion in 2015 to 96 billion in 2016, which was enhanced by a 62.9% decrease in gains on disposal of investment in joint ventures and associates from 62 billion in 2015 to 23 billion in 2016. The decrease in miscellaneous other non-operating income mainly reflected a gain of 133 billion recognized in 2015 as a result of a judgment in favor of us and the other plaintiffs in a lawsuit against member companies of the Samsung Group for payment of guarantees they had provided to the plaintiffs in respect of certain obligations of Samsung Motors, a former affiliate, which was not repeated in 2016. The decrease in gains on disposal of investment in joint ventures and associates was attributable mainly to the recognition of negative goodwill in connection with our conversion of certain convertible bonds held as investment assets in 2015, which was not repeated to the same degree in 2016.

The 30.4% increase in other non-operating expenses was attributable mainly to an increase in losses on disposal of investment in joint ventures and associates from less than 1 billion in 2015 to 15 billion in 2016 and a 28.3% increase in miscellaneous other non-operating expenses from 46 billion in 2015 to 59 billion in 2016.

***Income Tax Expense***

Our income tax expense is calculated by adding or subtracting changes in deferred income tax liabilities and assets to income tax amounts payable for the period. Deferred tax assets are recognized for deductible temporary differences, including operating losses and tax credit carry-forwards, while deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are those between the carrying values of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets, including the carry-forwards of unused tax losses, are recognized to the extent it is probable that the deferred tax assets will be realized.

*Comparison of 2017 to 2016*

Income tax expense increased 51.8% from 276 billion in 2016 to 419 billion in 2017, mainly as a result of an increase in our net income before income tax expense, the effect of which was enhanced by decreases in non-exempt income and tax adjustments recognized in respect of prior periods. The statutory tax rate was 24.2% for pre-tax income over 20 billion in 2016 and 2017. Our effective tax rate was 17.8% in 2016 and 21.5% in 2017. See Note 42 of the notes to our consolidated financial statements included elsewhere in this annual report.

*Comparison of 2016 to 2015*

Income tax expense decreased 26.8% from 377 billion in 2015 to 276 billion in 2016 despite a 7.0% increase in our net income before income tax expense from 1,452 billion in 2015 to 1,553 billion in 2016. The decrease in income tax

expense resulted primarily from a change in other miscellaneous tax adjustments from a net expense of \$59 billion in 2015 to a net benefit of \$16 billion in 2016, which was attributable mainly to a decrease in foreign withholding tax payments, as well as a decrease in non-deductible expenses. The statutory tax rate was 24.2% for pre-tax income over \$20 billion in 2015 and 2016. Our effective tax rate was 25.9% in 2015 and 17.8% in 2016. See Note 42 of the notes to our consolidated financial statements included elsewhere in this annual report.

**Table of Contents****Net Income**

Due to the factors described above, we recorded net income of 1,530 billion in 2017, compared to 1,277 billion in 2016 and 1,075 billion in 2015.

**Results by Principal Business Segment**

We compile and analyze financial information for our business segments based upon segment information used by our management for the purposes of resource allocation and performance evaluation. We currently have six operational business segments: consumer banking, corporate banking, investment banking, capital markets, credit card and other operations.

The following table shows, for the periods indicated, our results of operations by segment:

	Net income			Total operating income <sup>(1)</sup>		
	Year ended December 31,			Year ended December 31,		
	2015	2016	2017	2015	2016	2017
	(in billions of Won)					
Consumer banking	26	99	264	54	166	446
Corporate banking	317	610	918	418	815	1,217
Investment banking	165	84	106	174	65	100
Capital markets	11	(3)	92	15	1	122
Credit card	117	109	101	155	144	138
Other operations	552	514	22	551	441	73
Total <sup>(2)</sup>	1,188	1,413	1,503	1,367	1,632	2,096

(1) Comprises net interest income, net non-interest income, administrative expenses and impairment losses due to credit losses.

(2) Before adjustments for inter-segment transactions (other than inter-segment loans and borrowings) and certain differences in classification under our management reporting system.

**Table of Contents****Consumer Banking**

This segment consists of our consumer banking operations. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31,			Percentage change	
	2015	2016	2017	2016/2015	2017/2016
	(in billions of Won)			(% )	
<b>Income statement data</b>					
Interest income	2,851	2,980	3,150	4.5%	5.7%
Interest expense	(1,228)	(1,024)	(956)	(16.6)	(6.6)
Inter-segment	(334)	(472)	(491)	41.3	4.0
<b>Net interest income</b>	<b>1,289</b>	<b>1,484</b>	<b>1,703</b>	<b>15.1</b>	<b>14.8</b>
Non-interest income	886	924	802	4.3	(13.2)
Non-interest expense	(353)	(406)	(254)	15.0	(37.4)
Inter-segment	22	39	102	77.3	161.5
<b>Net non-interest income</b>	<b>555</b>	<b>557</b>	<b>650</b>	<b>0.4</b>	<b>16.7</b>
Administrative expenses	(1,782)	(1,788)	(1,809)	0.3	1.2
Impairment losses due to credit loss and others <sup>(1)</sup>	(8)	(87)	(98)	987.5	12.6
<b>Total other expenses</b>	<b>(1,790)</b>	<b>(1,875)</b>	<b>(1,907)</b>	<b>4.7</b>	<b>1.7</b>
<b>Operating income</b>	<b>54</b>	<b>166</b>	<b>446</b>	<b>207.4</b>	<b>168.7</b>
Net non-operating loss	(19)	(35)	(98)	84.2	180.0
<b>Net income before tax</b>	<b>35</b>	<b>131</b>	<b>348</b>	<b>274.3</b>	<b>165.6</b>
Income tax expense	(9)	(32)	(84)	255.6	162.5
<b>Net income</b>	<b>26</b>	<b>99</b>	<b>264</b>	<b>280.8%</b>	<b>166.7%</b>

<sup>(1)</sup> Consist of impairment losses due to credit loss, gain (loss) on loan sales and provisions (reversal of provisions).  
Comparison of 2017 to 2016

Our net income before tax for this segment increased 165.6% from 131 billion in 2016 to 348 billion in 2017. Net income after tax also increased 166.7% from 99 billion in 2016 to 264 billion in 2017.

Interest income for this segment increased 5.7% from 2,980 billion in 2016 to 3,150 billion in 2017, primarily due to an increase in the average balances of general purpose household loans (including home equity loans) and mortgage

loans, mainly reflecting increased demand for such loans among consumers, which was enhanced by a slight increase in the average yields on such loans, principally as a result of an increase in interest rates for loans in Korea commencing in the second half of 2017.

Interest expense attributable to this segment decreased 6.6% from 1,024 billion in 2016 to 956 billion in 2017. The decrease in interest expense was primarily due to a decrease in the average cost of time and savings deposits held by consumers, which was mainly attributable to the decrease in the general level of interest rates in Korea in 2017 compared to 2016.

Net interest expense from inter-segment transactions for this segment increased 4.0% from 472 billion in 2016 to 491 billion in 2017, principally as a result of increased funding needs for this segment in light of the increase in the average volumes of general purpose household loans (including home equity loans) and mortgage loans.

Impairment losses due to credit loss and others for this segment increased 12.6% from 87 billion in 2016 to 98 billion in 2017, primarily as a result of an increase in provisions for general purpose household loans (including home equity loans) and mortgage loans, mainly reflecting the increase in the outstanding balances of such loans.



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Non-interest income attributable to this segment decreased 13.2% from 924 billion in 2016 to 802 billion in 2017, primarily due to a decrease in gains on transaction of foreign exchange.

Non-interest expense for this segment decreased 37.4% from 406 billion in 2016 to 254 billion in 2017, primarily as a result of a decrease in losses on transaction of foreign exchange.

Net non-interest income from inter-segment transactions for this segment increased 161.5% from 39 billion in 2016 to 102 billion in 2017, principally as a result of an increase in fee income from our asset management products, including mutual funds, money trust products and bancassurance products.

Administrative expenses attributable to this segment increased 1.2% from 1,788 billion in 2016 to 1,809 billion in 2017, primarily due to an increase in benefit levels for our employees in this segment.

*Comparison of 2016 to 2015*

Our net income before tax for this segment increased 274.3% from 35 billion in 2015 to 131 billion in 2016. Net income after tax also increased 280.8% from 26 billion in 2015 to 99 billion in 2016.

Interest income for this segment increased 4.5% from 2,851 billion in 2015 to 2,980 billion in 2016, primarily due to an increase in the average balance of mortgage loans, mainly reflecting increased demand for such loans, which was partially offset by a decrease in the average yield on such loans. The effect of such increase in the average balance of mortgage loans was also offset in part by a decrease in the average yield on general purpose household loans (including home equity loans), mainly reflecting the decrease in the general level of interest rates in Korea in 2016, which in turn was partially offset by an increase in the average balance of such loans.

Interest expense attributable to this segment decreased 16.6% from 1,228 billion in 2015 to 1,024 billion in 2016. The decrease in interest expense was primarily due to a decrease in the average cost of time and savings deposits held by consumers, which was mainly attributable to the decrease in the general level of interest rates in Korea in 2016.

Net interest expense from inter-segment transactions for this segment increased 41.3% from 334 billion in 2015 to 472 billion in 2016, principally as a result of increased funding needs for this segment in light of the increase in the average volumes of mortgage loans and general purpose household loans (including home equity loans).

Impairment losses due to credit loss and others for this segment increased more than 10-fold from 8 billion in 2015 to 87 billion in 2016, primarily as a result of a significant increase in provisions for customer reward credits due to the release of our new mobile financial service platform.

Non-interest income attributable to this segment increased 4.3% from 886 billion in 2015 to 924 billion in 2016, primarily due to an increase in gains on transaction of foreign exchange.

Non-interest expense for this segment increased 15.0% from 353 billion in 2015 to 406 billion in 2016, primarily as a result of an increase in losses on transaction of foreign exchange.

Net non-interest income from inter-segment transactions for this segment increased 77.3% from 22 billion in 2015 to 39 billion in 2016, principally as a result of an increase in fee income from trust management services.

Administrative expenses attributable to this segment increased 0.3% from 1,782 billion in 2015 to 1,788 billion in 2016, primarily due to an increase in salaries attributable mainly to higher average wages paid to our employees in

this segment, which more than offset a decrease in the number of employees in this segment caused by a branch reorganization.

**Table of Contents****Corporate Banking**

This segment consists of our corporate banking (including small- and medium-sized enterprise banking and large corporate banking) operations. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31,			Percentage change	
	2015	2016	2017	2016/2015	2017/2016
	(in billions of Won)			(% )	
<b>Income statement data</b>					
Interest income	3,256	3,026	2,965	(7.1)%	(2.0)%
Interest expense	(1,880)	(1,781)	(1,682)	(5.3)	(5.6)
Inter-segment	324	496	512	53.1	3.2
<b>Net interest income</b>	<b>1,700</b>	<b>1,741</b>	<b>1,795</b>	<b>2.4</b>	<b>3.1</b>
Non-interest income	503	535	681	6.4	27.3
Non-interest expense	(26)	(33)	(170)	26.9	415.2
Inter-segment	37	48	60	29.7	25.0
<b>Net non-interest income</b>	<b>514</b>	<b>550</b>	<b>571</b>	<b>7.0</b>	<b>3.8</b>
Administrative expenses	(926)	(967)	(832)	4.4	(14.0)
Impairment losses due to credit loss and others <sup>(1)</sup>	(870)	(509)	(317)	(41.5)	(37.7)
<b>Total other expenses</b>	<b>(1,796)</b>	<b>(1,476)</b>	<b>(1,149)</b>	<b>(17.8)</b>	<b>(22.2)</b>
<b>Operating income</b>	<b>418</b>	<b>815</b>	<b>1,217</b>	<b>95.0</b>	<b>49.3</b>
<b>Net non-operating loss</b>	<b>(2)</b>	<b>(1)</b>	<b>(3)</b>	<b>(50.0)</b>	<b>200.0</b>
<b>Net income before tax</b>	<b>416</b>	<b>814</b>	<b>1,214</b>	<b>95.7</b>	<b>49.1</b>
<b>Income tax expense</b>	<b>(99)</b>	<b>(204)</b>	<b>(296)</b>	<b>106.1</b>	<b>45.1</b>
<b>Net income</b>	<b>317</b>	<b>610</b>	<b>918</b>	<b>92.4%</b>	<b>50.5%</b>

<sup>(1)</sup> Consist of impairment losses due to credit loss, gain (loss) on loan sales and provisions (reversal of provisions).  
Comparison of 2017 to 2016

Our net income before tax for this segment increased 49.1% from 814 billion in 2016 to 1,214 billion in 2017. Net income after tax also increased 50.5% from 610 billion in 2016 to 918 billion in 2017.

Interest income for this segment decreased 2.0% from 3,026 billion in 2016 to 2,965 billion in 2017, primarily due to a decrease in the average balances of commercial and industrial and other commercial loans, mainly reflecting a decrease in loans to certain large corporate borrowers, principally as a result of our efforts to decrease our exposure to such borrowers and diversify our loan portfolio, which was partially offset by a slight increase in the average yields on such loans.

Interest expense attributable to this segment, which consists mainly of interest expense on corporate deposits, borrowings and debentures, decreased 5.6% from 1,781 billion in 2016 to 1,682 billion in 2017. The decrease in interest expense was primarily due to a decrease in the average cost of time and savings deposits held by corporate customers, mainly attributable to the decrease in the general level of interest rates in Korea in 2017 compared to 2016.

Net interest income from inter-segment transactions for this segment increased 3.2% from 496 billion in 2016 to 512 billion in 2017, principally as a result of an increase in the average balance of loans to other segments, which mainly reflected increased funding needs of the consumer banking segment.

Impairment losses due to credit loss and others for this segment decreased 37.7% from 509 billion in 2016 to 317 billion in 2017, primarily as a result of a decrease in provisions for corporate loans, mainly reflecting an overall improvement in the asset quality of our corporate loan portfolio.

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Non-interest income attributable to this segment increased 27.3% from 535 billion in 2016 to 681 billion in 2017, primarily due to an increase in gains on transaction of derivatives.

Non-interest expense for this segment increased more than five-fold from 33 billion in 2016 to 170 billion in 2017, primarily as a result of an increase in losses on transaction of derivatives.

Administrative expenses attributable to this segment decreased 14.0% from 967 billion in 2016 to 832 billion in 2017, primarily due to increased efficiency from the consolidation of corporate banking branches with consumer banking branches, which was reflected in this segment.

*Comparison of 2016 to 2015*

Our net income before tax for this segment increased 95.7% from 416 billion in 2015 to 814 billion in 2016. Net income after tax also increased 92.4% from 317 billion in 2015 to 610 billion in 2016.

Interest income for this segment decreased 7.1% from 3,256 billion in 2015 to 3,026 billion in 2016, primarily due to a decrease in average yields on commercial and industrial and other commercial loans, mainly reflecting the decrease in the general level of interest rates in Korea in 2016, the effect of which was partially offset by an increase in the average balance of commercial and industrial loans.

Interest expense attributable to this segment decreased 5.3% from 1,880 billion in 2015 to 1,781 billion in 2016. The decrease in interest expense was primarily due to a decrease in the average cost of time and savings deposits held by corporate customers, which was enhanced by a decrease in the average cost of corporate debentures, all of which were mainly attributable to the decrease in the general level of interest rates in Korea in 2016.

Net interest income from inter-segment transactions for this segment increased 53.1% from 324 billion in 2015 to 496 billion in 2016, principally as a result of an increase in the average balance of loans to other segments, which mainly reflected increased funding needs of the consumer banking segment.

Impairment losses due to credit loss and others for this segment decreased 41.5% from 870 billion in 2015 to 509 billion in 2016, primarily as a result of a decrease in provisions for corporate loans, mainly reflecting an overall improvement in the asset quality of our corporate loan portfolio.

Non-interest income attributable to this segment increased 6.4% from 503 billion in 2015 to 535 billion in 2016, primarily due to an increase in gains on transaction of foreign exchange.

Non-interest expense for this segment increased 26.9 % from 26 billion in 2015 to 33 billion in 2016, primarily as a result of an increase in losses on transaction of foreign exchange.

Administrative expenses attributable to this segment increased 4.4% from 926 billion in 2015 to 967 billion in 2016, primarily due to an increase in salaries attributable mainly to growth in the number of employees in this segment.

**Table of Contents****Investment Banking**

This segment consists of our investment banking operations, including principally project finance, structured finance, merger and acquisition financing and financial advisory services. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31,			Percentage change	
	2015	2016	2017	2016/2015	2017/2016
	(in billions of Won)			(% )	
<b>Income statement data</b>					
Interest income	155	153	148	(1.3)%	(3.3)%
Interest expense					
Inter-segment	(149)	(138)	(136)	(7.4)	(1.4)
<b>Net interest income</b>	6	15	12	150.0	(20.0)
Non-interest income	490	605	367	23.5	(39.3)
Non-interest expense	(375)	(444)	(215)	18.4	(51.6)
Inter-segment					
<b>Net non-interest income</b>	115	161	152	40.0	(5.6)
Administrative expenses	(15)	(15)	(13)		(13.3)
Impairment losses due to credit loss and others <sup>(1)</sup>	68	(96)	(51)	N/M <sup>(2)</sup>	(46.9)
<b>Total other income (expenses)</b>	53	(111)	(64)	N/M <sup>(2)</sup>	(42.3)
<b>Operating income (loss)</b>	174	65	100	(62.6)	53.8
Net non-operating income	44	46	39	4.5	(15.2)
<b>Net income (loss) before tax</b>	218	111	139	(49.1)	25.2
Income tax benefit (expense)	(53)	(27)	(33)	(49.1)	22.2
<b>Net income (loss)</b>	165	84	106	(49.1)%	26.2%

<sup>(1)</sup> Consist of impairment losses due to credit loss, gain (loss) on loan sales and provisions (reversal of provisions).

<sup>(2)</sup> N/M = not meaningful.

*Comparison of 2017 to 2016*

Our net income before tax for this segment increased 25.2% from 111 billion in 2016 to 139 billion in 2017. Net income after tax also increased 26.2% from 84 billion in 2016 to 106 billion in 2017.

Interest income for this segment, which consists mainly of interest income from financing provided to corporations, decreased 3.3% from 153 billion in 2016 to 148 billion in 2017, primarily reflecting the decrease in the general level of interest rates in Korea in 2017 compared to 2016.

Net interest expense on inter-segment transactions for this segment decreased 1.4% from 138 billion in 2016 to 136 billion in 2017, principally as a result of a decrease in the average cost of borrowings from other segments, which mainly reflected the lower interest rate environment in Korea.

Impairment losses due to credit loss and others for this segment decreased 46.9% from 96 billion in 2016 to 51 billion in 2017, primarily as a result of an improvement in the overall asset quality of our financing portfolio.

Non-interest income attributable to this segment decreased 39.3% from 605 billion in 2016 to 367 billion in 2017, primarily due to a decrease in gains on transaction of foreign exchange.

Non-interest expense for this segment decreased 51.6% from 444 billion in 2016 to 215 billion in 2017, primarily as a result of a decrease in losses on transaction of foreign exchange.

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Administrative expenses attributable to this segment decreased 13.3% from 15 billion in 2016 to 13 billion in 2017, primarily due to increased efficiency in the use of our sales channels.

*Comparison of 2016 to 2015*

Our net income before tax for this segment decreased 49.1% from 218 billion in 2015 to 111 billion in 2016. Net income after tax also decreased 49.1% from 165 billion in 2015 to 84 billion in 2016.

Interest income for this segment decreased 1.3% from 155 billion in 2015 to 153 billion in 2016, mainly reflecting the decrease in the general level of interest rates in Korea in 2016.

Net interest expense on inter-segment transactions for this segment decreased 7.4% from 149 billion in 2015 to 138 billion in 2016, principally as a result of a decrease in the average cost of borrowings from other segments, which mainly reflected the decrease in the general level of interest rates in Korea in 2016.

Impairment losses due to credit loss and others for this segment changed from a net reversal of 68 billion in 2015 to net loss of 96 billion in 2016, primarily as a result of an increase in provisions for credit losses with respect to financing provided to a certain corporate customer, as well as reversals of provisions for credit losses in 2015 which were not repeated in 2016.

Non-interest income attributable to this segment increased 23.5% from 490 billion in 2015 to 605 billion in 2016, primarily due to an increase in gains on transaction of foreign exchange.

Non-interest expense for this segment increased 18.4% from 375 billion in 2015 to 444 billion in 2016, primarily as a result of an increase in losses on transaction of foreign exchange.

Administrative expenses attributable to this segment remained stable at 15 billion in 2015 and 2016.

*Capital Markets*

This segment consists of our core capital markets operations, including principally securities investment and trading of securities (other than available-for-sale securities), foreign exchange and derivatives. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31,			Percentage change	
	2015	2016	2017	2016/2015	2017/2016
	(in billions of Won)			(% )	
<b>Income statement data</b>					
Interest income	19	19	19	%	%
Interest expense					
Inter-segment	22	30	18	36.4	(40.0)
<b>Net interest income</b>	41	49	37	19.5	(24.5)
Non-interest income	5,761	7,590	9,548	31.7	25.8
Non-interest expense	(5,743)	(7,586)	(9,478)	32.1	24.9



## Inter-segment

<b>Net non-interest expense</b>	18	4	70	(77.8)	(1650.0)
Administrative expenses	(17)	(18)	(16)	5.9	(11.1)
Impairment losses due to credit loss and others <sup>(1)</sup>	(27)	(34)	31	25.9	(191.2)
<b>Total other expenses</b>	(44)	(52)	15	18.2	(128.8)
<b>Operating income (loss)</b>	15	1	122	(93.3)	N/M <sup>(2)</sup>
Net non-operating income (loss)		(5)		N/M <sup>(2)</sup>	N/M <sup>(2)</sup>
<b>Net income (loss) before tax</b>	15	(4)	122	N/M <sup>(2)</sup>	N/M <sup>(2)</sup>
Income tax expense	(4)	1	(30)	N/M <sup>(2)</sup>	N/M <sup>(2)</sup>
<b>Net income (loss)</b>	11	(3)	92	N/M <sup>(2)</sup>	N/M <sup>(2)</sup>

**Table of Contents**

(1) Consist of impairment losses due to credit loss, gain (loss) on loan sales and provisions (reversal of provisions).

(2) N/M = not meaningful.

*Comparison of 2017 to 2016*

Our net income (loss) before tax for this segment changed from a net loss of 4 billion in 2016 to a net gain of 122 billion in 2017. Net income (loss) after tax also changed from a net loss of 3 billion in 2016 to a net gain of 92 billion in 2017.

Interest income for this segment, which consists mainly of interest income from held-for-trading securities, remained stable at 19 billion in 2016 and 2017.

Net interest income on inter-segment transactions for this segment decreased 40.0% from 30 billion in 2016 to 18 billion in 2017, principally as a result of a decrease in the average balance of loans to other segments.

Impairment losses due to credit loss and others for this segment changed from net loss of 34 billion in 2016 to a net gain of 31 billion in 2017, primarily as a result of a credit valuation adjustment relating to derivatives, which mainly reflected a decrease in the volume of such derivatives due to lower exchange rate volatility in 2017.

Non-interest income attributable to this segment increased 25.8% from 7,590 billion in 2016 to 9,548 billion in 2017, primarily due to an increase in gains on transaction of foreign exchange.

Non-interest expense for this segment increased 24.9% from 7,586 billion in 2016 to 9,478 billion in 2017, primarily as a result of an increase in losses on transaction of foreign exchange.

Administrative expenses attributable to this segment decreased 11.1% from 18 billion in 2016 to 16 billion in 2017, primarily due to decreases in salaries and benefits paid, attributable mainly to a reduction in the number of employees in this segment.

*Comparison of 2016 to 2015*

Our net income (loss) before tax for this segment changed from net income of 15 billion in 2015 to a net loss of 4 billion in 2016. Net income (loss) after tax also changed from net income of 11 billion in 2015 to a net loss of 3 billion in 2016.

Interest income for this segment remained stable at 19 billion in 2015 and 2016.

Net interest income on inter-segment transactions for this segment increased 36.4% from 22 billion in 2015 to 30 billion in 2016, principally as a result of a decrease in the average cost of borrowings from other segments, which mainly reflected the decrease in the general level of interest rates in Korea in 2016.

Impairment losses due to credit loss and others for this segment increased 25.9% from 27 billion in 2015 to 34 billion in 2016, primarily as a result of a credit valuation adjustment relating to derivatives, which mainly reflected an increase in the volume of such derivatives due to higher exchange rate volatility in 2016.

Non-interest income attributable to this segment increased 31.7% from 5,761 billion in 2015 to 7,590 billion in 2016, primarily due to an increase in gains on transaction of foreign exchange.

Non-interest expense for this segment increased 32.1% from 5,743 billion in 2015 to 7,586 billion in 2016, primarily as a result of an increase in losses on transaction of foreign exchange.

Administrative expenses attributable to this segment increased 5.9% from 17 billion in 2015 to 18 billion in 2016, primarily due to an increase in salaries paid to our employees in this segment.

**Table of Contents****Credit Card**

This segment consists of our credit card operations. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31,			Percentage change	
	2015	2016	2017	2016/2015	2017/2016
	(in billions of Won)			(% )	
<b>Income statement data</b>					
Interest income	500	557	600	11.4%	7.7%
Interest expense	(122)	(129)	(136)	5.7	5.4
Inter-segment					
<b>Net interest income</b>	378	428	464	13.2	8.4
Non-interest income	871	986	1,164	13.2	18.1
Non-interest expense	(773)	(906)	(1,090)	17.2	20.3
Inter-segment					
<b>Net non-interest expense</b>	98	80	74	(18.4)	(7.5)
Administrative expenses	(124)	(148)	(165)	19.4	11.5
Impairment losses due to credit loss and others <sup>(1)</sup>	(197)	(216)	(235)	9.6	8.8
<b>Total other expenses</b>	(321)	(364)	(400)	13.4	9.9
<b>Operating income</b>	155	144	138	(7.1)	(4.2)
Net non-operating loss	(5)	(2)	(5)	(60.0)	150.0
<b>Net income before tax</b>	150	142	133	(5.3)	(6.3)
Income tax expense	(33)	(33)	(32)		(3.0)
<b>Net income</b>	117	109	101	(6.8)%	(7.3)%

<sup>(1)</sup> Consist of impairment losses due to credit loss, gain (loss) on loan sales and provisions (reversal of provisions).  
*Comparison of 2017 to 2016*

Our net income before tax for this segment decreased 6.3% from 142 billion in 2016 to 133 billion in 2017. Net income after tax also decreased 7.3% from 109 billion in 2016 to 101 billion in 2017.

Interest income for this segment increased 7.7% from 557 billion in 2016 to 600 billion in 2017, primarily due to an increase in the average balance of credit card receivables, mainly reflecting an increase in the volume of credit card

transactions as well as an increase in credit card issuances, which was offset in part by a decrease in the average yield on such receivables.

Interest expense attributable to this segment increased 5.4% from 129 billion in 2016 to 136 billion in 2017, primarily due to increased funding needs for this segment in light of the increase in the average balance of credit card receivables.

Impairment losses due to credit loss and others for this segment increased 8.8% from 216 billion in 2016 to 235 billion in 2017, primarily as a result of an increase in provisions for credit losses, mainly due to an increase in the outstanding balance of our credit card receivables.

Non-interest income attributable to this segment increased 18.1% from 986 billion in 2016 to 1,164 billion in 2017, primarily due to an increase in credit card fees, mainly reflecting the increase in the average balance of credit card receivables.

Non-interest expense for this segment increased 20.3% from 906 billion in 2016 to 1,090 billion in 2017, primarily as a result of an increase in credit card commissions, mainly reflecting the increase in the average balance of credit card receivables.

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Administrative expenses attributable to this segment increased 11.5% from 148 billion in 2016 to 165 billion in 2017, primarily due to an increase in salaries paid to our employees in this segment.

*Comparison of 2016 to 2015*

Our net income before tax for this segment decreased 5.3% from 150 billion in 2015 to 142 billion in 2016. Net income after tax also decreased 6.8% from 117 billion in 2015 to 109 billion in 2016.

Interest income for this segment increased 11.4% from 500 billion in 2015 to 557 billion in 2016, primarily due to an increase in the average balance of credit card receivables, mainly reflecting an increase in the volume of credit card transactions as well as an increase in credit card issuances.

Interest expense attributable to this segment increased 5.7% from 122 billion in 2015 to 129 billion in 2016, primarily due to increased funding needs for this segment in light of the increase in the average balance of credit card receivables.

Impairment losses due to credit loss and others for this segment increased 9.6% from 197 billion in 2015 to 216 billion in 2016, primarily as a result of an increase in provisions for credit losses, mainly due to an increase in the outstanding balance of our credit card receivables.

Non-interest income attributable to this segment increased 13.2% from 871 billion in 2015 to 986 billion in 2016, primarily due to an increase in credit card fees, mainly reflecting the increase in the average balance of credit card receivables.

Non-interest expense for this segment increased 17.2% from 773 billion in 2015 to 906 billion in 2016, primarily as a result of an increase in credit card commissions, mainly reflecting the increase in the average balance of credit card receivables.

Administrative expenses attributable to this segment increased 19.4% from 124 billion in 2015 to 148 billion in 2016, primarily due to an increase in salaries paid to our employees in this segment, principally reflecting an increase in the number of such employees, as well as an increase in advertising expenses.

**Table of Contents****Other Operations**

Other operations include all of our operations not included in the other segments, including principally the operations of our Credit Management and Collection Department and our Corporate Restoration Department, our treasury operations involving transactions of available-for-sale securities and financing among financial institutions as well as the operations of all of our subsidiaries other than Woori Card. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31,			Percentage change	
	2015	2016	2017	2016/2015	2017/2016
	(in billions of Won)			(%)	
<b>Income statement data</b>					
Interest income	1,586	1,492	1,361	(5.9)%	(8.8)%
Interest expense	(980)	(864)	(835)	(11.8)	(3.4)
Inter-segment	137	85	97	(38.0)	14.1
<b>Net interest income</b>	<b>743</b>	<b>713</b>	<b>623</b>	<b>(4.0)</b>	<b>(12.6)</b>
Non-interest income	3,246	4,563	2,683	40.6	(41.2)
Non-interest expense	(2,908)	(4,173)	(2,132)	43.5	(48.9)
Inter-segment	(58)	(87)	(162)	50.0	86.2
<b>Net non-interest income</b>	<b>280</b>	<b>303</b>	<b>389</b>	<b>8.2</b>	<b>28.4</b>
Administrative expenses	(555)	(794)	(954)	43.1	20.2
Impairment losses due to credit loss and others <sup>(1)</sup>	83	219	15	163.9	(93.2)
<b>Total other expenses</b>	<b>(472)</b>	<b>(575)</b>	<b>(939)</b>	<b>21.8</b>	<b>63.3</b>
<b>Operating income</b>	<b>551</b>	<b>441</b>	<b>73</b>	<b>(20.0)</b>	<b>(83.4)</b>
Net non-operating income (loss)	138	56	(113)	(59.4)	N/M <sup>(2)</sup>
<b>Net income (loss) before tax</b>	<b>689</b>	<b>497</b>	<b>(40)</b>	<b>(27.9)</b>	<b>N/M<sup>(2)</sup></b>
Income tax benefit (expense)	(137)	17	63	N/M <sup>(2)</sup>	270.6
<b>Net income</b>	<b>552</b>	<b>514</b>	<b>23</b>	<b>(6.9)%</b>	<b>(95.7)%</b>

<sup>(1)</sup> Consist of impairment losses due to credit loss, gain (loss) on loan sales and provisions (reversal of provisions).

<sup>(2)</sup> N/M = not meaningful.

*Comparison of 2017 to 2016*

Our net income (loss) before tax for this segment changed from net income of 497 billion in 2016 to a net loss of 40 billion in 2017. Net income after tax decreased 95.7% from 514 billion in 2016 to 22 billion in 2017.

Interest income for this segment, which mainly includes interest income due from banks and on certain other loans and financial assets, decreased 8.8% from 1,492 billion in 2016 to 1,361 billion in 2017, primarily due to the decrease in the general level of interest rates in Korea in 2017 compared to 2016.

Interest expense attributable to this segment, which mainly includes interest expense on debentures, borrowings, call money and deposits due to customers, decreased 3.4% from 864 billion in 2016 to 835 billion in 2017, primarily due to decreased funding costs for this segment in light of the lower interest rate environment in Korea in 2017.

Net interest income from inter-segment transactions for this segment increased 14.1% from 85 billion in 2016 to 97 billion in 2017, principally as a result of an increase in the average balance of loans to other segments.



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Impairment losses due to credit loss and others for this segment decreased from a net gain of 219 billion in 2016 to a net gain of 15 billion in 2017, representing a decrease in net gain of 93.2%, primarily as a result of an increase in provisions for credit losses of our Corporate Restoration Department, mainly reflecting the deterioration of the financial condition of certain companies, which securities were held by such department.

Non-interest income attributable to this segment, which mainly includes gains on transaction of foreign exchange, gains on fair value hedged items and gains on transactions of derivatives, decreased 41.2% from 4,563 billion in 2016 to 2,683 billion in 2017, primarily due a decrease in gains on transactions of foreign exchange, mainly reflecting lower exchange rate volatility in 2017.

Non-interest expense for this segment, which mainly includes losses on transaction of foreign exchange, losses on fair value hedged items and losses on transactions of derivatives, decreased 48.9% from 4,173 billion in 2016 to 2,132 billion in 2017, primarily as a result of a decrease in losses on transactions of foreign exchange, mainly reflecting lower exchange rate volatility in 2017.

Administrative expenses attributable to this segment increased 20.2% from 794 billion in 2016 to 954 billion in 2017, primarily due to an increase in redundancy payments, which are recorded in this segment, resulting mainly from our implementation of an early retirement program in September 2017.

*Comparison of 2016 to 2015*

Our net income before tax for this segment decreased 27.9% from 689 billion in 2015 to 497 billion in 2016. Net income after tax also decreased 6.9% from 552 billion in 2015 to 514 billion in 2016.

Interest income for this segment decreased 5.9% from 1,586 billion in 2015 to 1,492 billion in 2016, primarily due to the decrease in the general level of interest rates in Korea in 2016.

Interest expense attributable to this segment decreased 11.8% from 980 billion in 2015 to 864 billion in 2016, primarily due to decreased funding costs for this segment in light of the lower interest rate environment in Korea in 2016.

Net interest income from inter-segment transactions for this segment decreased 38.0% from 137 billion in 2015 to 85 billion in 2016, principally as a result of a decrease in the average yield on loans to other segments, which mainly reflected the decrease in the general level of interest rates in Korea in 2016.

Impairment losses due to credit loss and others for this segment increased from a net gain of 83 billion in 2015 to a net gain of 219 billion in 2016, representing an increase in net gain of 163.9%, primarily as a result of an overall improvement in the asset quality of loans in this segment, mainly reflecting our efforts to increase the proportion of loans with higher asset quality and to strengthen credit review and monitoring procedures.

Non-interest income attributable to this segment increased 40.6% from 3,246 billion in 2015 to 4,563 billion in 2016, primarily due to an increase in gains on transactions of foreign exchange, mainly reflecting higher exchange rate volatility in 2016.

Non-interest expense for this segment increased 43.5% from 2,908 billion in 2015 to 4,173 billion in 2016, primarily as a result of an increase in losses on transactions of foreign exchange, mainly reflecting higher exchange rate volatility in 2016.

Administrative expenses attributable to this segment increased 43.1% from 555 billion in 2015 to 794 billion in 2016, primarily due to an increase in redundancy payments, resulting mainly from our implementation of an early retirement program in April and December 2016.

**Table of Contents****Item 5.B. Liquidity and Capital Resources  
Financial Condition****Assets**

The following table sets forth, as of the dates indicated, the principal components of our assets:

	As of December 31,			Percentage change	
	2015	2016	2017	2016/2015	2017/2016
	(in billions of Won)			(% )	
Cash and cash equivalents	6,644	7,591	6,908	14.3%	(9.0)%
Financial assets at fair value through profit or loss	5,133	5,651	5,843	10.1	3.4
Available-for-sale financial assets	17,171	20,818	15,353	21.2	(26.3)
Held-to-maturity financial assets	13,622	13,910	16,749	2.1	20.4
Loans and receivables:					
Due from banks	11,181	14,821	8,871	32.6	(40.1)
Loans in local currency	185,155	191,309	200,213	3.3	4.7
Loans in foreign currencies	13,105	14,102	13,148	7.6	(6.8)
Domestic bankers' letter of credit	4,805	3,754	2,517	(21.9)	(33.0)
Credit card accounts	6,099	6,674	6,827	9.4	2.3
Bills bought in foreign currencies	6,648	7,759	8,197	16.7	5.6
Bills bought in local currency	135	414	335	206.7	(19.1)
Factoring receivables	150	97	138	(35.3)	42.3
Advances for customers on guarantees	44	25	24	(43.2)	(4.0)
Privately placed bonds	331	328	362	(0.9)	10.4
Securitized loans	310	253	563	(18.4)	122.5
Call loans	2,758	2,985	3,003	8.2	0.6
Bonds purchased under resale agreements	7,584	8,855	16,859	16.8	90.4
Other loans	46	251	511	445.7	103.6
Loan origination costs and fees	435	459	607	5.5	32.2
Present value discount	(5)	(14)	(11)	180.0	(21.4)
Other receivables	8,539	8,348	6,772	(2.2)	(18.9)
Allowance for credit losses	(2,478)	(2,027)	(1,830)	(18.2)	(9.7)
Total loans and receivables, net	244,842	258,393	267,106	5.5	3.4
Premises and equipment, net	2,471	2,458	2,478	(0.5)	0.8
Other assets <sup>(1)</sup>	1,976	1,862	1,858	(5.8)	(0.2)
Total assets	291,859	310,683	316,295	6.4%	1.8%

<sup>(1)</sup> Includes investments in joint ventures and associates, investment properties, intangible assets and goodwill, current tax assets, deferred tax assets, derivative assets, assets held for sale, net defined benefit assets and other assets.

For further information on our assets, see Item 4.B. Business Overview Assets and Liabilities.

*Comparison of 2017 to 2016*

Our total assets increased 1.8% from 310,683 billion as of December 31, 2016 to 316,295 billion as of December 31, 2017, primarily as a result of a 3.4% increase in loans and receivables from 258,393 billion as of December 31, 2016 to 267,106 billion as of December 31, 2017. This increase in loans and receivables was mainly the result of a 4.7% increase in loans in local currency from 191,309 billion as of December 31, 2016 to 200,213 billion as of December 31, 2017 and a 90.4% increase in bonds purchased under resale agreement from 8,855 billion as of December 31, 2016 to 16,859 billion as of December 31, 2017, the effect of which was partially offset by a 40.1% decrease in loans and receivables due from banks from 14,821 billion as of December 31, 2016 to 8,871 billion as of December 31, 2017.

**Table of Contents***Comparison of 2016 to 2015*

Our total assets increased 6.4% from 291,859 billion as of December 31, 2015 to 310,683 billion as of December 31, 2016, primarily as a result of a 5.5% increase in loans and receivables from 244,842 billion as of December 31, 2015 to 258,393 billion as of December 31, 2016. This increase in loans and receivables was mainly the result of a 3.3% increase in loans in local currency from 185,155 billion as of December 31, 2015 to 191,309 billion as of December 31, 2016 and a 32.6% increase in loans and receivables due from banks from 11,181 billion as of December 31, 2015 to 14,821 billion as of December 31, 2016.

**Liabilities and Equity**

The following table sets forth, as of the dates indicated, the principal components of our liabilities and our equity:

	As of December 31,			Percentage change	
	2015	2016	2017	2016/2015	2017/2016
	(in billions of Won)			(% )	
<b>Liabilities:</b>					
Financial liabilities at fair value through profit or loss					
	3,461	3,803	3,428	9.9%	(9.9)%
Deposits due to customers	209,142	221,020	234,695	5.7	6.2
Borrowings	20,034	18,770	14,785	(6.3)	(21.2)
Debentures	21,899	23,566	27,869	7.6	18.3
Provisions	517	429	410	(17.0)	(4.4)
Other financial liabilities	16,964	21,985	13,892	29.6	(36.8)
Other liabilities <sup>(1)</sup>	532	564	651	6.0	15.4
<b>Total liabilities</b>	<b>272,549</b>	<b>290,137</b>	<b>295,730</b>	<b>6.5</b>	<b>1.9</b>
<b>Equity:</b>					
Capital stock	3,381	3,381	3,381		
Hybrid securities	3,334	3,575	3,018	7.2	(15.6)
Capital surplus	294	286	286	(2.7)	
Other equity	(1,547)	(1,468)	(1,939)	(5.1)	32.1
Retained earnings	13,726	14,612	15,620	6.5	6.9
Controlling interests	19,188	20,386	20,366	6.2	(0.1)
Non-controlling interests	122	160	199	31.1	24.4
<b>Total equity</b>	<b>19,310</b>	<b>20,546</b>	<b>20,565</b>	<b>6.4</b>	<b>0.1</b>
<b>Total liabilities and equity</b>	<b>291,859</b>	<b>310,683</b>	<b>316,295</b>	<b>6.4%</b>	<b>1.8%</b>

(1)

Includes net defined benefit liability, current tax liabilities, deferred tax liabilities, derivative liabilities and other liabilities.

For further information on our liabilities, see Item 4.B. Business Overview Assets and Liabilities.

*Comparison of 2017 to 2016*

Our total liabilities increased 1.9% from 290,137 billion as of December 31, 2016 to 295,730 billion as of December 31, 2017, primarily as a result of increases in deposits due to customers and debentures, the effect of which was partially offset by decreases in other financial liabilities and borrowings. Our deposits due to customers increased 6.2% from 221,020 billion as of December 31, 2016 to 234,695 billion as of December 31, 2017, mainly due to a 5.8% increase in time deposits in local currency from 183,723 billion as of December 31, 2016 to 194,293 billion as of December 31, 2017. Debentures increased 18.3% from 23,566 billion as of December 31, 2016 to 27,870 billion as of December 31, 2017, primarily due to higher issuances of debentures in anticipation of rising interest rate levels. Other financial liabilities decreased 36.8% from 21,985 billion as of December 31, 2016 to 13,892 as of December 31, 2017, principally due to an 84.6% decrease in domestic exchange payables from 8,481 billion as of December 31, 2016 to 1,310 billion

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as of December 31, 2017. Borrowings decreased 21.2% from 18,770 billion as of December 31, 2016 to 14,785 as of December 31, 2017, primarily as a result of a significant decrease in bonds sold under repurchase agreements from 2,005 billion as of December 31, 2016 to 3 billion as of December 31, 2017.

Our total equity remained relatively stable at 20,565 billion as of December 31, 2017, compared to 20,546 billion as of December 31, 2016. A 6.9% increase in retained earnings from 14,612 billion as of December 31, 2016 to 15,620 billion as of December 31, 2017 was offset by a 15.6% decrease in hybrid securities from 3,575 billion as of December 31, 2016 to 3,018 billion as of December 31, 2017 and a 32.1% increase in negative other equity from 1,468 billion as of December 31, 2016 to 1,939 billion as of December 31, 2017. The increase in retained earnings was attributable mainly to the net income we generated in 2017. The decrease in hybrid securities was principally due to the redemptions of Won-denominated hybrid securities in March 2017 and U.S. dollar-denominated hybrid securities in May 2017, which were offset in part by the issuance of U.S. dollar-denominated hybrid securities in May 2017. The increase in negative other equity was primarily attributable to a 12.9% increase in negative other capital adjustments from 1,607 billion as of December 31, 2016 to 1,815 billion as of December 31, 2017 and a more than four-fold increase in loss on foreign currency translation of foreign operations from 48 billion as of December 31, 2016 to 243 billion as of December 31, 2017.

*Comparison of 2016 to 2015*

Our total liabilities increased 6.5% from 272,549 billion as of December 31, 2015 to 290,137 billion as of December 31, 2016, primarily as a result of increases in deposits due to customers and other financial liabilities. Our deposits due to customers increased 5.7% from 209,142 billion as of December 31, 2015 to 221,020 billion as of December 31, 2016, mainly as a result of a 4.6% increase in time deposits in local currency from 175,599 billion as of December 31, 2015 to 183,723 billion as of December 31, 2016. Other financial liabilities increased 29.6% from 16,964 billion as of December 31, 2015 to 21,985 billion as of December 31, 2016, which was principally due to a more than four-fold increase in domestic exchange payables from 2,082 billion as of December 31, 2015 to 8,481 billion as of December 31, 2016.

Our total equity increased 6.4% from 19,310 billion as of December 31, 2015 to 20,546 billion as of December 31, 2016. This increase resulted mainly from a 6.5% increase in retained earnings from 13,726 billion as of December 31, 2015 to 14,612 billion as of December 31, 2016, which was enhanced by a 7.2% increase in hybrid securities from 3,334 billion as of December 31, 2015 to 3,575 billion as of December 31, 2016. The increase in retained earnings was attributable mainly to the net income we generated in 2016. The increase in hybrid securities was principally due to the issuance of U.S. dollar-denominated hybrid securities in September 2016, which was offset in part by the redemption of Won-denominated hybrid securities in November 2016.

*Liquidity*

Our primary source of funding has historically been and continues to be customer deposits, particularly lower-cost retail deposits. Customer deposits amounted to 209,142 billion, 221,020 billion and 234,695 billion as of December 31, 2015, 2016 and 2017, which represented approximately 82.2%, 82.8% and 82.7% of our total funding, respectively. We have historically been able to use customer deposits to finance our operations generally, including meeting a portion of our liquidity requirements. Although the majority of deposits are short-term, it has been our experience that the majority of our depositors generally roll over their deposits at maturity, thus providing us with a stable source of funding. However, in the event that a substantial number of our depositors do not roll over their deposits or otherwise decide to withdraw their deposited funds, we would need to place increased reliance on alternative sources of funding, some of which may be more expensive than customer deposits, in order to finance our operations. See Item 3.D. Risk Factors Other risks relating to our business Our funding is highly dependent on

short-term deposits, which dependence may adversely affect our operations. In particular, we may increase our utilization of alternative funding sources such as short-term borrowings and cash and cash equivalents (including funds from maturing loans), as well as liquidating our positions in trading and investment securities and using the proceeds to fund parts of our operations, as necessary.



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We also obtain funding through borrowings and debentures to meet our liquidity needs. Borrowings represented 7.9%, 7.0% and 6.4% of our total funding as of December 31, 2015, 2016 and 2017, respectively. Debentures represented 8.6%, 8.8% and 9.8% of our total funding as of December 31, 2015, 2016 and 2017, respectively. For further information on our sources of funding, see [Item 4.B. Business Overview Assets and Liabilities Funding](#).

Our liquidity risks arise from withdrawals of deposits and maturities of our borrowings and debentures, as well as our need to fund our lending, trading and investment activities and to manage our trading positions. Our goal in managing our liquidity is to be able, even under adverse conditions, to meet all of our liability repayments on time and to fund all investment opportunities. For a discussion of how we manage our liquidity risk, see [Item 11. Quantitative and Qualitative Disclosures about Market Risk Liquidity Risk Management](#).

The Financial Services Commission requires each Korean bank to maintain specific Won and foreign currency liquidity ratios. These ratios require us to keep our ratio of liquid assets to liquid liabilities above certain minimum levels. For a description of these requirements, see [Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Liquidity](#).

**Contractual Obligations and Off-Balance Sheet Arrangements**

The following table sets forth our contractual obligations as of December 31, 2017:

	Total	Payments due by period			More than 5 years
		Less than 1 year	1-3 years	3-5 years	
(in billions of Won)					
<b>Contractual obligations</b>					
Borrowing obligations <sup>(1)</sup>	15,081	10,676	3,048	877	480
Debenture obligations <sup>(1)</sup>	29,811	7,171	14,910	4,860	2,870
Deposits <sup>(2)(3)</sup>	238,250	228,216	6,447	962	2,625
Capital (finance) lease obligations	2	2			
Operating lease obligations	1,513	260	493	486	274
Purchase obligations	65	14	20	20	11
Employee severance plan obligations	2,329	68	160	128	1,973
<b>Total</b>	<b>287,051</b>	<b>246,407</b>	<b>25,078</b>	<b>7,333</b>	<b>8,233</b>

(1) Includes estimated future interest payments, which have been estimated using contractual interest rates and scheduled contractual maturities of the outstanding borrowings and debentures as of December 31, 2017. In order to calculate future interest payments on debts with floating rates, we used contractual interest rates as of December 31, 2017.

(2) Comprising certificates of deposit, other time deposits and installment deposits.

(3) Includes estimated future interest payments, which have been estimated using weighted average interest rates paid for 2017 for each deposit product category and their scheduled contractual maturities.

We utilize credit-related financial instruments with off-balance sheet risk in our normal course of business. The primary purpose of those instruments is to generate fee income for us, in return for making credit support and funds

available to our customers as required. Such instruments consist primarily of guarantees, commercial letters of credit and unused lines of credit. Guarantees include guarantees for loans, debentures, trade financing arrangements and guarantees for other financings. Contingent liabilities for which guaranteed amounts are not finalized appear as off-balance sheet items in the notes to the financial statements. Such contingent liabilities include, among others, contingent liabilities relating to trade financings and derivatives contracts with respect to foreign exchange rates and interest rates.

We also enter into transactions with certain structured entities, including through the purchase of their subordinated debt and the provision of credit facilities to them. For further information, see Notes 1-(5) and 1-(7) of the notes to our consolidated financial statements.

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The following table sets forth our off-balance sheet guarantees and commitments as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(in billions of Won)		
Confirmed guarantees	9,069	8,270	6,875
Guarantees for loans	108	80	157
Acceptances	618	504	321
Letters of guarantee	100	98	108
Other confirmed guarantees	8,243	7,588	6,289
Unconfirmed guarantees	6,631	5,102	4,527
Local letters of credit	423	398	383
Import letters of credit	4,258	3,844	3,638
Other unconfirmed guarantees	1,950	860	506
Commercial paper purchase commitments and others	1,615	1,390	1,458
Loan commitments and others	93,583	88,636	85,306
Loans	88,212	83,795	80,760
Others	5,371	4,841	4,546

We analyze our off-balance sheet legally binding credit-related commitments for possible losses associated with such commitments. We review the ability of the counterparties of the underlying credit-related commitments to perform their obligations under the commitments and, if we determine that a loss is probable and estimable, we establish allowances for possible losses in a manner similar to allowances that we would establish with respect to a loan granted under the terms of the applicable commitment. These allowances are reflected as provisions in our statement of financial position. As of December 31, 2017, we had established provisions for possible losses of 249 billion with respect to our credit-related commitments.

**Capital Adequacy**

We are subject to the capital adequacy requirements of the Financial Services Commission. The requirements applicable commencing in December 2013 pursuant to amended Financial Services Commission regulations promulgated in July 2013 were formulated based on Basel III, which was first introduced by the Basel Committee on Banking Supervision, Bank for International Settlements in December 2009. Under the amended Financial Services Commission regulations, all banks in Korea are required to maintain certain minimum ratios of Tier I common equity capital, total Tier I capital and total Tier I and Tier II capital to risk-weighted assets. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Capital Adequacy.

If a bank fails to maintain its capital adequacy ratios, the Korean regulatory authorities may impose penalties on such bank ranging from a warning to suspension or revocation of its license. See Item 3.D. Risk Factors Other risks relating to our business We may be required to raise additional capital if our capital adequacy ratio deteriorates or the applicable capital requirements change in the future, but we may not be able to do so on favorable terms or at all.

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The following table sets forth a summary of our capital and capital adequacy ratios as of December 31, 2015, 2016 and 2017 based on IFRS and applicable regulatory reporting standards:

	As of December 31,		
	2015	2016	2017
	(in billions of Won, except percentages)		
<b>Tier I capital</b>			
Tier I common equity capital			
Capital stock	3,381	3,381	3,381
Capital surplus	294	286	286
Retained earnings	11,471	14,612	15,620
Non-controlling interests in consolidated subsidiaries	14	22	19
Others	(2,112)	(2,586)	(3,231)
Additional Tier I capital			
Hybrid securities	2,970	3,232	3,006
Other equity	46	43	35
<b>Total Tier I capital</b>	<b>16,064</b>	<b>18,990</b>	<b>19,116</b>
<b>Tier II capital</b>			
Allowance for credit losses <sup>(1)</sup>	1,145	145	78
Subordinated debt	3,831	2,292	1,870
Valuation gain on investment securities			
Others	11	1,474	1,539
<b>Total Tier II capital</b>	<b>4,987</b>	<b>3,911</b>	<b>3,487</b>
<b>Total Tier I and Tier II capital</b>	<b>21,051</b>	<b>22,901</b>	<b>22,603</b>
<b>Risk-weighted assets</b>			
Credit risk-weighted assets	142,127	138,018	134,768
Market risk-weighted assets	2,596	2,278	2,317
Operational risk-weighted assets	9,348	9,432	9,677
<b>Total</b>	<b>154,071</b>	<b>149,728</b>	<b>146,762</b>
Tier I common equity capital ratio	8.47%	10.50%	10.95%
Total Tier I capital ratio	10.43%	12.68%	13.03%
Tier II capital ratio	3.23%	2.61%	2.37%
Total Tier I and Tier II capital ratio	13.66%	15.29%	15.40%

<sup>(1)</sup> Allowance for credit losses in respect of credits classified as normal or precautionary are used to calculate Tier II capital only to the extent such allowances represent up to 1.25% of risk-weighted assets.

**Recent Accounting Pronouncements**

IFRS 9 *Financial Instruments*, issued by the IASB in July 2014, is a new IFRS accounting standard aimed at improving and simplifying the accounting treatment of financial instruments and is effective for annual periods beginning on or after January 1, 2018. IFRS 9, which replaces International Accounting Standard 39, *Financial Instruments: Recognition and Measurement*, requires financial assets to be classified and measured on the basis of an entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model is introduced which requires the calculation of allowance for credit losses based on expected credit losses instead of incurred losses (as is the case under International Accounting Standard 39) by assessing changes in expected credit losses and recognizing such changes as impairment loss (or reversal of impairment loss) in profit or loss. Also, hedge accounting rules are amended to extend to more hedging relationships and to allow more hedging instruments and hedged items to qualify for hedge accounting. The impact on our financial statements due to the application of IFRS 9 will depend on judgments made by us in applying the new standard, the nature of financial instruments held by us and macroeconomic variables.

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We have performed an assessment of the financial impact of IFRS 9 on our consolidated financial statements. The application of IFRS 9 will result in higher impairment loss allowances that are recognized earlier, on a more forward-looking basis and on a broader scope of financial instruments than is the case under International Accounting Standard 39 and, as a result, will have a material impact on our reported financial condition. In addition, the move from incurred to expected credit losses will have the potential to impact our performance under stressed economic conditions or regulatory stress tests. In particular, the application of IFRS 9 will result in a one-off increase in allowance for credit losses and a corresponding decrease in our retained earnings in our consolidated statement of financial position, which could also negatively impact our regulatory capital position. Measurement will require increased complexity in our impairment modeling as it will involve a greater degree of management judgment with respect to forward-looking information. We expect that impairment charges will tend to be more volatile as a result. For further information regarding IFRS 9, see Note 2-(1)-2) of the notes to our consolidated financial statements.

For a description of other recent accounting pronouncements under IFRS as issued by the IASB that have been issued but are not yet effective, see Note 2-(1)-2) of the notes to our consolidated financial statements.

**Item 5.C. *Research and Development, Patents and Licenses, etc.***  
**Not Applicable**

**Item 5.D. *Trend Information***

These matters are discussed under Item 5.A and Item 5.B above where relevant.

**Item 5.E. *Off-Balance Sheet Arrangements***

See Item 5.B. Liquidity and Capital Resources Financial Condition Contractual Obligations and Off-Balance Sheet Arrangements.

**Item 5.F. *Tabular Disclosure of Contractual Obligations***

See Item 5.B. Liquidity and Capital Resources Financial Condition Contractual Obligations and Off-Balance Sheet Arrangements.

**Item 5.G. *Safe Harbor***

See Forward-Looking Statements.

**Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

**Item 6.A. *Directors and Senior Management***

## **Board of Directors**

Our board of directors has the ultimate responsibility for managing our affairs. The board currently comprises two standing directors, one non-standing director and five outside directors. Standing directors are directors who are either our full-time executive officers or our standing Audit Committee members, while non-standing directors and outside directors are directors who are not full-time executive officers. Outside directors represent a cross-section of respected and experienced members of the academic, financial, corporate and other fields in Korea and elsewhere, and must also satisfy certain requirements under Korean law and our articles of incorporation to evidence their independence from us.

Our articles of incorporation provide that the board can have no less than five directors. Standing directors must comprise less than 50% of the total number of directors, and there must be at least three outside directors. Each director may be elected for a term of office not exceeding three years and may be re-elected, provided that each outside director may be elected for a term of office not exceeding three years and may be re-elected on an annual basis but may not serve in such office for more than six consecutive years. In addition, with respect to all

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directors, such term of office is extended until the close of the annual general meeting of shareholders convened in respect of the last fiscal year of the director's term of office. These terms are subject to the Korean Commercial Code, the Bank Act and related regulations.

Pursuant to an agreement we entered into with the KDIC in December 2016, we are required to use our best efforts to cause an employee of the KDIC nominated by it to be appointed as our non-standing director, so long as the KDIC either (x) owns 10% or more of our total issued shares with voting rights or (y) owns more than 4% but less than 10% of our total issued shares with voting rights and remains our largest shareholder (other than the National Pension Service of Korea). See Item 10.C. Material Contracts.

Our board of directors meets regularly on a quarterly basis to discuss and resolve various corporate matters. The board may also convene for additional extraordinary meetings at the request of the president or chairman of the board. A director (other than the president or chairman of the board) may request the president or chairman of the board to convene an extraordinary meeting. In the event that the president or chairman of the board rejects such request without justifiable reason, another director may convene the extraordinary meeting.

The names and positions of our directors are set forth below. The business address of all of the directors is our registered office at 51, Sogong-ro, Jung-gu, Seoul, Korea.

***Standing Directors***

Our standing directors are as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Director Since</b>
Tae-Seung Sohn	60	President and Chief Executive Officer	December 22, 2017
Jung-Sik Oh	62	Director and Standing Audit Committee Member	March 24, 2017

None of these directors is involved in any significant business activities outside us and our subsidiaries.

*Tae-Seung Sohn* is our president and chief executive officer. He was appointed as president and chief executive officer in December 2017. Previously, he served as head of the global business unit. Prior to that, he was a managing director of the financial market business division. Mr. Sohn holds a Bachelor of Laws from Sungkyunkwan University, a Master of Laws from Seoul National University and a Master of Business Administration from the Helsinki School of Economics.

*Jung-Sik Oh* is a standing Audit Committee member. He was appointed as a standing Audit Committee member in March 2017. Prior to joining us, he was the representative director of KB Capital. He holds a Bachelor of Arts in International Economics from Seoul National University.

***Non-Standing Director***

Our non-standing director is as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Director Since</b>	<b>Year Term Ends<sup>(1)</sup></b>
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<sup>(1)</sup> The date on which the term will end will be the date of the general shareholders meeting in the relevant year. *Chang-Sik Bae* was elected as a non-standing director in March 2018. He currently serves as the head of the Office of Human Resources Development at the KDIC. He holds a Bachelor of Arts in International Trade from Hankuk University of Foreign Studies.

### ***Outside Directors***

We currently have five outside directors. Pursuant to a commitment made by the KDIC in connection with the bidding process for the sale of a combined 29.7% ownership interest in us in December 2016 and January 2017, five of the seven winning bidders each nominated one person to become a new outside director, and each

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such nominee was elected as a new outside director at an extraordinary general meeting of our shareholders held in December 2016. See Item 4.A. History and Development of the Company Privatization Plan Sales of the KDIC s Ownership Interest.

Our outside directors are as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Director Since</b>	<b>End of Term</b>
Dong-Woo Chang	51	Outside Director	December 30, 2016	December 30, 2018
Sang-Yong Park	67	Outside Director	December 30, 2016	December 30, 2018
Sung-Tae Ro	71	Outside Director	December 30, 2016	December 30, 2018
Sang-Hoon Shin	69	Outside Director	December 30, 2016	December 30, 2018
Zhiping Tian	52	Outside Director	December 30, 2016	December 30, 2018

*Dong-Woo Chang* was elected as an outside director in December 2016. He is currently the chief executive officer and representative director of IMM Investment Corp. He received a Bachelor of Laws from Hanyang University in 1991.

*Sang-Yong Park* was elected as an outside director in December 2016. He currently serves as an honorary professor at the School of Business at Yonsei University. He received a Bachelor of Arts in Business Administration from Yonsei University in 1973 and a Master of Business Administration and a Ph.D. in Business Administration from New York University in 1982 and 1984, respectively.

*Sung-Tae Ro* was elected as an outside director in December 2016. He previously served as the president of Hanwha Life Economic Research Institute and Korea Economic Research Institute. He received a Bachelor of Arts in Economics from Seoul National University in 1969 and a Master of Arts and a Ph.D. in Economics from Harvard University in 1983 and 1984, respectively.

*Sang-Hoon Shin* was elected as an outside director in December 2016. He previously served as the president and chief executive officer of Shinhan Financial Group. He received a Bachelor of Arts in Business Administration from Sungkyunkwan University in 1976 and a Master of Business Administration from Yonsei University Graduate School of Business in 1987.

*Zhiping Tian* was elected as an outside director in December 2016. He currently serves as a vice general manager at China Fellow Partners Limited. He received a Bachelor of Arts in Government Economics Management from Shanxi University of Finance & Economics in 1988, an International Master of Business Administration from the University of Hong Kong and a Master of Business Administration from the Southwestern University of Finance and Economics in 2005.

If any director wishes to enter into a transaction with us in his or her personal capacity, he or she must obtain the prior approval of our board of directors. The director having an interest in the transaction may not vote at the meeting during which the board approves the transaction.

**Executive Officers**

In addition to the standing directors who are also our executive officers, we currently have the following 22 executive officers.

<b>Name</b>	<b>Age</b>	<b>Position</b>
An-Ho Jang	60	Executive Vice President
Woon-Haeng Cho	59	Executive Vice President
Seong-II Park	62	Compliance Officer
Sun-Kyu Kim	60	Executive Vice President
Yeong-Bae Kim	62	Executive Vice President
Jeong-Jin Heo	61	Executive Vice President
Dong-Yeon Lee	59	Executive Vice President
Hyun-Poong Hong	61	Executive Vice President
Chai-Pong Cheong	60	Executive Vice President

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<b>Name</b>	<b>Age</b>	<b>Position</b>
Chang-Jae Lee	58	Executive Vice President
Jeong-Ki Kim	58	Executive Vice President
Tae-Joong Ha	60	Managing Director
Jong-In Lee	60	Managing Director
Won-Duk Lee	58	Managing Director
Hong-Sik Choi	60	Managing Director
Su-Hyeong Cho	59	Managing Director
Hwa-Jae Park	59	Managing Director
Myung-Hyuk Shin	59	Managing Director
Dong-Su Choi	58	Managing Director
Jong-Suk Jeong	58	Managing Director
Kyong-Hoon Park	58	Managing Director
Jong-Deuk Kim	57	Managing Director

*An-Ho Jang* serves as an executive vice president in charge of the domestic business unit and head of the retail banking business group. Previously, he served as an executive vice president and head of the corporate banking business group. Prior to serving as executive vice president, he was a managing director of the human resources division. He holds a Bachelor of Arts in French Literature from Chonbuk National University.

*Woon-Haeng Cho* serves as an executive vice president in charge of the business support unit and head of the human resources group. Previously, he served as an executive vice president and head of the institutional banking business group. Prior to serving as executive vice president, he was a managing director of the operation and support division. He holds a Bachelor of Arts in Business Administration from Kyunghee University.

*Seong-Il Park* serves as an executive vice president and the compliance officer. Prior to serving as executive vice president, he was the compliance officer and a managing director. He holds a Bachelor of Arts in Business Administration from Chungnam National University.

*Sun-Kyu Kim* serves as an executive vice president and head of the credit support group. Prior to serving as executive vice president, he was a managing director of the corporate restructuring division. He holds a Bachelor of Arts in International Trade from Sejong University.

*Yeong-Bae Kim* serves as an executive vice president and head of the international trade business group. Previously, he served as a managing director and head of the international trade business division. Prior to serving as managing director, he was the senior general manager of the Daegu-Gyeongbuk regional banking headquarters. He is a graduate of Daegu Commercial High School.

*Jeong-Jin Heo* serves as an executive vice president in charge of the institutional banking business group and head of the information security division. Previously, he served as a managing director and head of the information security division. Prior to serving as managing director, he was the senior general manager of the information security department. He holds a Bachelor of Arts in International Trade from Kookje University.

*Dong-Yeon Lee* serves as an executive vice president and head of the small and medium corporate banking business group. Previously, he was the senior general manager of the loan service center. He holds a Master of Arts in Political Administration Leadership from the Graduate School of Public Administration of Yonsei University.

*Hyun-Poong Hong* serves as an executive vice president in charge of the digital business group. Previously, he served as a managing director and head of the next generation ICT system building division. Prior to serving as managing

director, he was the senior general manager of the next generation ICT system building division. He holds a Bachelor of Arts in Economics from Hanyang University.

*Chai-Pong Cheong* serves as an executive vice president in charge of the investment banking business group. Previously, he served as a managing director and head of the wealth management group. Prior to serving as managing director, he was the senior general manager of the wealth management division. He holds a Ph.D. in Business Administration from Dongguk University.

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*Chang-Jae Lee* serves as an executive vice president in charge of the real estate finance business group. Previously, he served as a managing director and head of the pension and trust business group. Prior to serving as managing director, he was the senior general manager of the regional banking headquarters. He holds a Bachelor of Arts in Real Estate Studies from Seoul Digital University.

*Jeong-Ki Kim* serves as an executive vice president in charge of the corporate banking business group. Previously, he served as a managing director and head of the external relations division. Prior to serving as managing director, he was the senior general manager of the regional banking headquarters. He holds a Bachelor of Arts in Agricultural Economics from Chungbuk National University.

*Tae-Joong Ha* serves as a managing director and head of the corporate restructuring division. Prior to serving as managing director, he was the senior general manager of the head office corporate banking headquarters. He holds a Bachelor of Arts in Accounting from Kyungpook National University.

*Jong-In Lee* serves as a managing director and head of the risk management group. Previously, he served as a managing director and head of the financial market business group. Prior to serving as managing director, he was the senior general manager of the regional banking headquarters. He holds a Master of Arts in Financial Management from Korea University Business School.

*Won-Duk Lee* serves as a managing director and head of the management and finance planning group. Previously, he served as a managing director and head of the future strategy division. Prior to serving as managing director, he was the senior general manager of the future strategy department. He holds a Master of Arts in Economics from Seoul National University.

*Hong-Sik Choi* serves as a managing director and head of the next generation ICT system building division. Prior to serving as managing director, he was the senior general manager of the regional banking headquarters. He holds a Bachelor of Arts in Business Administration from Korea National Open University.

*Su-Hyeong Cho* serves as a managing director and head of the consumer and brand group. Prior to serving as managing director, he was the senior general manager of the corporate banking headquarters. He holds a Bachelor of Arts in Sociology from Sungkyunkwan University.

*Hwa-Jae Park* serves as a managing director and head of the operation and support group. Prior to serving as managing director, he was the senior general manager of the regional banking headquarters. He holds a Bachelor of Arts in Business Administration from Korea Soongsil Cyber University and a Master of Arts in Business Administration from Dongguk University.

*Myung-Hyuk Shin* serves as a managing director and head of the pension and trust business group. Prior to serving as managing director, he was the senior general manager of the regional banking headquarters. He holds a Bachelor of Arts in Chinese from Hankuk University of Foreign Studies.

*Dong-Su Choi* serves as a managing director and head of the future strategy division. Previously, he served as head of the head office business department and the consumer protection center. He holds a Bachelor of Arts in Economics from Chung-Ang University and a Master of Arts in Business Administration from Korea University Business School.

*Jong-Suk Jeong* serves as a managing director and head of the wealth management group. Prior to serving as managing director, he was the senior general manager of the regional banking headquarters. He holds a Bachelor of Arts in Business Administration from Korea National Open University and a Master of Arts in Public Administration

from Yonsei Graduate School of Public Administration.

*Kyong-Hoon Park* serves as a managing director and head of Global business group. Prior to serving as managing director, he was the senior general manager of the corporate banking headquarters. He holds a Bachelor of Arts in International Economics from Seoul National University.

*Jong-Deuk Kim* serves as a managing director and head of the financial market business group. Previously, he served as a managing director and head of the audit department and the head office business department. He holds a Bachelor of Arts in Regional Development Studies from Dankook University.

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None of the executive officers is involved in any significant business activities outside us and our subsidiaries.

**Item 6.B. Compensation**

The aggregate remuneration and benefits-in-kind we paid in 2017 to our directors and our other executive officers, including the compliance officer and managing directors, was 5,790 million. In 2017, we did not record additional provisions for allowances for severance and retirement benefits for such directors and officers. We do not have service contracts with any of these directors or officers that provide for benefits if employment with us is terminated.

The compensation of our director who received total annual compensation exceeding 500 million in 2017 was as follows:

<b>Name</b>	<b>Position</b>	<b>Total Compensation in 2017 (in millions of Won)<sup>(1)</sup></b>
Kwang-Goo Lee	Former President and Chief Executive Officer	936

<sup>(1)</sup> Includes severance payments.

In 2017, we did not grant any stock options and, accordingly, did not recognize any compensation expense for stock options granted under our stock option plan. As of the date of this annual report, we do not have any stock options outstanding.

**Item 6.C. Board Practices**

See Item 6.A. Directors and Senior Management Board of Directors and Item 6.B. Compensation for information concerning the terms of office and contractual employment arrangements with our directors and executive officers.

**Committees of the Board of Directors**

We currently have five committees that serve under the board:

the Board of Directors Management Committee;

the Board Risk Management Committee;

the Audit Committee;

the Compensation Committee; and



the Committee for Recommending Executive Officer Candidates.

The board appoints each member of these committees except for members of the Audit Committee, who are elected by our shareholders at the annual general meeting.

***Board of Directors Management Committee***

This committee consists of one standing director, one non-standing director and all five outside directors: Tae-Seung Sohn, Chang-Sik Bae, Dong-Woo Chang, Sang-Yong Park, Sung-Tae Ro, Sang-Hoon Shin and Zhiping Tian. The chairman is Sung-Tae Ro. This committee, which functions as a steering committee, provides administrative support for the operations of our board of directors. It is responsible for the following:

setting rules and procedures for operations of our board and its various committees;

addressing corporate governance issues; and

reviewing all reports to be submitted to the board and other matters that are deemed necessary by the board or various sub-committees of the board.

This committee holds regular meetings every quarter.

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### ***Board Risk Management Committee***

This committee consists of one non-standing director and three outside directors: Chang-Sik Bae, Sang-Yong Park, Sung-Tae Ro and Zhiping Tian. The chairman is Sang-Yong Park. It oversees and makes determinations on all significant issues relating to our risk management system. It implements policies regarding, monitors and has ultimate responsibility for managing credit, market and liquidity risk and asset and liability management. The major roles of the Board Risk Management Committee include:

determining and amending risk management policies, guidelines and limits in conformity with the strategy established by the board of directors;

determining the appropriate level of risks that we should be willing to undertake, including in connection with key business activities such as acquisitions, investments or entering into new business areas, prior to a decision by the board of directors on such matters;

allocating risk capital and approving our business groups' risk limit requests;

reviewing our risk profile, including the level of risks we are exposed to and the status of our risk management operations; and

monitoring our compliance with our risk policies.

The Board Risk Management Committee regularly receives reports from the Executive Risk Management Committee as well as the Risk Management Department, which in turn receives reports from subsidiary level risk management committees and groups. See Item 11. Quantitative and Qualitative Disclosures about Market Risk. The committee holds regular meetings every quarter.

### ***Audit Committee***

This committee consists of two outside directors and one standing director: Dong-Woo Chang, Sang-Hoon Shin and Jung-Sik Oh. The chairman is Sang-Hoon Shin. It reviews all audit and compliance-related matters and makes recommendations to our board. The Audit Committee, whose members must meet certain qualifications as experts under the committee charter, is also responsible for the following:

formulating, executing, evaluating and managing internal audit plans (including the financial and operational audits);

approving the appointment and dismissal of the head of the audit team;

approving the appointment of external auditors and evaluating the activities carried out by external auditors;

formulating appropriate measures to correct problems identified from internal audits;

overseeing our reporting systems in light of relevant disclosure rules and requirements to ensure compliance with applicable regulations; and

examining internal procedures or making decisions on material matters that are related to audits as determined by the regulatory authorities, our board or other committees.

This committee also makes recommendations on regulatory issues to the Financial Supervisory Service, if and when deemed necessary. In addition, in connection with general meetings of shareholders, the committee examines the agenda for, and financial statements and other reports to be submitted by the board of directors, to each general meeting of shareholders. The internal and external auditors report directly to the Audit Committee chairman. Our external auditor is invited to attend meetings of this committee when needed or when matters pertaining to the audit are discussed.

The committee holds regular meetings every quarter or as necessary.

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This committee consists of one non-standing director and all five of our outside directors: Chang-Sik Bae, Dong-Woo Chang, Sang-Yong Park, Sung-Tae Ro, Sang-Hoon Shin and Zhiping Tian. The chairman is Sang-Hoon Shin. It is responsible for all matters relating to the following:

evaluating management's performance in developing our business;

setting goals and targets with respect to executive performance; and

fixing executive compensation, including incentives and bonuses.

This committee holds regular meetings every quarter.

***Committee for Recommending Executive Officer Candidates***

This committee consists of one standing director and all five of our outside directors: Tae-Seung Sohn, Dong-Woo Chang, Sang-Yong Park, Sung-Tae Ro, Sang-Hoon Shin and Zhiping Tian. The chairman is Dong-Woo Chang. This committee holds meetings when an Audit Committee member, an outside director or our president and chief executive officer needs to be appointed.

**Item 6.D. *Employees***

As of December 31, 2017, we had a total of 13,637 full-time employees, excluding employees of our subsidiaries. The following table sets forth information regarding our employees as of the dates indicated:

	<b>As of December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Full-time employees	15,270	14,861	13,637
Contractual employees	583	675	625
<b>Total</b>	<b>15,853</b>	<b>15,536</b>	<b>14,262</b>

Approximately 70.9% of our employees as of December 31, 2017 were members of the Korea Financial Industry Union. We have not experienced any significant labor disputes in recent years, although we have made certain concessions to our labor unions. See Item 3.D. Risk Factors Other risks relating to our business Labor union unrest may disrupt our operations and hinder our ability to continue to reorganize our operations. We have placed a high priority on our relationship with our employees and on maintaining an atmosphere of trust and cooperation between our labor and management.

Our salary system with respect to our employees is based on a combination of the agreed-upon base salary and bonuses reflecting the work productivity and performance of each employee and the relevant business group. We

believe that the salaries we pay to our employees and management are similar to those of other large financial institutions in Korea. We evaluate employees twice a year (usually in January and July), based on our business performance and evaluations provided by co-workers and superiors. With respect to our compensation program, we do not provide housing leases or loans to our employees.

We operate a "wage peak" system, under which an employee's wages reach a certain peak and then are gradually reduced as the employee reaches retirement age.

We have an employee stock ownership association, which purchases our shares at the request of our employees using their own funds. We do not provide any compensation benefits to employees through such purchases, although the association is entitled to certain pre-emptive rights. See Item 10B. Memorandum and Articles of Association Pre-emptive Rights and Issuances of Additional Shares.

We also provide a wide range of benefits to our employees, including medical insurance, employment insurance, workers compensation, life insurance, financial aid for children's tuition and pension plans.

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In accordance with the National Pension Act, we contribute an amount equal to 4.5% of employee wages, and each employee contributes 4.5% of his or her wages, into each employee's personal pension account. In addition, in accordance with the Guarantee of Worker's Retirement Benefits Act, we have adopted a retirement pension plan for our employees. Contributions under the retirement pension plan are deposited annually into a financial institution, and an employee may elect to receive a monthly pension or a lump-sum amount upon retirement. Our retirement pension plans are provided in the form of a defined benefit plan and a defined contribution plan. The defined benefit plan guarantees a certain payout at retirement, according to a fixed formula based on the employee's average salary and the number of years for which the employee has been a plan member. The defined contribution plan, in which the employer's contribution is determined in advance based on one-twelfth of an employee's total annual pay, is managed directly by the employees. Under Korean law, we may not terminate the employment of full-time employees except under certain limited circumstances.

**Item 6.E. Share Ownership  
Common Stock**

As of April 20, 2018, the persons who are currently our directors or executive officers, in the aggregate, held 352,917 shares of our common stock. None of these persons individually held more than 1% of our outstanding common stock as of such date. The following table presents information regarding our directors and executive officers who beneficially owned our shares as of April 20, 2018.

Name of Executive Officer or Director	Number of Shares of Common Stock
Tae-Seung Sohn	38,127
Jung-Sik Oh	5,000
Sang-Yong Park	1,000
Sung-Tae Ro	5,000
Sang-Hoon Shin	15,000
An-Ho Jang	5,380
Woon-Haeng Cho	27,345
Seong-II Park	15,914
Sun-Kyu Kim	15,665
Yeong-Bae Kim	10,442
Jeong-Jin Heo	14,083
Dong-Yeon Lee	17,741
Hyun-Poong Hong	8,110
Chai-Pong Cheong	12,483
Chang-Jae Lee	15,938
Jeong-Ki Kim	26,477
Tae-Joong Ha	13,076
Jong-In Lee	13,046
Won-Duk Lee	2,000
Hong-Sik Choi	9,593
Su-Hyeong Cho	12,956
Hwa-Jae Park	17,523

Myung-Hyuk Shin	8,713
Dong-Su Choi	10,738
Jong-Suk Jeong	13,664
Kyeong-Hun Park	7,877
Jong-Deuk Kim	10,026
Total	352,917

**Stock Options**

As of the date of this annual report, we do not have any stock options outstanding.

**Table of Contents****Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****Item 7.A. Major Shareholders**

The following table presents information regarding the beneficial ownership of our common stock at April 20, 2018 (unless otherwise indicated) by each person or entity known to us to own beneficially more than 5% of the outstanding shares of our common stock.

Except as otherwise indicated, each shareholder identified by name has:

sole voting and investment power with respect to its shares; and

record and beneficial ownership with respect to its shares.

<b>Beneficial Owner</b>	<b>Number of Shares of Common Stock</b>	<b>Percentage of Total Shares of Common Stock</b>	<b>Percentage of Total Shares on a Fully Diluted Basis</b>
KDIC	124,604,797	18.43	18.43
National Pension Service	62,809,267	9.29	9.29
Nobis1, Inc. <sup>(1)</sup>	40,560,000	6.00	6.00

<sup>(1)</sup> Nobis1, Inc., which is an affiliate of IMM Private Equity, acquired 27,040,000 shares of our common stock, or 4.00% of our outstanding common stock, in December 2016. In accordance with the Bank Act, Nobis1, Inc. received approval from the Financial Services Commission for the acquisition of an additional 13,520,000 shares of our common stock, or 2.00% of our outstanding common stock, in January 2017, pursuant to an agreement not to exercise the voting rights with respect to such shares.

Pursuant to the Korean government's privatization plan, in December 2014, the KDIC sold 40,143,022 shares of our common stock (representing 5.9% of our outstanding common stock) in a private sale in Korea. In addition, in December 2016 and January 2017, the KDIC sold an aggregate of 200,685,395 shares of our common stock (representing 29.7% of our outstanding common stock) in stakes ranging from 3.7% to 6.0% to seven financial companies through a bidding process. Pursuant to a commitment made by the KDIC in connection with such bidding process, five persons, each nominated by one of the winning bidders, were elected as new outside directors at an extraordinary general meeting of our shareholders held in December 2016. See Item 6.A. Directors and Senior Management Board of Directors Outside Directors. In 2017, pursuant to a series of transactions related to call options previously granted in connection with the KDIC's sale of our common stock in December 2014, the KDIC sold an aggregate of 19,852,364 shares of our common stock (representing 2.94% of our outstanding common stock). As a result of such transactions, the KDIC's ownership interest in us was reduced to 18.43%. We expect the KDIC to sell all or a portion of the remaining shares of our common stock it owns to one or more purchasers in the future.

As of April 20, 2018, our president and chief executive officer owned 38,127 shares of our common stock. Our executive officers (excluding our president and chief executive officer) collectively owned 288,790 shares of our common stock. Our outside directors collectively owned 26,000 shares of our common stock.



Other than as set forth above, no other person or entity known by us to be acting in concert, directly or indirectly, jointly or separately, owned 5.0% or more of the outstanding shares of our common stock or exercised control or could exercise control over us as of April 20, 2018. None of our major shareholders has different voting rights from our other shareholders. However, pursuant to an agreement we entered into with the KDIC in December 2016, the KDIC has the right to require us to use our best efforts to cause an employee of the KDIC nominated by it to be appointed as our non-standing director, so long as the KDIC either (x) owns 10% or more of our total issued shares with voting rights or (y) owns more than 4% but less than 10% of our total issued shares with voting rights and remains our largest shareholder (other than the National Pension Service of Korea). See Item 10.C. Material Contracts.

As of the close of our shareholders register on December 31, 2017, approximately 72.8% of our issued shares were held in Korea by approximately 43,774 shareholders.

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### **Item 7.B. *Related Party Transactions***

We regularly engage in transactions with entities affiliated with the government, which currently owns 18.43% of our shares through the KDIC. Generally, these transactions include the extension of loans, the purchase of debt securities and other ordinary course activities relating to our banking business. For a description of such transactions, see Item 4.B. Business Overview Assets and Liabilities. In addition, as of December 31, 2017, we owned 30 billion of debentures issued by the KDIC, representing 0.1% of our investment securities.

As of December 31, 2017, we also had loans outstanding to our executive officers and directors in the aggregate amount of 2,439 million.

All of these loans were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectability or present other unfavorable features.

None of our directors or officers has or had any interest in any transactions effected by us that are or were unusual in their nature or conditions or significant to our business 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.

### **Item 7.C. *Interest of Experts and Counsel***

**Not Applicable**

## **Item 8. FINANCIAL INFORMATION**

### **Item 8.A. *Consolidated Statements and Other Financial Information***

See Item 18. Financial Statements and pages F-1 through F-126.

### **Legal Proceedings**

As a financial institution with diverse operations, we are subject to legal proceedings and regulatory actions in the ordinary course of our business.

In November 2017, the Seoul Northern District Prosecutors Office commenced an investigation into alleged business interference in our hiring practices for new employees. According to the allegations made by the Seoul Northern District Prosecutors Office, certain of our executive officers and other employees interfered with our business by unfairly giving favorable treatment to specific individuals in connection with their hiring from 2015 to 2017. While the investigation is currently ongoing and, as of the date of this annual report, there have been no formal charges or indictments against us, six of our current and former employees were indicted in February 2018 in connection with such allegations. The trial against such individuals is currently ongoing in the Seoul Northern District Court.

In March 2018, AJ Energy filed a lawsuit against us and Woori America Bank in the Supreme Court of the State of New York, seeking to recover an alleged transfer to us from its foreign investors through an intermediary bank in the amount of EUR 8 billion. The intermediary bank involved has informed us that it has no evidence of the alleged transfer, and we also have no records of such transfer and believe that the evidence presented by AJ Energy is forged.

We believe that the lawsuit is without merit and plan to respond proactively, including potentially through civil or criminal complaints against the plaintiff. We expect that the court will dismiss the lawsuit in an expeditious manner.

Other than the legal proceedings discussed above, we and our subsidiaries are not a party to any legal or administrative proceedings, and no proceedings are known by us to be contemplated by governmental authorities or third parties, which, if adversely determined, may have a material adverse effect on our financial condition or results of operations.

**Table of Contents****Dividends**

We declare our dividend annually at the annual general meeting of shareholders. We generally hold this meeting within three months after the end of each fiscal year. We must pay the annual dividend to the shareholders of record as of the end of the preceding fiscal year within one month after that meeting. We can distribute the annual dividend either in cash or in stock. Cash dividends may be paid out of retained earnings that have not been appropriated to statutory reserves. In addition, we may declare, and distribute in cash, interim dividends once a year pursuant to a board resolution.

The table below sets forth the dividend per share of common stock and the total amount of dividends declared by us in respect of the years ended December 31, 2015, 2016 and 2017. Except as otherwise noted, the dividends set forth below with respect to each year were declared, paid and recorded in the following year.

Fiscal year	Dividends Per Share of Common Stock  (in Won)	Total Amount Of Cash Dividends Paid (in millions of Won)
2015 <sup>(1)</sup>	500	336,635
2016	400	269,308
2017 <sup>(2)</sup>	600	403,963

<sup>(1)</sup> Includes interim dividends of 250 per share of common stock declared and paid in August 2015.

<sup>(2)</sup> Includes interim dividends of 100 per share of common stock declared and paid in August 2017.

Future dividends will depend upon our revenues, cash flow, financial condition and other factors. As an owner of ADSs, you will be entitled to receive dividends payable in respect of the shares of common stock represented by such ADSs.

For a description of the tax consequences of dividends paid to our shareholders, see Item 10.E. Taxation United States Taxation Dividends and Korean Taxation Taxation of Dividends on Common Shares or ADSs.

**Item 8.B. Significant Changes  
Not Applicable**

**Item 9. THE OFFER AND LISTING**

**Item 9.A. Offering and Listing Details  
Market Price Information**

The principal trading market for our common stock is the KRX KOSPI Market. Woori Finance Holdings common stock was listed on the KRX KOSPI Market on June 24, 2002, and was suspended from trading from October 30,

2014 and de-listed on November 18, 2014 following the merger of Woori Finance Holdings with us. Our common stock, which is in registered form and has a par value of 5,000 per share of common stock, was newly listed on the KRX KOSPI Market under the identifying code 000030 on November 19, 2014 following the merger. As of the date of this annual report, we have 673,271,226 shares of common stock outstanding. Woori Finance Holdings ADSs were listed on the New York Stock Exchange and identified by the symbol WF since September 29, 2003, and were traded under the CUSIP number 981063100. Following the merger, we succeeded to Woori Finance Holdings listing on the New York Stock Exchange. Our ADSs are identified by the symbol WF and are traded under the CUSIP number 98105T104.

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The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the KRX KOSPI Market for our or Woori Finance Holdings' common stock, as applicable, and the high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for our or Woori Finance Holdings' ADSs, as applicable.

	KRX KOSPI Market			New York Stock Exchange <sup>(1)</sup>			
	Closing Price Per Common Stock		Average Daily Trading Volume	Closing Price Per ADS		Average Daily Trading Volume	
	High	Low		High	Low		
	(in Won)	(in thousands of shares)	(in US\$)		(in shares)		
<b>2013</b>	13,500	9,800	1,676	38.33	25.09	13,557	
<b>2014</b>	14,550	10,000	1,785	42.41	27.05	4,936	
<b>2015</b>	11,200	8,780	2,246	31.32	22.03	6,229	
<b>2016</b>	13,350	8,230	1,698	35.70	20.25	6,570	
First Quarter	9,510	8,230	1,481	24.98	20.25	3,550	
Second Quarter	10,800	9,220	1,920	28.31	23.94	7,359	
Third Quarter	11,800	9,430	1,691	32.22	24.34	8,106	
Fourth Quarter	13,350	11,350	1,700	35.70	30.42	7,265	
<b>2017</b>	19,550	12,300	1,631	53.50	31.18	10,268	
First Quarter	13,850	12,300	1,217	37.25	31.18	4,550	
Second Quarter	18,600	13,050	2,162	48.70	35.21	6,033	
Third Quarter	19,550	17,050	1,640	53.50	44.49	14,494	
Fourth Quarter	18,100	15,400	1,506	47.76	41.20	15,994	
October	18,100	16,400	1,600	47.76	43.90	14,075	
November	16,700	15,500	1,645	45.32	41.20	13,163	
December	16,300	15,400	1,266	45.72	42.88	21,079	
<b>2018 (through April 20)</b>	17,200	13,700	1,770	49.04	38.43	14,336	
First Quarter	17,200	14,250	1,640	49.04	40.83	14,765	
January	17,200	15,650	1,304	49.04	44.73	14,590	
February	17,050	15,200	1,861	48.24	42.63	14,642	
March	16,400	14,250	1,802	45.97	40.83	15,051	
April (through April 20)	15,300	13,700	2,302	42.80	38.43	12,591	

Source: KRX KOSPI Market; New York Stock Exchange.

<sup>(1)</sup> Each ADS represents the right to receive three shares of our common stock.

**Item 9.B. Plan of Distribution**  
**Not Applicable**

**Item 9.C. Markets**

The KRX KOSPI Market, formerly known as the Stock Market Division of the Korea Exchange, began its operations in 1956. It has a single trading floor located in Seoul. The KRX KOSPI Market is a membership organization consisting of most of the Korean financial investment companies with a dealing and/or brokerage license and some Korean branches of foreign financial investment companies with such license.

As of December 31, 2017, the aggregate market value of equity securities listed on the KRX KOSPI Market was approximately 1,606 trillion. The average daily trading volume of equity securities for 2017 was approximately 340 million shares and the average daily transaction value was 5,326 billion.

The KRX KOSPI Market has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security pursuant to the Listing Regulation of the KRX KOSPI Market. The KRX KOSPI Market also restricts share price movements. All listed companies are required to file accounting reports annually, semiannually and quarterly and to release immediately all information that may affect trading in a security.

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The KRX KOSPI Market publishes the KOSPI, which is an index of all equity securities listed on the KRX KOSPI Market, every 10 seconds. The method of computing KOSPI is the aggregate value method, pursuant to which the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

The following table sets out movements in KOSPI:

<b>Year</b>	<b>Opening</b>	<b>High</b>	<b>Low</b>	<b>Closing</b>
1982	123.60	134.48	105.99	128.99
1983	122.52	134.46	115.59	121.21
1984	115.25	142.46	115.25	142.46
1985	139.53	163.37	131.40	163.37
1986	161.40	279.67	153.85	272.61
1987	264.82	525.11	264.82	525.11
1988	532.04	922.56	527.89	907.20
1989	919.61	1,007.77	844.75	909.72
1990	908.59	928.82	566.27	696.11
1991	679.75	763.10	586.51	610.92
1992	624.23	691.48	459.07	678.44
1993	697.41	874.10	605.93	866.18
1994	879.32	1,138.75	855.37	1,027.37
1995	1,013.57	1,016.77	847.09	882.94
1996	888.85	986.84	651.22	651.22
1997	653.79	792.29	350.68	376.31
1998	385.49	579.86	280.00	562.46
1999	587.57	1,028.07	498.42	1,028.07
2000	1,059.04	1,059.04	500.60	504.62
2001	520.95	704.50	468.76	693.70
2002	724.95	937.61	584.04	627.55
2003	635.17	822.16	515.24	810.71
2004	821.26	936.06	719.59	895.92
2005	893.71	1,379.37	870.84	1,379.37
2006	1,389.27	1,464.70	1,203.86	1,434.46
2007	1,435.26	2,064.85	1,355.79	1,897.13
2008	1,853.45	1,888.88	938.75	1,124.47
2009	1,157.40	1,718.88	1,018.81	1,682.77
2010	1,696.14	2,051.00	1,552.79	2,051.00
2011	2,070.08	2,228.96	1,652.71	1,825.74
2012	1,826.37	2,049.28	1,769.31	1,997.05
2013	2,031.10	2,059.58	1,780.63	2,011.34
2014	1,967.19	2,082.61	1,886.85	1,915.59
2015	1,926.44	2,173.41	1,829.81	1,961.31
2016	1,918.76	2,068.72	1,835.28	2,026.46
2017	2,026.16	2,557.97	2,026.16	2,467.49
2018 (through April 20)	2,479.65	2,598.19	2,363.77	2,476.33



*Source:* The KRX KOSPI Market

Shares are quoted ex-dividend on the first trading day of the relevant company's accounting period. Since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

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With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the KRX KOSPI Market to 30% of the previous day's closing price of the shares, rounded down as set out below:

<b>Previous Day's Closing Price (Won)</b>	<b>Rounded Down To Won</b>
Less than 1,000	1
1,000 to less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the KRX KOSPI Market by financial investment companies with a brokerage license. In addition, a securities transaction tax of 0.15% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. See Item 3.D. Risk Factors Risks relating to our common stock and ADSs. An agriculture and fishery special surtax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the KRX KOSPI Market. See Item 10.E. Taxation Korean Taxation.

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The number of companies listed on the KRX KOSPI Market, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

Year	Market Capitalization on the Last Day of Each Period		Average Daily Trading Volume, Value	
	Number of Listed Companies	(billions of )	(thousands of Shares)	(millions of )
1982	334	3,001	9,704	6,667
1983	328	3,490	9,325	5,941
1984	336	5,149	14,847	10,642
1985	342	6,570	18,925	12,315
1986	355	11,994	31,755	32,870
1987	389	26,172	20,353	70,185
1988	502	64,544	10,367	198,364
1989	626	95,477	11,757	280,967
1990	669	79,020	10,866	183,692
1991	686	73,118	14,022	214,263
1992	688	84,712	24,028	308,246
1993	693	112,665	35,130	574,048
1994	699	151,217	36,862	776,257
1995	721	141,151	26,130	487,762
1996	760	117,370	26,571	486,834
1997	776	70,989	41,525	555,759
1998	748	137,799	97,716	660,429
1999	725	349,504	278,551	3,481,620
2000	704	188,042	306,163	2,602,211
2001	689	255,850	473,241	1,997,420
2002	683	258,681	857,245	3,041,598
2003	684	355,363	542,010	2,216,636
2004	683	412,588	372,895	2,232,108
2005	702	655,075	467,629	3,157,662
2006	731	704,588	279,096	3,435,180
2007	745	951,900	363,741	5,539,653
2008	763	576,888	355,205	5,189,644
2009	770	887,935	485,657	5,795,426
2010	777	1,141,885	380,859	5,619,768
2011	791	1,041,999	353,759	6,863,146
2012	784	1,154,294	486,480	4,823,643
2013	777	1,185,974	328,325	3,993,422
2014	773	1,192,253	278,082	3,983,580
2015	770	1,242,832	455,256	5,351,734
2016	779	1,308,440	376,773	4,523,044

2017	774	1,605,821	340,457	5,325,760
2018 (through April 20)	777	1,653,176	403,020	7,089,807

*Source:* The KRX KOSPI Market

The Korean securities markets are principally regulated by the Financial Services Commission and the Financial Investment Services and Capital Markets Act. The Financial Investment Services and Capital Markets Act imposes restrictions on insider trading, price manipulation and deceptive action (including unfair trading), requires specified information to be made available by listed companies to investors and establishes rules

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regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests.

### **Protection of Customer's Interest in Case of Insolvency of Financial Investment Companies with a Brokerage License**

Under Korean law, the relationship between a customer and a financial investment company with a brokerage license in connection with a securities sell or buy order is deemed to be consignment and the securities acquired by a consignment agent (i.e., the financial investment company with a brokerage license) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a financial investment company with a brokerage license, the customer of such financial investment company is entitled to the proceeds of the securities sold by such financial investment company.

When a customer places a sell order with a financial investment company with a brokerage license which is not a member of the KRX KOSPI Market, and such financial investment company places a sell order with another financial investment company with a brokerage license, which is a member of the KRX KOSPI Market, the customer is still entitled to the proceeds of the securities sold and received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

Under the Financial Investment Services and Capital Markets Act, the KRX KOSPI Market is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a financial investment company with a brokerage license that is a member of the KRX KOSPI Market breaches its obligation in connection with a buy order, the KRX KOSPI Market is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

As the cash deposited with a financial investment company with a brokerage license is regarded as belonging to such financial investment company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from such financial investment company if a bankruptcy or reorganization procedure is instituted against such financial investment company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that the KDIC will, upon the request of the investors, pay investors an amount equal to the full amount of cash deposited with a securities company prior to August 1, 1998 in case of the securities company's bankruptcy, liquidation, cancellation of securities business license or other insolvency events. However, this indemnification was available only until the end of 2000. From 2001, the maximum amount to be paid to each customer is limited to 50 million. Pursuant to the Financial Investment Services and Capital Markets Act, as amended, financial investment companies with a dealing and/or brokerage license are required to deposit the cash received from its customers to the extent the amount is not covered by the insurance with the Korea Securities Finance Corporation, a special entity established pursuant to the Financial Investment Services and Capital Markets Act. Set-off or attachment of cash deposits by such financial investment companies is prohibited. The premiums related to this insurance are paid by such financial investment companies.

### **Reporting Requirements for Holders of Substantial Interests**

Any person who directly or beneficially owns shares of our common stock that have voting rights, whether in the form of shares, ADSs, certificates representing the rights to subscribe for shares or equity-related debt securities (including convertible bonds and bonds with warrants) (which we refer to collectively as Equity Securities ) that, when taken together with the Equity Securities beneficially owned by specified related persons or by any person acting in concert with that person, account for 5% or more of our total issued and outstanding

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shares (plus the Equity Securities other than the shares held by such persons and treasury stock) must report that holding to the Financial Services Commission and the KRX KOSPI Market no more than five business days after reaching 5%. That person must also report any subsequent change in the ownership interest of 1% or more of our total outstanding shares (plus the Equity Securities other than the shares held by such persons) to the same entities no more than five business days after the change.

Anyone violating these reporting requirements may suffer criminal sanctions, including fines, imprisonment, an administrative fine of up to 0.001% of the aggregate market value of total issued and outstanding stock of 500 million, whichever is lower, and/or a loss of voting rights with respect to the ownership of Equity Securities exceeding 5% of the total issued and outstanding Equity Securities with respect to which the reporting requirements were violated. Furthermore, the Financial Services Commission may order that person to dispose of the unreported Equity Securities.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of our stock accounts for 10% or more of the total issued and outstanding stock (which we refer to as a major shareholder ) must report the status of its shareholding to the Korea Securities Futures Commission and the KRX KOSPI Market within five days after becoming a major shareholder. In addition, the major shareholder must report any subsequent change in its ownership interest to those same entities within five days of the occurrence of the change, unless the change in the number of shares is less than 1,000 shares and the amount involved in such change is less than 10 million. A major shareholder that violates these reporting requirements may suffer criminal sanctions, including fines or imprisonment.

**Restrictions Applicable to ADSs**

An investor does not need Korean governmental approval to sell or purchase our ADSs in the secondary market outside Korea or to withdraw shares of our common stock from our ADS deposit facility or deliver those withdrawn shares in Korea. However, a foreign investor who intends to acquire shares must obtain an investment registration card from the Financial Supervisory Service as described below. Either the foreign investor or its standing proxy in Korea must immediately report its acquisition of the shares to the governor of the Financial Supervisory Service.

Persons who acquire shares of our common stock by withdrawing those shares from our ADS deposit facility may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further Korean governmental approval.

**Restrictions Applicable to Shares**

As a result of amendments to the Foreign Exchange Transaction Laws and Financial Services Commission regulations (which we refer to collectively as the Investment Rules ) adopted since January 1992 in connection with the opening and operation of Korea's stock market, foreign investors may generally invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the KRX KOSPI Market or registered on the KRX KOSDAQ Market. Foreign investors may trade shares listed on the KRX KOSPI Market or registered on the KRX KOSDAQ Market only through the KRX KOSPI Market or the KRX KOSDAQ Market, except in limited circumstances. These circumstances include:

odd-lot share trading;

acquiring shares (which we refer to as **Converted Shares** ) by exercising warrants, conversion rights or exchange rights under bonds with warrants, convertible bonds or exchangeable bonds or withdrawal rights under depositary receipts issued outside of Korea by a Korean company;

acquiring shares through inheritance, donation, bequest or exercise of shareholders' rights, including pre-emptive rights or rights to participate in free distributions and receive dividends;

subject to certain exceptions, over-the-counter transactions between foreign investors of a class of shares for which the limit on aggregate acquisition by foreign investors, as explained below, has been reached or exceeded; and



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sale and purchase of shares at fair value between foreigners who are part of an investor group comprised of foreign companies investing under the control of a common investment manager pursuant to applicable laws or contract.

For over-the-counter transactions between foreign investors outside the KRX KOSPI Market or the KRX KOSDAQ Market involving a class of shares for which the limit on aggregate acquisition by foreign investors has been reached or exceeded, a financial investment company with a brokerage license in Korea must act as an intermediary. Odd-lot trading of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market must involve a financial investment company with a dealing license in Korea as the other party. Foreign investors may not engage in margin transactions by borrowing shares from financial investment companies with a dealing and/or brokerage license with respect to shares that are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares on the KRX KOSPI Market or the KRX KOSDAQ Market (including Converted Shares and shares being issued for initial listing on the KRX KOSPI Market or registration on the KRX KOSDAQ Market) to register with the Financial Supervisory Service before making an investment. This registration requirement does not apply to foreign investors who acquire Converted Shares with the intention of selling the Converted Shares within three months from the acquisition date. The Financial Supervisory Service will issue an investment registration card to each registering foreign investor. This card must be presented each time the foreign investor opens a brokerage account with a financial investment company with a brokerage license. Foreign investors eligible to obtain an investment registration card include:

foreign nationals who have not been residing in Korea for a consecutive period of six months or more;

foreign governments;

foreign municipal authorities;

foreign public institutions;

international financial institutions or similar international organizations;

corporations incorporated under foreign laws; and

any person in any additional category designated under the Enforcement Decree of the Financial Investment Services and Capital Markets Act.

All Korean offices of a foreign corporation (as a group) are treated as a separate foreign investor from the offices of the corporation outside Korea for these purposes. However, a foreign corporation or depository issuing depository receipts may obtain one or more investment registration cards in its name in certain circumstances identified in the relevant regulations.

When a foreign investor purchases shares through the KRX KOSPI Market or the KRX KOSDAQ Market, it need not make a separate report because the investment registration card system is designed to control and oversee foreign investment through a computer system. If, however, a foreign investor acquires or sells shares outside the KRX KOSPI Market or the KRX KOSDAQ Market, that investor or its standing proxy must report that transaction to the governor of the Financial Supervisory Service at that time. In addition, if a foreign investor acquires or sells its shares in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, that investor or its standing proxy must ensure that the financial investment company engaged to facilitate the transaction reports the transaction to the governor of the Financial Supervisory Service. Also, sale and purchase of shares at fair value between foreigners who are part of an investor group comprised of foreign companies investing under the common control of a common investment manager pursuant to applicable laws or contract are required to be reported to the governor of the Financial Supervisory Service. A foreign investor may appoint a standing proxy to exercise shareholders' rights or perform any matters related to the foregoing activities if that investor does not perform these activities itself. A foreign investor may be exempted from complying with the standing proxy rules with the approval of the governor of the Financial Supervisory Service in cases deemed unavoidable by reason of conflict between laws of Korea and the home country of the foreign investor.

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Certificates evidencing shares of Korean companies must be kept in the custody of an eligible custodian in Korea. The same entities eligible to act as a standing proxy are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that its custodian deposits its shares with the Korea Securities Depository. A foreign investor may be exempted from complying with this deposit requirement with the approval of the governor of the Financial Supervisory Service in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the foreign investors' home country.

Under the Investment Rules, with certain limitations, foreign investors may acquire shares of a Korean company without being subject to any foreign investment limit. Under one of these limitations, foreign investors may acquire no more than 40% of the outstanding share capital of designated public corporations. In addition, designated public corporations may set a limit on the acquisition of shares by a single person in their articles of incorporation. If a foreign investor acquires 10% or more of the outstanding shares with voting rights of a Korean company, that investment constitutes a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, a foreign direct investment must be reported to the Ministry of Trade, Industry and Energy of Korea. The acquisition of a Korean company's shares by a foreign investor may be subject to certain foreign or other shareholding restrictions in the event that the restrictions are prescribed in a specific law that regulates the business of the Korean company. For a description of the restrictions applicable to Korean banks, see Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. Approval is not required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a financial investment company with a dealing and/or brokerage license. Funds in the foreign currency account may be remitted abroad without any Korean governmental approval.

Dividends on shares of Korean companies are paid in Won. Korean governmental approval is not required for foreign investors to receive dividends on, or the Won proceeds from the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor's financial investment company with a dealing and/or brokerage license or in its own Won account. Funds in a foreign investor's Won account may be transferred to its foreign currency account or withdrawn for local living expenses up to certain limits. These funds may also be used to make future investments in shares or to pay the subscription price of new shares obtained through the exercise of pre-emptive rights.

Financial investment companies with a dealing or brokerage license may open foreign currency accounts with foreign exchange banks exclusively to accommodate foreign investors' stock investments in Korea. Through these accounts, financial investment companies with a dealing or brokerage license may enter into limited foreign exchange transactions, such as converting foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

**Item 9.D. *Selling Shareholders*  
Not Applicable**

**Item 9.E. *Dilution***  
**Not Applicable**

**Item 9.F. *Expenses of the Issuer***  
**Not Applicable**

**Table of Contents****Item 10. ADDITIONAL INFORMATION****Item 10.A. *Share Capital*****Not Applicable****Item 10.B. *Memorandum and Articles of Association*****Description of Capital Stock**

We have set forth below information relating to our capital stock, including brief summaries of some of the provisions of our articles of incorporation, the Korean Commercial Code, Financial Investment Services and Capital Markets Act, and other related laws of Korea. These summaries do not purport to be complete and are subject to our articles of incorporation, and the applicable provisions of the Financial Investment Services and Capital Markets Act, the Korean Commercial Code and those related laws.

Our authorized share capital is 5,000,000,000 shares. Our articles of incorporation authorize us to issue:

shares of common stock, par value 5,000 per share;

class shares, par value 5,000 per share.

Subject to applicable laws and regulations, our articles of incorporation authorize us to issue a number of class shares equal to as much as one-half of all of the issued and outstanding shares.

As of the date of this annual report, 676,000,000 shares of common stock were issued and 673,271,226 shares of common stock were outstanding. Pursuant to our articles of incorporation, which was last amended on March 24, 2017, we are authorized to issue various types of class shares, which include shares of voting and non-voting preferred stock, convertible stock, redeemable preferred stock and hybrid securities comprising one or more elements of the foregoing types of shares. There are no class shares currently outstanding. All of the issued and outstanding shares are fully paid and non-assessable and are in registered form. As of the date of this annual report, our authorized but unissued share capital was 4,324,000,000 shares. We may issue the unissued shares without further shareholder approval, but these issuances are subject to a board resolution as provided in the articles of incorporation. See

Pre-emptive Rights and Issuances of Additional Shares and Dividends and Other Distributions Distribution of Free Shares. For a discussion of the history of our share capital, see Note 28 of the notes to our consolidated financial statements and Item 4.A. History and Development of the Company History Establishment of Woori Finance Holdings and Privatization Plan Merger with Woori Finance Holdings.

Our articles of incorporation allow our shareholders, by special resolution, to grant to our officers, directors and employees stock options exercisable for up to 15% of the total number of our issued and outstanding shares. Our board of directors may also grant stock options exercisable for up to 1% of our issued and outstanding shares. However, any grant by our board of directors must be approved by our shareholders at their next general meeting convened immediately after the grant date. As of December 31, 2017, our officers, directors and employees did not hold any options to purchase shares of common stock. See Item 6.E. Share Ownership.

We issue share certificates in denominations of one, five, ten, 50, 100, 500, 1,000 and 10,000 shares.

### **Organization**

We are a bank established under the Bank Act. We were originally established on January 30, 1899 and incorporated under the laws of Korea on June 19, 1911. We are registered with the commercial registry office of Seoul District Court.

### **Interests of Directors**

Our articles of incorporation provide that any director who has a material interest in the subject matter of a resolution to be taken by the board of directors cannot vote on such resolution. Our articles of incorporation also provide that the remuneration of our directors is to be determined by the resolution of the general meeting of shareholders.

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Our articles of incorporation do not contain any special provisions with respect to the borrowing powers exercisable by directors, their retirement age or a requirement to hold any shares of our capital stock.

See Item 6.C. Board Practices for more information on our directors.

## **Limitation on Liability of Directors**

Our articles of incorporation provide that we may, upon the resolution of the general meeting of shareholders, limit the liability of our directors (in their capacity as such) to an amount not less than six times (or three times in case of outside directors) the aggregate amount of the remuneration we paid to such directors during the most recent one-year period, provided that such limitation shall not apply with regard to any liability arising from such directors' gross negligence, willful misconduct or violation of their duties regarding self-dealing or corporate opportunity.

## **Dividends and Other Distributions**

*Dividends.* We distribute dividends to shareholders in proportion to the number of shares of the relevant class of capital stock they own. Subject to the requirements of the Korean Commercial Code and other applicable laws and regulations, we expect to pay full annual dividends on newly issued stock for the year in which it is issued.

We declare our dividend annually at the annual general meeting of shareholders. We generally hold this meeting within three months after the end of each fiscal year. We must pay the annual dividend to the shareholders of record as of the end of the preceding fiscal year within one month after that meeting. We can distribute the annual dividend in (i) cash, (ii) shares, provided that such shares must be distributed at par value and, if the market price of the shares is less than their par value, dividends in shares may not exceed one-half of the total annual dividend (including dividends in shares) or (iii) other forms of consideration. In addition, we may declare, and distribute in cash, interim dividends once a year pursuant to a board resolution.

Under the Korean Commercial Code and our articles of incorporation, we do not have an obligation to pay any annual or interim dividend unclaimed for five years from the payment date.

For information regarding taxation of dividends, see Item 10.E. Taxation United States Taxation Dividends and Korean Taxation Taxation of Dividends on Common Shares or ADSs.

*Distribution of Free Shares.* The Korean Commercial Code permits us to pay dividends in the form of shares out of retained or current earnings. It also permits us to distribute to our shareholders, in the form of free shares, an amount transferred from the capital surplus or legal reserve. We would be required to distribute those free shares pro rata to all shareholders.

## **Pre-emptive Rights and Issuances of Additional Shares**

We may issue authorized but unissued shares as our board of directors may determine, unless otherwise provided in the Korean Commercial Code. We must, however, offer any new shares on uniform terms to all shareholders who have preemptive rights and are listed on our shareholders' register as of the applicable record date. Those shareholders are entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. Our articles of incorporation provide, however, that we may issue new shares to persons other than existing shareholders if those shares are:

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publicly offered pursuant to Article 165-6 of the Financial Investment Services and Capital Markets Act (where the number of shares so offered may not exceed 50% of our total number of issued shares);

issued to directors or employees as a result of the exercise of stock options we granted to them pursuant to Article 542-3 of the Korean Commercial Code;

issued to the members of our employee stock ownership association pursuant to Article 165-7 of the Financial Investment Services and Capital Markets Act;



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issued to specified foreign investors or foreign or domestic financial institutions for managerial needs, strategic technology alliances, emergency financing or debt-to-equity swaps by those financial institutions (where the number of shares so offered may not exceed 50% of our total number of issued shares); or

issued to a depository for the purpose of issuing depository receipts pursuant to Financial Investment Services and Capital Markets Act (where the number of shares so offered may not exceed 50% of our total number of issued shares).

We must give public notice of pre-emptive rights for new shares and their transferability not less than two weeks before the record date (excluding the period during which the shareholders' register is closed). We will notify the shareholders who are entitled to subscribe for newly issued shares of the deadline for subscription at least two weeks prior to the deadline. If a shareholder fails to subscribe on or before the deadline, its pre-emptive rights will lapse. Our board of directors may determine how to distribute shares in respect of which preemptive rights have not been exercised or where fractions of shares occur.

Under the Financial Investment Services and Capital Markets Act, each member of our employee stock ownership association, whether or not they are shareholders, has a preemptive right, subject to certain exceptions, to subscribe for up to 20% of any shares we publicly offer. This right is exercisable only so long as the total number of shares so acquired and held by the member does not exceed 20% of the total number of shares then outstanding. As of December 31, 2017, our employees owned 5.36% of our common stock through the employee stock ownership association.

In addition, our articles of incorporation permit us to issue convertible bonds or bonds with warrants, each up to an aggregate principal amount of 1 trillion, to persons other than existing shareholders. Under the Korean Commercial Code, we are permitted to distribute convertible bonds or bonds with warrants to persons other than existing shareholders only when we deem that this distribution is necessary for managerial purposes, such as obtaining new technology or improving our financial condition. In the event we issue new shares, the foregoing provision would be applicable notwithstanding any provision in the articles of incorporation allowing issuance of new shares to persons other than existing shareholders. As of December 31, 2017, we had no convertible bonds or bonds with warrants outstanding.

## **Voting Rights**

Each outstanding share of our common stock is entitled to one vote per share. However, voting rights with respect to shares of common stock that we hold or any of our subsidiaries holds may not be exercised. Unless stated otherwise in a company's articles of incorporation, the Korean Commercial Code permits holders of an aggregate of 1% or more of the issued and outstanding shares with voting rights to request cumulative voting when electing two or more directors.

The Korean Commercial Code and our articles of incorporation provide that an ordinary resolution may be adopted if approval is obtained from the holders of at least a majority of those shares of common stock present or represented at a meeting and such majority also represents at least one-fourth of the total of our issued and outstanding voting shares. Holders of non-voting shares (other than enfranchised non-voting shares) will not be entitled to vote on any resolution or to receive notice of any general meeting of shareholders, unless the meeting agenda includes consideration of a resolution on which such holders are entitled to vote. The Korean Commercial Code provides that a company's articles of incorporation may prescribe conditions for the enfranchisement of non-voting shares. For example, if our annual general shareholders' meeting resolves not to pay to holders of non-voting shares with preferred dividend the annual dividend as determined by the board of directors at the time of issuance of such shares, the holders of non-voting shares with preferred dividend will be entitled to exercise voting rights from the general shareholders' meeting.

following the meeting adopting such resolution to the end of a meeting to declare to pay such dividend with respect to the non-voting shares with preferred dividend. Holders of such enfranchised non-voting shares with preferred dividend will have the same rights as holders of common stock to request, receive notice of, attend and vote at a general meeting of shareholders.

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The Korean Commercial Code provides that the holders of at least two-thirds of those shares present or represented at a meeting must approve the adoption of a special resolution, and the special majority must represent at least one-third of the total issued and outstanding shares with voting rights of the company. Special resolutions are required to:

amend the articles of incorporation;

change the authorized share capital of the company;

remove a director;

dissolve, merge or consolidate us;

transfer of the whole or a significant part of our business;

acquire all of the business of another company;

acquire a part of the business of another company that has a material effect on our business of the company;  
and

issue new shares at a price lower than their par value.

In addition, in the case of amendments to the articles of incorporation or any merger or consolidation of a company or in certain other cases, where the rights or interests of the holders of class shares are adversely affected, a resolution must be adopted by a separate meeting of holders of class shares. Such a resolution may be adopted if the approval is obtained from shareholders of at least two-thirds of the class shares present or represented at such meeting and such shares also represent at least one-third of the total issued and outstanding class shares.

A shareholder may exercise his voting rights by proxy given to another person. The proxy must present the power of attorney before the start of a meeting of shareholders.

## **Liquidation Rights**

If we are liquidated, the assets remaining after the payment of all our debts, liquidation expenses and taxes will be distributed to shareholders in proportion to the number of shares they hold. Holders of class shares have no preferences in liquidation.

## **General Meetings of Shareholders**

There are two types of general meetings of shareholders: annual general meetings and extraordinary general meetings. We are required to convene our annual general meeting within three months after the end of each fiscal year. Subject

to a board resolution or court approval, an extraordinary general meeting of shareholders may be held:

when we deem one necessary;

at the request of the holders of an aggregate of 3% or more of our outstanding shares;

at the request of the holders of an aggregate of 0.75% or more of our outstanding shares with voting rights who have held those shares for at least six months pursuant to the Act on the Corporate Governance of Financial Institutions and the regulations thereunder; or

at the request of our Audit Committee.

Holders of non-voting shares are entitled to request a general meeting only if their non-voting shares have become enfranchised. Meeting agendas will be determined by our board of directors or proposed by holders of an aggregate of 3% or more of our outstanding shares with voting rights or by holders of an aggregate of 1.0% or more of those shares who have held those shares for at least six months by way of a written proposal to our board of directors at least six weeks before the meeting pursuant to the Act on the Corporate Governance of Financial

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Institutions and the regulations thereunder. We must give shareholders written notices or e-mail notices stating the date, place and agenda of the meeting at least two weeks before the date of the meeting. However, we may give notice to holders of 1% or less of the total number of issued and outstanding shares that are entitled to vote by placing at least two public notices at least two weeks in advance of the meeting in at least two daily newspapers. Shareholders who are not on the shareholders' register as of the record date will not be entitled to receive notice of the general meeting of shareholders or to attend or vote at the meeting. Unless their non-voting shares have been enfranchised, holders of non-voting shares are not entitled to receive notice of or vote at general meetings of shareholders. Holders of enfranchised non-voting shares who are on the shareholders' register as of the record date will be entitled to receive notice of the general meeting of shareholders and to attend and vote at the meeting.

We will generally hold our general meeting of shareholders at our head office, which is our registered head office. If necessary, we may hold the meeting anywhere in the vicinity of our head office.

## **Rights of Dissenting Shareholders**

Pursuant to the Financial Investment Services and Capital Markets Act and the Law on the Improvement of the Structure of the Financial Industry, in certain limited circumstances dissenting holders of shares of our common stock and our class shares will have the right to require us to purchase their shares. These circumstances include:

if we transfer all or any significant part of our business;

if we acquire a part of the business of any other company and the acquisition has a material effect on our business; or

if we merge or consolidate with another company.

To exercise this right, shareholders must submit to us a written notice of their intention to dissent prior to the general meeting of shareholders called to approve the transaction in question. Within 20 days (or 10 days, in the case of a merger or consolidation under the Law on Improvement of the Structure of the Financial Industry) after the date on which shareholders pass the relevant resolution at the general meeting, the dissenting shareholders must request in writing that we purchase their shares. We must purchase those shares within one month after the end of the request period (within two months after the receipt of the request in the case of a merger or consolidation under the Law on Improvement of the Structure of Financial Industry) at a negotiated price. If we cannot agree with the shareholder on a purchase price through negotiations, the price will be the arithmetic mean of the weighted average of the daily stock prices on the KRX KOSPI Market for:

the two-month period prior to the date the relevant board of directors' resolution was adopted;

the one-month period prior to the date the relevant board of directors' resolution was adopted; and

the one-week period prior to the date the relevant board of directors' resolution was adopted.

Pursuant to the Financial Investment Services and Capital Markets Act, if we or the dissenting shareholders do not accept the purchase price, either party may bring a claim in court.

In the case of a merger or consolidation pursuant to the Law on the Improvement of the Structure of Financial Industry where the Korean government or the KDIC provides financial support, procedures different from those in the case of a merger or consolidation pursuant to the Financial Investment Services and Capital Markets Act will apply. For example, if the relevant parties cannot agree on a purchase price, the price will be determined by an accounting expert and not by the Financial Services Commission. However, a court may adjust this price if we or holders of at least 30% of the shares we must purchase do not accept the purchase price determined by the accounting expert and request an adjustment no later than 30 days from the date of the determination of the purchase price.

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**Table of Contents****Required Disclosure of Ownership**

Under Korean and U.S. law, shareholders who beneficially hold more than a certain percentage of our common stock, or who are related to or are acting in concert with other holders of certain percentages of our common stock or our other equity securities, must report their holdings to various governmental authorities. For a description of the required disclosure of ownership, see Item 9.C. Markets Reporting Requirements for Holders of Substantial Interests and Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Restriction on Bank Ownership.

**Other Provisions**

*Record Date.* The record date for annual dividends is December 31. For the purpose of determining the holders of shares entitled to annual dividends, we may close the register of our shareholders for the period from January 1 until January 31. Further, the Korean Commercial Code and our articles of incorporation permit us, upon at least two weeks public notice, to set a record date and/or close the register of shareholders for not more than three months for the purpose of determining the shareholders entitled to certain rights pertaining to the shares. The trading of shares and the related delivery of share certificates may continue while the register of shareholders is closed.

*Annual and Interim Reports.* At least one week before the annual general meeting of shareholders, we must make our annual report and audited financial statements available for inspection at our head office and at all of our branch offices. We must make copies of our annual reports, our audited financial statements and any resolutions adopted at the general meeting of shareholders available to our shareholders.

Under the Financial Investment Services and Capital Markets Act, we must file with the Financial Services Commission and the KRX KOSPI Market:

an annual report within 90 days after the end of each fiscal year;

a half-year report within 45 days after the end of the first six months of each fiscal year; and

quarterly reports within 45 days after the end of the first three months and nine months of each fiscal year.

Copies of these reports will be available for public inspection at the Financial Services Commission and the KRX KOSPI Market.

*Transfer of Shares.* Under the Korean Commercial Code, share transfers are effected by the delivery of share certificates. The Financial Investment Services and Capital Markets Act provides, however, that in case of a company listed on the KRX KOSPI Market (like us), share transfers can be effected using a book-entry system. The transferee must have its name and address registered on our register of shareholders in order to assert its shareholder's rights. For this purpose, shareholders must file their name, address and seal with us. Non-resident shareholders must tell us the name of their proxy in Korea to which we can send notices. Under current Korean regulations, the following entities may act as agents and provide related services for foreign shareholders:

the Korea Securities Depository;

internationally recognized foreign custodians;

financial investment companies with a dealing license (including domestic branches of foreign financial investment companies with such license);

financial investment companies with a brokerage license (including domestic branches of foreign financial investment companies with such license);

foreign exchange banks (including domestic branches of foreign banks); and

financial investment companies with a collective investment license (including domestic branches of foreign financial investment companies with such license).



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Foreign shareholders may appoint a standing proxy from the foregoing and generally may not allow any person other than the standing proxy to exercise rights to the acquired shares or perform any tasks related thereto on their behalf.

Foreign exchange controls and securities regulations apply to the transfer of shares by non-residents or non-Koreans. See Item 9.C. Markets.

Except as provided in the Bank Act, the maximum aggregate shareholdings of a single shareholder or a person in a special relationship with any shareholder is 10% of our issued and outstanding voting shares. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Restriction on Bank Ownership.

*Our Acquisition of Our Shares.* Under the Korean Commercial Code, we may acquire shares of our own capital stock under our name and for our own account upon a resolution of the general meeting of shareholders by either (i) purchasing such shares on the applicable stock exchange with respect to marketable securities traded on such stock exchange or (ii) purchasing shares, other than any redeemable shares as defined in Article 345, Paragraph (1) of the Korean Commercial Code, from each shareholder in proportion to their existing shareholding ratio through the methods set forth in the Enforcement Decree under Article 345, Paragraph (1) of the Korean Commercial Code, provided that the total purchase price may not exceed the amount of our profit that may be distributed as dividends for the immediately preceding fiscal year.

In addition, pursuant to the Financial Investment Services and Capital Markets Act and after submission of certain reports to the Financial Services Commission, we may purchase our own capital stock on the KRX KOSPI Market or through a tender offer. We may also acquire interests in our capital stock through agreements with trust companies, securities investment companies or investment trust management companies. The aggregate purchase price of our capital stock may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year.

In general, subsidiaries of which we own 50% or more are not permitted to acquire our capital stock.

**Item 10.C. *Material Contracts***

In connection with our receipt of public funds, we entered into a memorandum of understanding with the KDIC, which was terminated in December 2016. See Item 4.A. History and Development of the Company History Memoranda of Understanding.

In December 2016, in connection with the KDIC's sale of shares of our common stock, we entered into an agreement with the KDIC, which we refer to as the KDIC Agreement. Pursuant to the KDIC Agreement, we are required to use our best efforts to cause an employee of the KDIC nominated by it to be appointed as one of our non-standing directors, so long as the KDIC either (x) owns 10% or more of our total issued shares with voting rights or (y) owns more than 4% but less than 10% of our total issued shares with voting rights and remains our largest shareholder (other than the National Pension Service of Korea). In addition, pursuant to the KDIC Agreement, we are required to use our best efforts to cause such non-standing director nominated by the KDIC to be appointed as a member of the Compensation Committee under our board of directors, so long as the KDIC owns 10% or more of our total issued shares with voting rights. Furthermore, so long as the KDIC owns 4% or more of our total issued shares with voting rights, the KDIC Agreement requires us to provide certain information in advance to the KDIC, including the agenda and minutes for meetings of our board of directors, information regarding our retained earnings available for distribution of dividends, and information regarding matters that may have a material effect on the KDIC's remaining share ownership interest in us, such as capital increases or decreases, our conversion to a holding company structure,

changes in our corporate governance, changes in the lines of business of our subsidiaries and material dispositions or acquisitions of assets. The KDIC Agreement will automatically terminate if the KDIC ceases to own 4% or more of our total issued shares with voting rights.

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**Table of Contents****Item 10.D. *Exchange Controls*****General**

The Foreign Exchange Transaction Act of Korea and the Enforcement Decree and regulations under that Act regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. We collectively refer to these laws and regulations as the Foreign Exchange Transaction Laws. Non-residents may invest in Korean securities only to the extent specifically allowed by the Foreign Exchange Transaction Laws or otherwise permitted by the Ministry of Strategy and Finance. The Financial Services Commission has also adopted regulations that restrict foreign investment in Korean securities and regulate the issuance of securities outside Korea by Korean companies, pursuant to its authority under the Financial Investment Services and Capital Markets Act.

Under the Foreign Exchange Transaction Laws, if the Korean government deems that:

the need to do so is inevitable due to the outbreak of natural calamities, wars, conflict of arms or grave and sudden changes in domestic or foreign economic circumstances or other similar situations, the Ministry of Strategy and Finance may temporarily suspend payment, receipt or the whole or part of transactions to which the Foreign Exchange Transaction Laws apply, or impose an obligation to safe-keep, deposit or sell means of payment in or to certain Korean governmental agencies or financial institutions; and

international balance of payments and international finance are confronted or are likely to be confronted with serious difficulty or the movement of capital between Korea and abroad brings or is likely to bring about serious obstacles in carrying out its currency policies, exchange rate policies and other macroeconomic policies, the Ministry of Strategy and Finance may take measures to require any person who intends to perform capital transactions to obtain permission or to require any person who performs capital transactions to deposit part of the payments received in these transactions at certain Korean governmental agencies or financial institutions.

Both of these actions are subject to limitations specified by the Foreign Exchange Transaction Laws.

**Restrictions Applicable to Shares**

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he or she must open a foreign currency account and a Won account exclusively for stock investments. Approval is not required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a financial investment company with a dealing and/or brokerage license. Funds in the foreign currency account may be remitted abroad without any Korean governmental approval.

Dividends on shares of Korean companies are paid in Won. Korean governmental approval is not required for foreign investors to receive dividends on, or the Won proceeds from the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor's financial investment company with a dealing and/or brokerage license or in its own Won account. Funds in a foreign investor's Won account may be transferred to its foreign currency account or withdrawn for local living expenses up to certain limits. These funds may also be used to make future investments in shares or to pay the subscription price of new shares obtained through the exercise of

pre-emptive rights.

Financial investment companies with a dealing and/or brokerage license may open foreign currency accounts with foreign exchange banks exclusively to accommodate foreign investors' stock investments in Korea. Through these accounts, such financial investment companies may enter into limited foreign exchange transactions, such as converting foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

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**Item 10.E. Taxation**

The following summary is based upon tax laws, regulations, rulings, decrees, income tax conventions (treaties), administrative practice and judicial decisions of Korea and the United States as of the date of this annual report, and is subject to any change in the laws of Korea or the United States that may come into effect after such date.

**United States Taxation**

This summary describes certain material U.S. federal income tax consequences for a U.S. holder (as defined below) of acquiring, owning, and disposing of common shares or ADSs. This summary applies to you only if you hold the common shares or ADSs as capital assets for tax purposes. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

a dealer in securities or currencies;

a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;

a bank or financial institution;

a life insurance company;

a tax-exempt organization;

an entity treated as a partnership or other passthrough entity (or investors therein) for U.S. federal income tax purposes;

a person that holds common shares or ADSs that are a hedge or that are hedged against interest rate or currency risks;

a person that holds common shares or ADSs as part of a straddle or conversion transaction for tax purposes;

a person whose functional currency for tax purposes is not the U.S. dollar; or

a person that owns or is deemed to own 10% or more of our stock, measured by voting power or value.

In addition, this summary does not discuss the application of the U.S. federal estate and gift taxes, the Medicare net investment income tax or the alternative minimum tax, or any state, local or other tax consequences of purchasing, owning, and disposing of common shares or ADSs. You should consult your own tax advisers concerning the U.S. federal, state, local, and other tax consequences of purchasing, owning, and disposing of common shares or ADSs in

your particular circumstances.

This summary is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations promulgated thereunder, and published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

For purposes of this summary, you are a U.S. holder if you are the beneficial owner of a common share or an ADS and are:

a citizen or resident of the United States;

a U.S. domestic corporation; or

otherwise subject to U.S. federal income tax on a net income basis with respect to income from the common share or ADS.

In general, if you are the beneficial owner of ADSs, you will be treated as the beneficial owner of the common shares represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange an ADS for the common share represented by that ADS.

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**Table of Contents*****Dividends***

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source dividend income and will not be eligible for the dividends received deduction. Dividends paid in Won will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date that you receive the dividend (or the depositary receives the dividend, in the case of ADSs), regardless of whether the payment is in fact converted into U.S. dollars. If such a dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual with respect to the ADSs will be subject to taxation at reduced rates if the dividends are qualified dividends. Dividends paid on the common shares or ADSs will be treated as qualified dividends if (i) the common shares or ADSs are readily tradable on an established securities market in the United States or we are eligible for the benefits of a comprehensive tax treaty with the United States that the U.S. Treasury determines is satisfactory for purposes of this provision and that includes an exchange of information program; and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company as defined for U.S. federal income tax purposes, which we refer to as a PFIC. The ADSs are listed on the New York Stock Exchange, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. In addition, the U.S. Treasury has determined that the Korea-United States income tax treaty meets the requirements for reduced rates of taxation, and we believe we are eligible for the benefits of that treaty. Based on our audited financial statements, we believe that we were not a PFIC in our 2017 taxable year. In addition, based on our current expectations regarding our income, assets and activities, we do not anticipate becoming a PFIC for our 2018 taxable year. Therefore, we believe that dividends received by U.S. holders with respect to either common shares or ADSs will be qualified dividends. Holders should consult their own tax advisers regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

Distributions of additional shares in respect of common shares or ADSs that are made as part of a pro-rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

***Sale or Other Disposition***

For U.S. federal income tax purposes, gain or loss you realize on a sale or other disposition of common shares or ADSs generally will be treated as U.S. source capital gain or loss, and will be long-term capital gain or loss if the common shares or ADSs were held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at reduced rates.

If a U.S. holder sells or otherwise disposes of our common shares or ADSs in exchange for currency other than U.S. dollars, the amount realized generally will be the U.S. dollar value of the currency received at the spot rate on the date of sale or other disposition (or, if the shares are traded on an established securities market at such time, in the case of cash basis and electing accrual basis U.S. holders, the settlement date). An accrual basis U.S. holder that does not elect to determine the amount realized using the spot exchange rate on the settlement date will recognize foreign currency gain or loss equal to the difference between the U.S. dollar value of the amount received based on the spot exchange rates in effect on the date of the sale or other disposition and the settlement date. If an accrual basis U.S. holder makes the election described in the first sentence of this paragraph, it must be applied consistently from year to year and cannot be revoked without the consent of the Internal Revenue Service. A U.S. holder should consult its own tax advisers regarding the treatment of any foreign currency gain or loss realized with respect to any currency received in

a sale or other disposition of the common shares or ADSs.

***Foreign Tax Credit Considerations***

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits. If no such rules apply, you may claim a credit



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against your U.S. federal income tax liability for Korean taxes withheld from dividends on the common shares or ADSs at the rate provided for under the income tax treaty between the United States and Korea, so long as you have owned the common shares or ADSs (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming a credit, you may, if you so elect, deduct such Korean taxes in computing your taxable income, subject to generally applicable limitations under U.S. tax law. Korean taxes withheld from a distribution of additional shares that is not subject to U.S. tax may be treated for U.S. federal income tax purposes as imposed on general category income. Such treatment could affect your ability to utilize any available foreign tax credit in respect of such taxes.

Any Korean securities transaction tax or agriculture and fishery special surtax that you pay will not be creditable for foreign tax credit purposes.

Similarly, a U.S. holder will not be able to claim a foreign tax credit against its U.S. federal income tax liability for any Korean inheritance or gift tax imposed in respect of the common shares or ADSs.

Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which a U.S. holder's expected economic profit is insubstantial.

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions involve the application of complex rules that depend on a U.S. holder's particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

***Specified Foreign Financial Assets***

Certain U.S. holders that own specified foreign financial assets with an aggregate value in excess of 50,000 U.S. dollars are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. Specified foreign financial assets include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include the common shares and ADSs) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. holders who fail to report the required information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. Prospective investors should consult their own tax advisers concerning the application of these rules to their investment in the common shares or ADSs, including the application of the rules to their particular circumstances.

***U.S. Information Reporting and Backup Withholding Rules***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (i) is a corporation or other exempt recipient and demonstrates this when required or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

**Korean Taxation**

The following summary of Korean tax considerations applies to you so long as you are not:

a resident of Korea;

a corporation with its head office, principal place of business or place of effective management in Korea; or

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engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

Please consult your own tax advisers as to the Korean, state, local and other tax consequences of the purchase, ownership and disposition of common shares.

***Taxation of Dividends on Common Shares or ADSs***

We will deduct Korean withholding tax from dividends paid to you (whether payable in cash or in shares) at a rate of 22.0% (inclusive of local income surtax). If you are a qualified resident and a beneficial owner of the dividends in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. See [Tax Treaties](#) below for a discussion on treaty benefits. If we distribute to you free shares representing a transfer of earning surplus or certain capital reserves into paid-in capital, that distribution may be subject to Korean withholding tax.

***Taxation of Capital Gains from Transfer of Common Shares or ADSs***

As a general rule, capital gains earned by non-residents upon transfer of our common shares or ADSs are subject to Korean withholding tax at the lower of (1) 11.0% (inclusive of local income surtax) of the gross proceeds realized or (2) subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs of the common shares or ADSs, 22.0% (inclusive of local income surtax) of the net realized gain, unless exempt from Korean income taxation under the applicable Korean tax treaty with the non-resident's country of tax residence. See [Tax Treaties](#) below for a discussion on treaty benefits. Even if you do not qualify for an exemption under a tax treaty, you will not be subject to the foregoing withholding tax on capital gains if you qualify under the relevant Korean domestic tax law exemptions discussed in the following paragraphs.

In regard to the transfer of our common shares through the Korea Exchange, you will not be subject to the withholding tax on capital gains (as described in the preceding paragraph) if you (1) have no permanent establishment in Korea and (2) did not own or have not owned (together with any shares owned by any person with which you have a certain special relationship) 25% or more of the total issued and outstanding shares, which may include the common shares represented by the ADSs, at any time during the calendar year in which the sale occurs and during the five consecutive calendar years prior to the calendar year in which the sale occurs.

Under Korean tax law, ADSs are viewed as shares of common stock for capital gains tax purposes. Accordingly, capital gains from the sale or disposition of ADSs are taxed (if such sale or disposition constitutes a taxable event) as if such gains are from the sale or disposition of the underlying common shares. Capital gains that you earn (regardless of whether you have a permanent establishment in Korea) from a transfer of ADSs outside of Korea will generally be exempt from Korean income taxation by virtue of the Special Tax Treatment Control Law of Korea, or the STTCL, provided that the issuance of the ADSs is deemed to be an overseas issuance under the STTCL. However, if you transfer ADSs after having converted the underlying common shares, such exemption under the STTCL will not apply and you will be required to file a corporate income tax return and pay tax in Korea with respect to any capital gains derived from such transfer unless the purchaser or a financial investment company with a brokerage license, as applicable, withholds and pays such tax.

If you are subject to tax on capital gains with respect to the sale of ADSs, or of our common shares you acquired as a result of a withdrawal, the purchaser or, in the case of the sale of the common shares on the Korea Exchange or through a financial investment company with a brokerage license in Korea, such financial investment company, is required to withhold Korean tax on capital gain from the sales price in an amount equal to the lower of (1) 11.0%

(inclusive of local income surtax) of the gross realization proceeds or (2) subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs of the common shares or ADSs, 22.0% (inclusive of local income surtax) of the net realized gain, and to make payment of these amounts to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law. See Tax Treaties below for a discussion on claiming treaty benefits.

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**Table of Contents*****Tax Treaties***

Korea has entered into a number of income tax treaties with other countries (including the United States), which would reduce or exempt Korean withholding tax on dividends on, and capital gains on transfer of, the common shares or ADSs. For example, under the Korea-United States income tax treaty, reduced rates of Korean withholding tax of 16.5% or 11.0% (depending on your shareholding ratio and inclusive of local income surtax) on dividends and an exemption from Korean withholding tax on capital gains are available to residents of the United States that are beneficial owners of the relevant dividend income or capital gains, subject to certain exceptions. However, under Article 17 (Investment or Holding Companies) of the Korea-United States income tax treaty, such reduced rates and exemption do not apply if (i) you are a United States corporation, (ii) by reason of any special measures, the tax imposed on you by the United States with respect to such dividend income or capital gains is substantially less than the tax generally imposed by the United States on corporate profits and (iii) 25% or more of your capital is held of record or is otherwise determined, after consultation between competent authorities of the United States and Korea, to be owned directly or indirectly by one or more persons who are not individual residents of the United States. Also, under Article 16 (Capital Gains) of the Korea-United States income tax treaty, the exemption on capital gains does not apply if (a) you have a permanent establishment in Korea and any shares of common stock in which you hold an interest and which give rise to capital gains are effectively connected to such permanent establishment, (b) you are an individual and you maintain a fixed base in Korea for an aggregate of 183 days or more during a given taxable year and your ADSs or common shares giving rise to capital gains are effectively connected with such fixed base or (c) you are an individual and you are present in Korea for an aggregate of 183 days or more during a given taxable year.

You should inquire for yourself whether you are entitled to the benefit of a tax treaty between Korea and the country where you are a resident. It is the responsibility of the party claiming the benefits of an income tax treaty in respect of dividend payments or capital gains to submit to us, the purchaser or the financial investment company, as applicable, a certificate as to his tax residence. In the absence of sufficient proof, we, the purchaser or the financial investment company, as applicable, must withhold tax at the normal rates. Furthermore, in order for you to claim the benefit of a tax rate reduction or tax exemption on certain Korean source income (such as dividends or capital gains) under an applicable tax treaty, Korean tax law requires you (or your agent) to submit an application (for a reduced withholding tax rate, the application for entitlement to a reduced tax rate, and in the case of exemptions from withholding tax, the application for tax exemption along with a certificate of your tax residency issued by a competent authority of your country of tax residence, subject to certain exceptions) as the beneficial owner of such Korean source income, or a BO application. For example, a U.S. resident would be required to provide a Form 6166 as a certificate of tax residency together with the application for entitlement to reduced tax rate or the application for tax exemption. Such application should be submitted to the withholding agent prior to the payment date of the relevant income. Subject to certain exceptions, where the relevant income is paid to an overseas investment vehicle (which is not the beneficial owner of such income), or an OIV, a beneficial owner claiming the benefit of an applicable tax treaty with respect to such income must submit its BO application to such OIV, which must submit an OIV report and a schedule of beneficial owners to the withholding agent prior to the payment date of such income. In the case of a tax exemption application, the withholding agent is required to submit such application (together with the applicable OIV report in the case of income paid to an OIV) to the relevant district tax office by the ninth day of the month following the date of the payment of such income.

***Inheritance Tax and Gift Tax***

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance tax and gift tax purposes, you will be treated as the owner of the common shares underlying the ADSs. If the tax authority interprets depositary receipts as the underlying share certificates, you may be treated as the owner of the common shares and your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance tax or gift

tax presently at the rate of 10% to 50%, provided that the value of the ADSs or common shares is greater than a specified amount.

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If you die while holding a common share or donate a common share, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance tax or gift tax at the same rate as indicated above.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

### ***Securities Transaction Tax***

If you transfer our common shares on the Korea Exchange, you will be subject to securities transaction tax at the rate of 0.15% and an agriculture and fishery special surtax at the rate of 0.15% of the sale price of the common shares. If your transfer of the common shares is not made on the Korea Exchange, subject to certain exceptions, you will be subject to securities transaction tax at the rate of 0.5% and will not be subject to an agriculture and fishery special surtax.

Under the Securities Transaction Tax Law, depository receipts (such as American depository receipts) constitute share certificates subject to the securities transaction tax. However, the transfer of depository receipts listed on the New York Stock Exchange, the Nasdaq Global Market, or other qualified foreign exchanges is exempt from the securities transaction tax.

In principle, the securities transaction tax, if applicable, must be paid by the transferor of the common shares or ADSs. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay the tax to the tax authorities. When such transfer is made through a financial investment company only, such financial investment company is required to withhold and pay the tax. Where the transfer is effected by a non-resident without a permanent establishment in Korea, other than through a securities settlement company or a financial investment company, the transferee is required to withhold the securities transaction tax.

Non-reporting or under-reporting of securities transaction tax will generally result in penalties equal to 20% to 60% of the non-reported tax amount or 10% to 60% of under-reported tax amount. Also, a failure to timely pay securities transaction tax will result in a penalty equal to 10.95% per annum of the due but unpaid tax amount. The penalties are imposed on the party responsible for paying the securities transaction tax or, if such tax is required to be withheld, on the party that has the obligation to withhold.

### **Item 10.F. *Dividends and Paying Agents* Not Applicable**

### **Item 10.G. *Statements by Experts* Not Applicable**

### **Item 10.H. *Documents on Display***

We are subject to the information requirements of the Exchange Act, and, in accordance therewith, are required to file reports, including annual reports on Form 20-F, and other information with the U.S. Securities and Exchange Commission. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the Commission's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call

the Commission at 1-800-SEC-0330 for further information on the public reference rooms. We are also required to make filings with the Commission by electronic means. Any filings we make electronically will be available to the public over the Internet at the Commission's web site at <http://www.sec.gov>.

**Item 10.I. *Subsidiary Information***

**Not Applicable**



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**Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Overview**

Our lending and trading businesses, our deposit taking activities and our operating environment expose us to various risks. Our risk management goal is to understand, measure and monitor these risks and to ensure that our employees strictly adhere to the policies and procedures that we establish. We seek to take a conservative approach to risk management in order to better insulate our operations from adverse events. Risks we face include:

credit risk;

market risk (primarily interest rate risk, equity risk, foreign exchange risk and commodity risk);

liquidity risk; and

operational and business risk (including legal risk).

We operate a standardized risk management system. This system enhances our risk management capabilities by enabling us to exchange information among our and our subsidiaries' risk management operations. We have further strengthened our risk management systems by (i) using Tier I capital as available capital for purposes of our risk capital allocation to fulfill Basel III requirements, and (ii) including stressed VaR to our market risk capital calculations in accordance with the guidance of the Financial Supervisory Service. We use our risk management systems to manage our risks within acceptable limits and to otherwise ensure the soundness of our assets and the stability of our operations.

We allocate our total risk capital in accordance with the guidelines set by our Board Risk Management Committee. As described in more detail below, the committee allocates risk capital with respect to credit risk, market risk, interest rate risk and operational risk with respect to us as well as Woori Card, Woori Investment Bank, Woori Private Equity, Woori Bank China Limited, Woori America Bank and PT Bank Woori Saudara Indonesia 1906, Tbk.

Through our standardized risk management system we allocate our risk capital:

with respect to credit risk on the basis of a standardized approach as well as other portfolio credit models developed by third party vendors;

with respect to our market risk based on a market value at risk, or VaR, system and including stressed VaR ;  
and

with respect to our interest rate risk based on a historical simulation method, which simulates the current portfolio's net present value at a 99.9% confidence level for a one-year holding period.

We allocate our risk capital with respect to operational risk through a standardized approach in accordance with Basel II.

Our risk capital allocation as a percentage of available capital, on a non-consolidated basis, with respect to 2018 is as follows:

	Available capital <sup>(1)</sup>	Risk capital	Risk appetite	Credit	Market	Operational	Interest rate	Correlation Effect	Buffer
(in billions of Won, except percentages)									
Woori Bank	18,916	13,220	69.9%	60.2%	5.4%	4.6%	4.5%	(4.8)%	30.1%
Woori Card	1,551	853	55.0%	47.2%	0.0%	5.7%	7.0%	(4.9)%	45.0%
Woori Investment Bank	279	233	83.5%	73.5%	8.2%	2.9%	2.5%	(3.6)%	16.5%
Woori Private Equity	39	22	56.4%	53.8%	0.0%	5.1%	0.0%	(2.6)%	43.6%
Woori America Bank	273	199	72.9%	61.2%	0.0%	5.5%	12.1%	(5.9)%	27.1%
PT Bank Woori Saudara Indonesia 1906, Tbk	340	291	85.6%	61.2%	0.0%	6.2%	25.9%	(7.6)%	14.4%
Woori Bank China Limited	494	438	88.7%	67.0%	11.9%	3.8%	11.9%	(6.1)%	11.3%

<sup>(1)</sup> Estimates based on Tier I capital.

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**Organization**

We have a multi-tiered risk management governance structure. Our Board Risk Management Committee is ultimately responsible for our risk management. The Executive Risk Management Committee answers to the Board Risk Management Committee and coordinates the execution of its directives. Each Subsidiary Risk Management Committee, based on the Board Risk Management Committee's directives, determines risk management strategies and implements risk management policies and guidelines for the relevant subsidiary, sets the subsidiary's operational and business risk management policies and guidelines and directs the subsidiary's risk management groups with support from the applicable Subsidiary Risk Management Council, but must keep within the risk guidelines of the Board Risk Management Committee. The Subsidiary Risk Management Committees generally receive input from their respective Subsidiary Risk Management Councils and subsidiary risk management groups.

The following chart sets out our risk management governance structure as of the date of this annual report:

We operate a double report system with respect to our risk management procedures. Each of our subsidiary risk management groups is required to submit risk management reports directly to the Risk Management Department. Through this internal reporting system, we are able to better ascertain and strengthen the monitoring of our subsidiaries' risk management and are able to quickly address any deviation from our risk policies. We have further supplemented our double report system by strengthening the role and independence of chief risk officers in our subsidiaries (including the appointment of dedicated chief risk officers in all of our subsidiaries) and expanding the role of subsidiary risk management groups. Each subsidiary risk management group is required to report directly to such subsidiary's chief risk officer on all material risk management issues as well as following the procedures under the double report system.

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The Board Risk Management Committee, the Executive Risk Management Committee, the Subsidiary Risk Management Committees and the Subsidiary Risk Management Councils are responsible for managing risks relating to credit, markets, asset and liability management, liquidity and operations and business.

### ***Board Risk Management Committee***

The Board Risk Management Committee is our highest decision-making body with respect to our risk management operations. It oversees and makes determinations on all significant issues relating to our risk management system. It implements policies regarding, monitors and has ultimate responsibility for managing credit, market and liquidity risk and for asset and liability management. The committee's major activities include:

determining and amending risk management policies, guidelines and limits in conformity with the strategy established by the board of directors;

determining the appropriate level of risks that we should be willing to undertake, including in connection with key business activities such as acquisitions, investments or entering into new business areas, prior to a decision by the board of directors on such matters;

allocating risk capital and approving our business groups' risk limit requests;

reviewing our risk profile, including the level of risks we are exposed to and the status of our risk management operations; and

monitoring our compliance with our risk policies.

The Board Risk Management Committee is comprised of one non-standing director and three outside directors. It operates independently from all business groups and individual board members, and reports directly to our board of directors. We require the chairperson of the Board Risk Management Committee to be chosen from among the outside directors in order to enhance the independence and experience level of such chairperson. Our Board Risk Management Committee convenes at least quarterly, and makes decisions by a majority vote of the attending members. At least a majority of the committee members must attend to constitute a quorum.

### ***Executive Risk Management Committee***

Our Executive Risk Management Committee seeks to maintain our asset quality and stabilize or improve our profitability through the execution of its risk management duties as delegated by the Board Risk Management Committee. The Executive Risk Management Committee's major activities include:

analyzing our risk status using information provided by our Risk Management Department;

reviewing agenda items of the Board Risk Management Committee meetings;

reviewing the risks of annual business plans and allocating risk capital accordingly;

establishing policies to comply with applicable capital adequacy requirements;

determining standards and methods to measure risk and setting total exposure limits and contingency plans, by risk type;

reviewing, adjusting and monitoring funding strategies and plans as well as related decision-making authority;

monitoring interest rates relating to lending and deposit-taking; and

reviewing risks relating to the introduction of new products.

The Executive Risk Management Committee consists of seven members, including the head of our business support group, who acts as chairman, the head of our risk management group, the head of our credit support group and the head of our finance and management planning division. It operates independently from all business groups, and reports directly to the Board Risk Management Committee. The Executive Risk Management Committee convenes on a monthly basis.

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Our Risk Management Department provides a variety of information to the Executive Risk Management Committee, including:

reports regarding the status of overall risk management, the status of limit compliance, and analysis and results of stress testing and back testing; and

reports regarding asset and liability management matters, including changes in risk-weighted assets and the status of our credit portfolio on a periodic basis.

### ***Subsidiary Risk Management Committees***

Each of our subsidiaries has delegated risk management authority to its Subsidiary Risk Management Committee. Each Subsidiary Risk Management Committee measures and monitors the various risks faced by the relevant subsidiary and reports to that subsidiary's board of directors regarding decisions that it makes on risk management issues. It also makes strategic decisions regarding the operations of the relevant subsidiary, such as allocating credit risk limits, setting total exposure limits and market risk-related limits and determining which market risk derivatives instruments the subsidiary can trade. The major activities of each Subsidiary Risk Management Committee include:

determining and monitoring risk policies, guidelines, limits and tolerance levels and the level of subsidiary risk in accordance with group policy, with the support of the relevant Subsidiary Risk Management Council;

reviewing and analyzing the subsidiary's risk profile;

setting limits for and adjusting the risk-adjusted capital allocation plan and risk levels for each business group within the subsidiary; and

monitoring compliance with our risk management policies and practices at the business group and subsidiary level.

Each Subsidiary Risk Management Committee generally includes two or more outside directors of the subsidiary.

### **Credit Risk Management**

Our credit risk management policy objectives are to improve our asset quality, reduce our non-performing loans and minimize our concentration risk through a diversified, balanced and risk-weighted loan portfolio. We manage credit risk and continually monitor and improve our credit risk-related policies and guidelines to reflect changing risks in our business and the industries and sectors in which our customers operate.

We believe that an essential part of achieving our credit risk management objectives is utilizing a standardized risk management system so that we can identify and manage the risks generated by our businesses using a consistent approach. We are currently using a centralized credit risk management system called the CREPIA system. CREPIA is a credit risk management system which combines credit risk management and the credit approval process on a

transactional level with respect to individual borrowers and approval with respect to each individual loan or credit. The system quantifies credit risk with respect to corporate borrowers using a mark-to-market methodology, which reflects both the likelihood of a default by a borrower as well as the likelihood of a change in such borrower's credit rating, and quantifies credit risk with respect to retail borrowers using a default mode methodology, which reflects the likelihood of a default by a borrower. We believe that CREPIA is a systematic and efficient credit evaluation system and that we have expedited our loan review process and improved our ability to monitor and evaluate our overall risk profile by using this system. The main characteristics of CREPIA are as follows:

*automation of credit risk management system*, which allows us to centralize and automate many tasks relating to our credit risk management system;

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*automatic recognition and processing of different forms of credit*, which allows us to process and approve different types of credit, such as new applicants, renewing applicants and changes in the condition of the loan or credit approved;

*incorporation of credit risk management prior to approval of credit*, which allows us to consider individualized characteristics of a borrower and enables us to calculate a more accurate price with respect to the loan or credit approved;

*automatic credit risk monitoring after approval of credit*, which allows us to evaluate and re-rate the loan or credit on a real-time basis as a result of any change in the characteristics of the borrower (including the condition of the underlying collateral, change in borrowing limit and early warning characteristics); and

*automatic verification of internal procedures and regulations with respect to approval of credit*, which reduces our operational risk and ensures that there are no material deviations from our loan and credit policies.

We also impose a credit risk limit with respect to large exposures. We aim to avoid concentrations of exposure with respect to any single corporate borrower or affiliated group of corporate borrowers. Accordingly, we have established aggregate exposure limits based on our capital adequacy levels and, with respect to individual corporate borrowers, established limits by dividing the expected loss with respect to companies affiliated with such corporate borrower with the unexpected loss (a measurement of credit risk) of such borrower and converting that into an exposure amount. We use this as the basis for our large exposure limits with respect to such corporate borrower.

We also impose a principal investment limit for investment activities that we and our subsidiaries undertake as a principal (as opposed to as an agent). The principal investment limit for each entity is set as a certain percentage of the capitalization of such entity.

We use our credit risk management systems to measure and control credit risk, to evaluate and approve new credit and to review and monitor outstanding credit. We conduct various quantitative and qualitative analyses to establish acceptable risk levels that provide what we believe are appropriate levels of return on investments. The credit risk management systems that we use to do this integrate various data, including customers' financial and economic condition, limits on loans and guarantee amounts, cash flow evaluations, collateral levels, our desired profit margin and the likelihood of unexpected loan losses.

Each subsidiary monitors its level of risk, determines how that level compares to our target optimized level of risk on a monthly basis and produces risk analysis reports and optimization reports on a monthly basis and stress test reports on an ad hoc basis. These reports are sent to the respective Subsidiary Risk Management Committees and to the Board Risk Management Committee and provide a basis to set risk limits for, and allocate capital to, a subsidiary's business groups.

***Credit Evaluation and Approval***

We and our subsidiaries evaluate the credit of every loan applicant and guarantor before approving any loans, except for:



loans guaranteed by letters of guarantee issued by the Korea Credit Guarantee Fund, the Korea Technology Credit Guarantee Fund or certain other specified Korean government-controlled funds;

loans guaranteed by highly rated banks;

loans fully secured by deposits with us; and

loans against commercial promissory notes issued by creditworthy companies at a discount to the face value of the note determined by the issuer's creditworthiness.

The evaluation and approval process differs depending on whether the loan is a corporate loan, a general household consumer loan, or a mortgage or home equity loan, and there is a separate process for credit card

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applications. We have in recent years implemented a standardized expected loss and unexpected loss credit risk system which we believe enables us to better allocate risk capital by evaluating unexpected loss (a measurement of credit risk), VaR (a measurement of market risk) and earnings at risk (a measurement of whether our assets and liabilities are mismatched).

We have undertaken a number of initiatives to develop credit evaluation and loan approval procedures that are more systematic and efficient. We prefer to use credit rating systems in our credit evaluation and loan approval process because they:

yield a uniform result regardless of the user;

can be used effectively by employees who do not have extensive experience in credit evaluation;

can be easily updated to reflect changing market conditions by changing how factors are weighted;

significantly limit the scope of employee discretion in the loan assessment and approval process; and

improve loan processing times while generally resulting in declines in delinquencies among new borrowers.

We operate a CREPIA credit evaluation system for corporate loans (including small- and medium-sized enterprise loans) and a consumer credit evaluation system for consumer loans.

Customers apply for loans by submitting a loan application through one of our branches. These applications are initially reviewed using the appropriate credit evaluation system and, in the case of applications for a small amount or involving applicants with little or no credit risk, are approved by the branch manager or a relationship manager acting in concert with a credit officer based on the credit risk rating they receive under that system. Applications for larger loans and loans which are determined to involve greater credit risk are approved by bodies with greater authority, depending on where those loans fall in a matrix of size, collateral and credit risk. These loan applications will be referred to a credit officer committee at an office located near the customer, which may or may not be at our headquarters. Every credit officer committee is made up of credit officers from headquarters and has the same level of authority. Applications that cannot be approved by a credit officer committee are referred to a senior credit officer committee or our Loan Committee, depending on loan size, collateral and credit risk. The following table sets forth as an example our various committees and personnel involved in our credit evaluation and loan approval process:

Committee	Members	Approval Process
<b>Headquarters Approval Loan Committee</b>	Head of the credit support group, head of the risk management group, head of the investment banking group, head of the capital market group, head of the large corporate audit department, and	2/3 required for approval; 2/3 required to participate

head of medium-size enterprise audit  
department (no more than seven  
persons)

**Headquarters/Regional Approval**

Senior Credit Officer Committee

One head senior credit officer and four 2/3 required for approval; 2/3  
to six other senior credit officers (five required to participate  
to seven persons)

Credit Officer Committee

At least one senior credit officer and 2/3 required for approval; 2/3  
two other credit officers (at least three required to participate  
persons)

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<b>Committee</b>	<b>Members</b>	<b>Approval Process</b>
<b>Individual Approval</b>		
Senior Relationship Manager	Individual	Approval of the individual
Relationship Manager	Individual	Approval of the individual
Branch Manager	Individual	Approval of the individual
Different individuals or committees review and approve loan applications depending on various factors, including:		

the size and type of the loan;

the level of credit risk established by the credit rating system;

whether the loan is secured by collateral; and

if the loan is secured, an assessment of the collateral.

Loan applications are generally reviewed only by the highest-level committee required to approve the loan, although multiple reviews, including separate reviews at the branch, regional and headquarters level, may occur depending on the size and terms of any particular loan or a borrower's credit risk.

*Corporate Loan Approval Process*

Our branches review corporate loan applications using a credit evaluation system for corporate borrowers. Each corporate credit evaluation system measures various quantitative and qualitative factors. The model used by the credit evaluation system to review an application depends, however, on certain characteristics of the potential borrower. Our credit risk management department, together with our large corporate loan department and small- and medium-sized enterprise loan department, has developed separate credit evaluation models for large corporate borrowers that are subject to external audit under the Act on External Audits of Stock Companies, large corporate borrowers that are not subject to external audit, medium-sized enterprises and SOHO borrowers that either have outstanding loans, or are applying for a loan, in excess of 1 billion. In general, each model uses scores from both a computerized evaluation of quantitative financial factors, such as cash flow and income, and more qualitative factors which are scored using judgments by the credit officer or officers reviewing the application to produce an overall credit risk rating. These credit evaluation systems provide us with tools to make consistent credit decisions and assist us in making risk-based pricing decisions. Our CREPIA system, depending on whether the borrower is audited by independent auditors and its size, produces two separate scores based on one of 14 rating models: one for quantitative current financial factors, which is weighted 60% in determining the CREPIA credit risk rating, and another for the more qualitative factors that the judgment of our credit officers plays a more significant part in determining, which is weighted 40%. The CREPIA credit risk rating estimates the probability that we will recover extended credits and the likelihood that borrowers will default. Qualitative factors included in CREPIA include:

a customer's future financial condition;

its competitive position in the industry;

its industry situation;

the quality of its management;

its technological merits;

its operations;

the nature and the location of any collateral; and

our level of priority in that collateral to estimate non-recovery risks.

These qualitative factors are input into the CREPIA system by the credit officer, and are scored based on his or her historical experience and that of the bank.

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The CREPIA system produces separate credit risk ratings for each borrower and for each loan requested by that borrower. Our credit analysis and approval center evaluates and approves corporate loan applications based on these credit risk ratings. The CREPIA system assigns each borrower and facility one of the following fourteen credit risk rating grades from AAA to D, which are classified as follows: AAA (extremely strong), AA (very strong), A+ (strong), A (good), BBB+ (more adequate), BBB (adequate), BBB- (less adequate), BB+ (less susceptible), BB (susceptible), BB- (more susceptible), B+ (slightly weak), B (weak), C (very weak) and D (default). Certain loans are subject to review by the Loan Committee depending on the size of the loan and the determined credit risk rating. Examples of this include loan applications for secured loans in excess of \$80 billion for a borrower or facility with a credit risk rating of A- and above, and, at the other extreme for unsecured loans, loan applications in excess of \$4 billion for a borrower or facility with a credit risk rating of BB- to C. Applications from borrowers with loans on a watch list (see Credit Review and Monitoring below) are also automatically reviewed by the Loan Committee.

We use the same systems to evaluate and approve applications from small- and medium-sized enterprises that it uses to evaluate other corporate borrowers, but uses different credit evaluation models. Our credit evaluation models for small- and medium-sized enterprise customers, which are incorporated into the CREPIA system, use the same quantitative and qualitative factors that we use to evaluate other corporate customers. However, the small- and medium-sized enterprise models apply a 50% weighting to the score derived from quantitative factors and a 50% weighting to the score derived from the more flexible qualitative factors in determining the credit risk rating. We also use a separate credit evaluation model to evaluate newly opening small- and medium-sized enterprises that relies solely on qualitative factors. In addition, we have adopted a separate credit evaluation system for SOHOs (such as pharmacies, clinics and restaurants) which either have outstanding loans, or are applying for a loan, of \$1 billion or less that uses simpler credit evaluation models and resembles our application scoring system for new retail customers.

With respect to the evaluation of any collateral to which a commercial loan application relates (which principally consists of land, buildings and equipment), the fair value of such underlying collateral for commercial loans is appraised by external valuation experts and such appraisals are collated in our CREPIA system. We use our CREPIA system to manage our lending activities, and input data gathered from loan application forms, credit scores of borrowers and the appraisal value of collateral provided by external valuation experts into the CREPIA system and update such information periodically to reflect changes in such information (such as any changes in credit scores of borrowers or the appraisal value of collateral). In addition, to validate the appropriateness of the appraisal values provided by such external valuation experts, we review the qualification of the external valuation experts (including a review of whether such experts are legitimately registered with the Korea Association of Property Appraisers) and evaluate the assumptions and valuation model used by such experts as well as the appropriateness of variables by reference to market data and comparisons to actual transaction prices in similar regions.

We have set credit limits for our corporate customers. Some of these limits, particularly those imposed by Korean banking regulations, are aimed at preventing loan concentrations relating to any single customer. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Financial Exposure to Any Individual Customer or Major Shareholder. In certain cases, we have introduced and implemented internally developed large exposure limits that are stricter than the applicable Financial Services Commission requirements.

In evaluating applications, credit officers or the Loan Committee will often, in addition to reviewing ratings from these credit evaluation models, also refer to corporate information gathered or ratings assigned by external credit rating agencies, such as the Korea Federation of Banks, Korea Information Service, Korean government-released information on bankruptcy rates, National Information & Credit Evaluation Inc. and Korea Management Consulting & Credit Rating Corporation. They review the information we obtain from these sources and compare it to the information we have developed internally with respect to our customers to improve the accuracy of our internal credit ratings.



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**Table of Contents***Consumer Loan Approval Process*

Our consumer loan department evaluates and approves consumer loan applications using a dedicated consumer credit evaluation system. Our consumer credit evaluation system assigns a credit score to each application based on its evaluation of various factors. These factors include any loan and guarantee limits we have set for particular borrowers or groups of borrowers and our evaluation of their cash flows and credit profiles. The system gives each customer's loan application a score from one to ten. We also use another scoring system based on the external ratings provided by the Korea Credit Bureau. Applications are classified as automatically approved, automatically rejected and subject to further evaluation based on a combination of the scores of these two systems. We use these systems to evaluate all new consumer loan applications, except for loans fully secured by deposits with us.

We augment our consumer credit evaluation system with a behavioral scoring system. The behavioral scoring system enhances the consumer credit evaluation system by enabling the consideration of factors not previously evaluated, including the customer's spending history and credit behavior. By the nature of the information it analyzes, however, the behavioral scoring system can only be used for applications of persons who are existing borrowers, generally consisting of roll-overs of outstanding amounts or increases to existing credit limits.

We also evaluate any collateral to which a consumer loan application relates (which principally consists of residential properties) using the fair value of the underlying collateral appraised by Korea Investors Service as part of our loan approval process. Such appraisals are collated in our CREPIA system, and such information is updated periodically to reflect changes (such as any changes in credit scores of borrowers or the appraisal value of collateral). For example, we automatically obtain re-evaluations for the underlying collateral for secured consumer loans and mortgages every month with respect to apartments. If the value of the collateral declines, we may have the ability to require that the borrower provide more collateral or to change the payment terms of the relevant loan.

*Credit Card Approval Process*

We have worked to ensure that our risk management and credit extension policies are consistently reflected with respect to our credit card operations.

Woori Card reviews each new card application for completeness, accuracy and creditworthiness. It bases this review on various factors that assess the applicant's ability to repay borrowed amounts. The review process involves three stages:

*Initial Application Process.* Woori Card verifies basic information by requesting certain documents from the applicant, generally contacts the applicant directly (usually by telephone, although there are personal visits to some applicants) and statistically analyzes the applicant's personal credit history together with financial and default information gathered from third-party sources and its internal database. The analysis considers various factors including employment, default status and historical relationships with us and any delinquency history with other credit card companies. Woori Card also reviews information about an applicant obtained from external databases maintained by the Korea Federation of Banks and Nice Information Service Inc.

*Application Scoring System Process.* The application scoring system at Woori Card is a standardized evaluation tool used to determine the probability of a credit card applicant defaulting during the one-year period following issuance. The application scoring system, using a statistical model, assigns risks to factors



that indicate a probability of non-payment. The model analyzes credit history, occupation and income data to develop a combined risk score. The applicant's eligibility to receive a credit card and credit limit is determined by its anticipated delinquency ratio over 90 days within one year.

*Credit Assessment.* If the application is approved, then the application scoring system assessment is used to determine the applicant's credit limit. The aggregate credit limit for a new applicant who is an individual rarely exceeds 20 million. There is a separate but similar system for determining the credit

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limit available to corporate card applicants, which will generally be higher than limits available to individual applicants but will not provide for the ability to obtain cash advances.

The entire approval process generally takes two to three days and the applicant receives the new card within one week after making an application. Woori Card evaluates and updates the application scoring system on a monthly basis (or more frequently as required) to incorporate new data or adjust the importance placed on existing data or market conditions.

### ***Credit Review and Monitoring***

Our credit review and monitoring procedures are designed to reduce the risks of deterioration in our asset quality and to maintain acceptable levels of portfolio risk. These procedures include:

confirming a borrower's credit rating or score;

ensuring the accuracy of the credit analysis done by our credit officers; and

ensuring compliance with internal policies relating to loan approval.

We believe that these procedures enable us to identify potential non-performing loans as soon as possible and minimize the possibility of approving in advance loans that will become non-performing. These procedures also enable us to manage credit risk more effectively and set interest rates to more accurately reach our targeted level of return.

### ***Loan Review and Monitoring***

We monitor credit risk with respect to our borrowers using our loan review system. We have a loan review department that oversees our review and monitoring efforts. After a loan has been approved, the relevant materials or the results generated by our credit evaluation system, together with any supporting data, are reviewed by an officer in that department. There are three types of reviews that our loan review department undertakes:

*Desk review.* Desk reviews are the most common and are generally done within five days after a loan has been approved. Although the process is similar, different loans are automatically reviewed based on the size of the loan. The loan review department will initiate a desk review of loans approved by a credit officer committee or the Loan Committee, for any corporate loan over \$5 billion, any consumer loan over \$1 billion, any loan to a housing applicant group over \$5 billion or any loan where the loan terms were adjusted. For loans originating from a branch, the loan review department will randomly initiate a desk review for new domestic loans. For overseas loans, desk reviews are conducted for new loans (including credit limit increases) over US\$300,000. Ex post desk reviews are also conducted on consumer and corporate loans approved by a domestic branch manager for borrowers with aggregate unsecured loans over \$50 million or aggregate secured loans over \$300 million, and new consumer and corporate loans (including credit limit increases) over US\$30,000 approved by overseas branch managers.

*Periodic review.* Periodic reviews are done on a quarterly, semi-annual or annual basis with respect to loans that are current and over 10 billion or with respect to borrowers who are on a watch list with respect to possible insolvency. Quarterly periodic reviews are done for certain corporate borrowers, depending on their size and the borrower's industry.

*Ad hoc review.* Ad hoc reviews can be done at any time. The head of our Risk Management Department or our chief executive officer or chief financial officer can initiate ad hoc reviews. Loan review officers who are responsible for desk and periodic reviews also conduct ad hoc reviews.

Following a review, our sales office may hold additional meetings with the borrower and adjust the loan amount or the borrower's credit rating. The loan review department may also direct sales office personnel to institute early collections or to adjust a borrower's credit rating, total exposure and asset portfolio without

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consulting the borrower. The loan review officer may request that the credit officer adjust a borrower's credit ratings based on various factors, including asset quality, credit limits, applied interest rates and our credit policies. We also continually review other factors, such as industries in which borrowers operate and their domestic and overseas assets and operations, to ensure that our ratings are appropriate.

We monitor and manage our exposures to and credit limits for corporations and *chaebols* on a daily basis. We use our Total Exposure Management System to make real-time inquiries regarding our exposures, either by company or by *chaebol*, and to manage the credit limits for all kinds of business transactions. We monitor and analyze these exposures on a monthly basis. Corporate borrowers on our watch list are monitored more closely and with respect to additional aspects of their relationships with us. We place borrowers on our watch list when we believe that any impediment on a borrower's ability to meet its financial obligations exists or is pending. We may also monitor newly extended credits or any additional credits extended to a previous borrower more frequently if we believe additional monitoring is necessary after reviewing the loan approval process. Credits outstanding to a particular industry or region that we believe are higher risk are monitored even more frequently. Based on the results of such monitoring, our loan review department provides monthly reports to our chief executive officer and our Board Risk Management Committee.

We have the ability to conduct daily surveillance on the status of our retail borrowers through an on-line system established by the Korea Federation of Banks. This system, which tracks consumer loans at all major Korean banks and non-banking institutions, permits us to track all loan defaults by any borrower. We evaluate the need to monitor consumer loans by using our consumer credit evaluation system, including its behavioral scoring system, and make adjustments to the credit scoring formula based on the results of that process.

Our loan review department in our risk management group is required to submit monthly loan review reports and quarterly deficiency reports to the chief executive officer and the head of the risk management group. The chief executive officer then provides feedback to the relevant sales offices of our branches through our auditing team or relevant business group. Based on these reports, we may, for example, stop lending to particular borrowers, change credit limits or modify our loan approval procedures. We do not monitor loans to certain borrowers, such as loans to government entities.

#### *Credit Card Review and Monitoring*

Woori Card monitors its risk exposure to individual accounts on a regular basis. It monitors each customer's card usage trends and negative credit data such as delinquency information through both its own credit risk management system (which was developed with the assistance of an outside consultant) and BC Card's similar system (which BC Card maintains for its member institutions). These systems monitor the behavior of users of Woori Card's credit cards, using both internally generated information and information from external sources. Woori Card statistically analyzes this information to estimate each customer's creditworthiness on a monthly basis. The credit risk management system is an integral part of the credit practices at Woori Card and is used to determine increases or decreases in credit limits, reset interest rates, set fee levels, authorize special transactions and approve card loans using criteria such as:

how much credit each customer has incurred in the past (i.e., frequency and amount of payments);

whether a customer uses his card to make credit card purchases or to get cash advances;

internal credit scores; and

whether the customer has been delinquent in making payments.

After assigning appropriate weightings to each factor, the system computes a behavior score and uses that score to classify each cardholder. Each customer's credit limit is subject to adjustment in accordance with the monthly updated score. Woori Card uses these results and the results of its application scoring system to evaluate its credit risk management system and make adjustments to its credit scoring formula based on the results of that process.

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Woori Card's credit risk management system has also been able to run various simulations in connection with monitoring its operations, including:

*new product simulations*, which predict a customer's likely spending pattern when using a new credit card product and analyzes that pattern to predict the new product's costs, delinquencies and profitability; and

*credit use limit simulations*, which test whether a customer's credit limit has been properly set by simulating an increase or decrease of that limit.

Woori Card's credit administration team manages customer credit risk for users of its credit cards. It reviews and updates its underwriting, credit evaluation, collection, servicing and write-off procedures, and the terms and conditions of card agreements, from time to time in accordance with its business practices, applicable law and guidelines issued by regulatory authorities.

### *Early Warning Systems*

We and Woori Card have developed separate early warning systems that monitor the status of both commercial and retail borrowers and evaluate all of a customer's outstanding credits. These systems monitor various factors, including the financial status, financial transaction status, industry rating and management status of borrowers. They enable us to find defaults and signs of potential delinquency in advance, monitor these problematic credits properly before any default or delayed payment occurs and keep track of information on the credit status of borrowers. Updated information is input as it becomes available, either automatically from internal and external sources or manually. This information includes data relating to:

credit evaluation and monitoring system results, which determine if a borrower should be put on a watch list;

loan transactions, such as a borrower's remaining line of credit and whether it has any dishonored notes, overdue loans or setoffs with respect to collateral deposits which have not matured;

deposit transactions, such as any decrease in a borrower's average deposit balance, requests for large volumes of promissory notes or checks, or the inability to pay immediately available funds owed when due;

foreign exchange transactions, such as unpaid amounts of a borrower's purchased export bills that have exceeded the maturity date; and

other information, such as a borrower's management and employees, business operations, production operations, financial affairs and accounting operations and bank transactions.

We also monitor borrowers' credits through on-line credit reports that are provided by Korea Information Service and National Information & Credit Evaluation, Inc., which are Korean credit reporting agencies.

After gathering this information, our CREPIA system reviews such information to monitor any changes that could affect the credit rating of the borrower, approval conditions with respect to the loan or credit, underlying collateral or assigned credit limit of the borrower. Depending on the likelihood of the change, the system automatically sends a signal to the responsible credit officer. The officer then evaluates the information and formulates an action plan, which could result in an adjustment in the borrower's credit rating or loan pricing, a re-evaluation of the loan or the taking of other preventative measures.

***Credit Remediation***

We believe that by centralizing the management of our non-performing credits, we can implement uniform policies for non-performing credit resolution, pool institutional knowledge and create a more specialized (and therefore more efficient) work force. Our Credit Management and Collection Department and our Corporate Restoration Department generally oversee the process for resolving non-performing loans transferred to them by our other business groups. When a loan becomes non-performing, the Credit Management and Collection

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Department and the Corporate Restoration Department will begin a due diligence review of the borrower's assets, send a notice demanding payment or stating that the group will take legal action, and prepare for legal action. At the same time, we initiate our non-performing loan management process. Once we have confirmed the details of a non-performing loan, we make efforts to recover amounts owed to us. Methods for resolving non-performing loans include commencing collection proceedings or legal actions and writing off such loans, transferring them to subsidiaries in charge of collection and authorizing those subsidiaries to recover what they can. We have also disposed of a number of non-performing credits to UAMCO and various structured companies. See Item 4.B. Business Overview Assets and Liabilities Asset Quality of Loans Non-Performing Loan Strategy.

**Market Risk Management**

The principal market risks to which we are exposed are interest rate risk, foreign exchange risk and, to a lesser extent, equity risk and commodity risk. We divide market risk into risks arising from trading activities and risks relating to management of our assets and liabilities. The financial instruments that expose us to market risks are primarily trading and available-for-sale securities and financial derivatives and, with respect to commodity risk, commodity derivatives.

Our Board Risk Management Committee establishes risk capital allocation and risk limits for our trading activities. The Board Risk Management Committee has delegated the responsibility for coordinating market risk management for trading activities to the Executive Risk Management Committee. The Risk Management Department reviews on a daily basis reports that include trading profits and losses, position reports, stress test results and value at risk results for our trading activities. Any violations of such risk limits are reported to the Executive Risk Management Committee and the Board Risk Management Committee.

***Market Risk Management for Trading Activities***

We measure market risk from trading activities to monitor and control the risk of our business groups and teams that perform those activities. Our trading activities consist of:

trading activities for our own account to realize short-term trading profits in debt (primarily Won-denominated), equity and foreign exchange markets based on our forecasts of changes in market situation and customer demand; and

trading activities involving derivatives transactions, including interest rate and foreign exchange swaps, forwards, futures and options and, to a lesser extent, commodity derivatives, primarily to sell derivatives products to our customers and to hedge our own market risk.

Market risk arising from our trading activities can be subdivided into interest rate risk, foreign exchange risk, equity risk and commodity risk:

Interest rate risk is a significant risk to which our trading activities are exposed. This risk arises primarily from our debt securities. We set different risk limits for our interest rate risk for our trading and non-trading debt portfolios.



Foreign exchange risk arises from foreign currency-denominated assets and liabilities in both our trading and non-trading accounts and financial derivatives involving foreign currencies, which are not controlled separately on a trading and asset/liability management basis.

Equity risk arises from price and volatility fluctuations in equity securities and derivatives.

Commodity risk arises from price and volatility fluctuations in commodity derivatives.

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The following table shows the volume and types of our trading positions (including trust accounts) subject to market risk as of December 31, 2015, 2016 and 2017:

	2015	As of December 31,	
		2016	2017
(in millions of Won)			
Debt securities	2,354,266	2,644,916	2,644,334
Equity securities	70,418	40,442	21,666
Spot exchanges <sup>(1)</sup>	386,350	1,029,928	1,049,388
Derivatives <sup>(2)</sup>	5,246,017	6,235,454	6,627,055
<b>Total</b>	<b>8,057,051</b>	<b>9,950,740</b>	<b>10,342,443</b>

<sup>(1)</sup> Represents the overall net open currency position in each currency, which is the greater of (i) the sum of the absolute values of all short positions and (ii) the sum of the absolute values of all long positions.

<sup>(2)</sup> For over-the-counter derivatives, represents the absolute value of over-the-counter derivatives measured at fair value at the end of the relevant year. For exchange-traded derivatives, includes the amount of deposits and the collateral posted for such derivatives.

The Board Risk Management Committee monitors our market risk. The Board Risk Management Committee has established a maximum market risk appetite, which is defined as risk capital divided by available capital. Risk capital is a benchmark figure that determines the VaR limits, accumulated loss limits (for trading portfolios) and present value of a basis point (or PVBP) limits (for non-trading available-for-sale assets). Available capital generally consists of shareholder's equity. Using this benchmark, as of December 31, 2017, we have established market risk limits as shown in the following table:

VaR Limit	Trading Portfolio		Non-Trading Portfolio
	Accumulated Loss Limit		
	Quarter	Annual	PVBP Limit
(in billions of Won)			
14.4	59	118	4.8

We generally manage our market risk at the portfolio level. To control our exposure, we take into consideration the VaR limits, accumulated loss limits and PVBP limits set by the Board Risk Management Committee in determining our internal allocation of risk among our various portfolios. We also set stop loss limits with respect to particular types of transactions. We use an integrated market risk management system to manage market risks for our debt and equity trading operations. This system enables us to generate consistent VaR numbers for all of our trading activities.

In addition, we have 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. See Item 5.A. Operating Results Critical Accounting Policies Valuation of Financial Assets and Liabilities and Notes 2-(9)-5), 3-(3) and 11 of the notes to our consolidated financial statements. For example, our Risk Management Department reviews the existing pricing and valuation models on a regular basis, with a focus on their underlying modeling assumptions and restrictions, to assess the appropriateness of their continued use. In

consultation with our Trading Department, the Risk Management Department recommends potential valuation models to our Fair Value Evaluation Committee. Upon approval by our Fair Value Evaluation Committee, the selected valuation models are reported to the Board Risk Management Committee.

*Value at Risk analysis.* We use daily VaR to measure market risk. Our daily VaR is a statistically estimated maximum amount of loss that can occur for a day. We use a 99% confidence level to measure our daily VaR, which means the actual amount of loss may exceed the VaR, on average, once out of 100 business days. We use the historical simulation method which takes into account the diversification effects among different risk factors.

Although VaR is a commonly used market risk management technique, it has some inadequacies. Since it is a statistical approach, VaR estimates possible losses over a certain period at a particular confidence level using

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past market movement data. Past market movements, however, are not necessarily a good indicator of future events. Another problem with VaR is that the time periods used for the model, generally one or 10 days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, VaR may understate or overstate the potential loss. VaR is most appropriate as a risk measure for trading positions in liquid financial markets and will understate the risk associated with severe events, such as a period of extreme liquidity.

The following table shows our daily VaR as of December 31, 2015, 2016 and 2017 at a 99% confidence level for a one-day holding period, for interest rate risk, equity risk, foreign exchange risk and commodity risk relating to our trading activities.

	Interest Rate Risk	Foreign Exchange Risk	Equity Risk	Commodity Risk	Less: Diversification	VaR for Overall Trading Activities
	(in millions of Won)					
As of December 31, 2015	2,907	3,997	3,186	117	5,017	5,190
As of December 31, 2016	3,250	4,396	4,191	152	5,630	6,359
As of December 31, 2017	4,183	4,750	909	0	4,472	5,370

In 2015, 2016 and 2017, the average, high, low and ending amounts of daily VaR relating to our trading activities (at a 99% confidence level for a one-day holding period) were as follows:

	As of December 31, 2015	For the year ended December 31, 2015	As of December 31, 2016	For the year ended December 31, 2016	As of December 31, 2017	For the year ended December 31, 2017
	Average	Maximum Minimum	Average	Maximum Minimum	Average	Maximum Minimum
Interest risk	2,907	2,742 3,991 1,211	3,250	2,844 6,430 1,367	4,183	3,799 4,918 2,467
Foreign exchange risk	3,997	3,415 4,847 2,329	4,396	4,914 7,686 3,967	4,750	5,051 6,636 4,061
Equity risk	3,186	2,411 4,377 531	4,191	3,456 5,063 2,304	909	2,863 4,419 909
Commodity risk	117	102 218 5	152	113 325 21	0	31 188 0
Diversification	(5,017)	(3,858) (6,910) (411)	(5,630)	(5,355) (10,385) (4,034)	(4,472)	(4,621) (6,798) (2,067)
Total risk	5,190	4,812 6,523 3,665	6,359	5,972 9,119 3,625	5,370	7,123 9,363 5,370

The graph of daily 99% VaR relating to our trading activities in 2017 is as follows:

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*Standardized Method.* The standardized method is used to measure the market risk of the positions for which the Financial Supervisory Service has not approved the use of the VaR method. The following table shows the market risk capital charges measured using the standardized method as of December 31, 2015, 2016 and 2017:

<b>Risk categories</b>	<b>As of December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>(in millions of Won)</b>		
Interest risk	13,386	11,775	12,468
Equity risk	8,341	4,930	3,367
Foreign exchanges risk	2,991	18,265	19,658
Commodity risk	4,526	3,084	1,204
<b>Total</b>	<b>29,244</b>	<b>38,054</b>	<b>36,697</b>

*Back-testing.* We conduct back testing on a daily basis to validate the adequacy of our market risk management. In our back testing, we compare both the actual and hypothetical profit and loss with VaR calculations and analyze any results that fall outside our predetermined confidence interval of 99%. The number of times the actual changes in our profit and loss exceeded the VaR amounts in 2015, 2016 and 2017 was 0.

*Stress test.* In addition to VaR, we perform stress testing to measure market risk. As VaR assumes normal market situations, we assess our market risk exposure to abnormal market fluctuations through stress testing. Stress testing is an important way of supporting VaR since VaR is a statistical expression of possible loss under a given confidence level and holding period. It does not cover potential loss if the market moves in a manner that is outside our normal expectations. Stress testing projects the anticipated change in value of holding positions under certain scenarios assuming that we take no action during a stress event to change the risk profile of a portfolio. The following table shows the loss that would have occurred in our trading portfolio as of December 31, 2017 for assumed short-term extreme changes of a +/-20% change in the equity market and a +/-60 basis point change from interest rates prevailing in the market on that date, under an abnormal stress environment.

<b>(in billions of Won, except percentages)</b>						
<b>Equity Market Chart</b>						
Market fluctuation amount	(20)%	(10)%	(5)%	5%	10%	20%
	10.9	(4.5)	(3.3)	2.4	8.1	37.6

<b>(in billions of Won, except basis points)</b>						
<b>Interest Rate Chart</b>						
Basis point fluctuation amount	(60) basis points	(40) basis points	(20) basis points	20 basis points	40 basis points	60 basis points

0.7            0.4            0.2            (0.2)            (0.4)            (0.7)

*Stop loss limits.* The Board Risk Management Committee also approves total accumulated loss limits, and the heads of our relevant trading departments set their own stop loss limits with respect to particular types of transactions. We have stop loss limits for various trading activities, including:

for trading equity securities in Won, within 25% of the purchase price of such securities;

for trading fixed income securities in Won, within 5% of the purchase price of such securities;

for available-for-sale equity securities in Won, within 30% of the purchase price of such securities;

for available-for-sale fixed income securities in Won, within 10% of the purchase price of such securities;

for trading equity or fixed income securities in foreign currencies, within 5% of the purchase price of such securities; and

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for available-for-sale equity or fixed income securities in foreign currencies, within 15% of the purchase price of such securities.

*Interest Rate Risk*

Interest rate risk from trading activities arises mainly from our trading of Won-denominated debt securities. Our trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. As our trading accounts are marked-to-market daily, we manage our interest rate risk related to our trading accounts using market value-based tools such as VaR. See [Asset and Liability Management Interest Rate Risk](#).

*Foreign Exchange Risk*

Foreign exchange risk arises because we have assets, liabilities and off-balance sheet items such as foreign exchange forwards and currency swaps that are denominated in non-Won currencies. The difference between our foreign currency assets and liabilities is offset against forward foreign exchange positions to obtain our net foreign currency open position. We determine the maximum foreign exchange exposure for both trading and asset and liability management purposes by establishing a limit for this net foreign currency open position. Our Board Risk Management Committee also establishes VaR limits for our foreign exchange business.

Assets and liabilities denominated in U.S. dollars account for the majority of our foreign currency assets and liabilities. Those denominated in Japanese yen and the euro account for most of the remainder, the majority of which have been swapped into U.S. dollars.

We monitor changes in, and matches of, foreign-currency assets and liabilities in order to reduce exposure to currency fluctuations. We also manage risks relating to exchange rate fluctuations through foreign exchange dealing, including by our overseas branches. However, we conduct foreign exchange dealings primarily on behalf of our customers. Counterparties are restricted to domestic and foreign financial institutions and banks with respect to which we have established a foreign exchange dealing limit. We deal primarily in the Won/U.S. dollar market and such dealings are subject to what we believe are conservative daily maximum and closing limits and stop loss limits. The following table sets forth information concerning our limits on proprietary foreign exchange dealings as of December 31, 2017:

	<b>Won/U.S. Dollar Dealing Headquarters</b>		<b>Dealings in other currencies</b>			
	<b>Total</b>	<b>Individual</b>	<b>Headquarters</b>		<b>Overseas Branches</b>	
			<b>Total</b>	<b>Individual</b>	<b>Total</b>	<b>Individual</b>
	<b>(in millions of US\$)</b>					
Open position						
Daily maximum limit	US\$ 1,000	US\$ 200	US\$ 200	US\$ 50	US\$ 60	US\$ 15
Daily closing limit	200	50	100	20	30	6
Stop loss:						
Daily	2	0.5	0.8	0.15	0.24	0.045
Monthly	3	0.8	2	0.5	0.6	0.15

The following table shows our non-consolidated net open positions at the end of 2015, 2016 and 2017. Positive amounts represent long exposures and negative amounts represent short exposures.

	2015	As of December 31, 2016 (in millions of US\$)	2017
<b>Currency</b>			
U.S. dollar	US\$ (14.1)	US\$ (177.4)	US\$ (278.6)
Japanese yen	(72.2)	(8.4)	(22.6)
Euro	(7.9)	(76.9)	(266.6)
Others	(37.1)	138.3	148.9
Total	US\$ (131.3)	US\$ (124.4)	US\$ (418.9)



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### *Equity Risk*

Equity price risk and equity volatility risk result from our equity portfolio, which consists mainly of futures contracts and options and Won-denominated equity securities, as a result of the strict limits we have imposed with respect to VaR and accumulated loss limits, and stress test limits. Equity risk arises in the context of trading activities for our own accounts to realize short-term trading profits with respect to equity and trading activities involving certain derivatives transactions.

### *Commodity Risk*

Commodity risk represents exposures to instruments traded in the metals, petroleum, natural gas and other commodities markets, and arises principally from our trading of U.S. dollar-denominated commodity derivatives. We manage our commodity risk using VaR, accumulated loss and stress test limits.

### *Derivatives-Related Market Risk*

The Foreign Exchange Transaction Regulations of Korea provide that a foreign exchange bank (such as us) may generally enter into derivatives transactions without restriction so long as those transactions are not linked with credit risks of a party to the transaction or any third party. If they are, we must report the transaction to the Bank of Korea.

Most of the derivatives products that we trade are on behalf of our customers or to hedge our own positions. Our derivatives activities include interest rate and cross-currency swaps, foreign exchange forwards, stock index and interest rate futures, forward rate agreements and currency and over-the-counter equity options.

### *Asset and Liability Management*

Our principal market risk with respect to managing our assets and liabilities is interest rate risk. Interest rate risk arises due to mismatches in the maturities or re-pricing periods of rate-sensitive assets and liabilities, such as loans and deposits. Any imbalance of the maturity of our interest rate-sensitive assets and liabilities and the gap resulting from that imbalance may cause net interest income to be affected by changes in the prevailing level of interest rates. Our principal asset and liability management objectives are to generate stable net interest revenues and protect our asset value against interest rate fluctuations.

We use a standardized asset and liability management system for our Won- and foreign currency-denominated assets and liabilities. In addition, our system also allows us to manage the assets and liabilities in our trust accounts. Our system uses the historical scenario method to determine interest rate VaR, supplemented by modules to calculate and monitor our liquidity coverage ratio and net stable funding ratio.

### *Interest Rate Risk*

We manage interest rate risk based on rational interest rate forecasts, using gap analysis to measure the difference between interest-sensitive assets and interest-sensitive liabilities, and using simulations to calculate the effect of changing interest rates on income. We principally manage this risk by managing maturity and duration gaps between our interest-earning assets and interest-bearing liabilities.

We measure interest rate risk for Won and foreign currency assets and liabilities, including derivatives and principal guaranteed trust accounts. Most of our interest-earning assets and interest-bearing liabilities are denominated in Won and our foreign currency-denominated assets and liabilities are mostly denominated in U.S. dollars. We believe,

however, that our interest rate sensitivity is limited with respect to our Won-denominated assets. Deposits in Won generally bear fixed rates of interest for fixed time periods (other than deposits payable on demand which constituted approximately 45.7% of our total deposits in Won as of December 31, 2017). We generally adjust the interest rates on these deposits when they are rolled over. In addition, as of December 31, 2017, 97.6% of those deposits had current maturities of one year or less. As of December 31, 2017, approximately 65.4% of our Won-denominated loans bore floating rates of interest, and 54.4% of those loans had current maturities of one year or less.

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Interest rate gap analysis measures expected changes in net interest revenues by calculating the difference in the amounts of interest-earning assets and interest-bearing liabilities at each maturity and interest resetting date. We perform interest rate gap analysis for Won and foreign currency-denominated assets on a monthly basis.

*Interest Rate Gap Analysis.* For interest rate gap analysis we use or assume the following maturities for different assets and liabilities:

With respect to maturities of assets, for prime rate-linked loans, we apply the actual maturities of each loan; furthermore, we assume the reserves with the Bank of Korea and loans and securities classified as substandard or below to have maximum remaining maturities.

With respect to maturities of liabilities, for demand deposits with no fixed maturities, a portion of the demand deposits are recognized to have maturities of less than three months as calculated in accordance with Financial Services Commission guidelines.

Our Board Risk Management Committee's interest rate risk limit generally requires that our earnings at risk for Won-denominated accounts be within 10% of our estimated net interest income for a one-year period. We calculate VaR through our standardized asset and liability management system, which uses the historical scenario method to simulate the current portfolio's net asset value for a one-year holding period at a 99.9% confidence level.

The following tables show, on a non-consolidated basis pursuant to the guidelines of the Financial Supervisory Service, the interest rate gap for our Won-denominated accounts and foreign currency-denominated accounts as of December 31, 2017:

	As of December 31, 2017					Total
	0-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	
	(in billions of Won, except percentages)					
<b>Won-denominated accounts:</b>						
<b>Interest rate-sensitive assets</b>						
Free interest rate	11,326	7,793	9,649	20,927	21,113	70,808
Market interest rate	119,845	33,779	8,922	11,109	3,389	177,044
Interest rate pegged to customer deposit	56	47	68	10	1	182
<b>Total</b>	131,227	41,619	18,639	32,046	24,503	248,034
<b>Interest rate-sensitive liabilities</b>						
Free interest rate	23,918	7,954	8,664	14,999	13,737	69,272
Market interest rate	59,259	22,552	34,306	350	41,375	157,842
<b>Total</b>	83,177	30,506	42,970	15,349	55,112	227,114
<b>Sensitivity gap</b>	48,050	11,113	(24,331)	16,697	(30,609)	20,920
<b>Cumulative gap</b>	48,050	59,163	34,832	51,529	20,920	20,920

<b>% of total assets<sup>(1)</sup></b>	18.02	22.19	13.06	19.32	7.84	7.84
<b>Total assets in Won</b>						266,680

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	As of December 31, 2017					
	0-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Total
	(in millions of US\$, except percentages)					
<b>Foreign currency-denominated accounts:</b>						
<b>Interest rate-sensitive assets</b>						
Free interest rate	US\$ 0	US\$ 0	US\$ 0	US\$ 0	US\$ 0	US\$ 0
Market interest rate	16,504	1,960	371	1,118	315	20,268
Interest rate pegged to customer deposit	0	0	0	0	0	0
<b>Total</b>	<b>US\$ 16,504</b>	<b>US\$ 1,960</b>	<b>US\$ 371</b>	<b>US\$ 1,118</b>	<b>US\$ 315</b>	<b>US\$ 20,268</b>
<b>Interest rate-sensitive liabilities</b>						
Free interest rate	US\$ 0	US\$ 0	US\$ 0	US\$ 0	US\$ 0	US\$ 0
Market interest rate	9,855	825	940	980	3,104	15,704
<b>Total</b>	<b>US\$ 9,855</b>	<b>US\$ 825</b>	<b>US\$ 940</b>	<b>US\$ 980</b>	<b>US\$ 3,104</b>	<b>US\$ 15,704</b>
<b>Sensitivity gap</b>	<b>6,649</b>	<b>1,135</b>	<b>(569)</b>	<b>138</b>	<b>(2,789)</b>	<b>4,564</b>
<b>Cumulative gap</b>	<b>6,649</b>	<b>7,784</b>	<b>7,215</b>	<b>7,353</b>	<b>4,564</b>	<b>4,564</b>
<b>% of total assets<sup>(1)</sup></b>	<b>23.70%</b>	<b>27.74%</b>	<b>25.72%</b>	<b>26.21%</b>	<b>16.27%</b>	<b>16.27%</b>
<b>Total assets in US\$</b>						<b>US\$ 28,054</b>

(1) Represents the cumulative gap as a percentage of total assets.

*Duration Gap Analysis.* We also perform a duration gap analysis to measure and manage our interest rate risk. Duration gap analysis is a more long-term risk indicator than interest rate gap analysis, as interest rate gap analysis focuses only on accounting income and not on the market value of the assets and liabilities. We emphasize duration gap analysis because, in the long run, our principal concern with respect to interest rate fluctuations is the net asset value rather than net interest revenue changes.

For duration gap analysis, we use or assume the same maturities for different assets and liabilities that we use or assume for our interest rate gap analysis.

The following table shows, with respect to our Won-denominated assets and liabilities, duration gaps and net asset value changes when the interest rate increases by one percentage point as of the specified dates:

Date	Interest-bearing asset duration (in years)	Interest-bearing liability duration (in years)	Total asset/liability duration gap (in years)	Net asset value change (in billions of Won)
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June 30, 2015	0.92	0.75	0.23	529
December 31, 2015	0.91	0.77	0.21	505
June 30, 2016	0.93	0.76	0.24	618
December 31, 2016	0.85	0.74	0.17	423
June 30, 2017	0.84	0.78	0.12	292
December 31, 2017	0.82	0.78	0.11	259

We set interest rate risk limits using the historical simulation method, which uses actual historical price, volatility and yield changes in comparison with the current position to generate hypothetical portfolios and calculate a distribution of position and portfolio market value changes. The following table shows our interest rate VaR with respect to our Won-denominated assets and liabilities for each of the quarters since the fourth quarter of 2016:

	<b>Fourth Quarter 2016</b>	<b>First Quarter 2017</b>	<b>Second Quarter 2017</b>	<b>Third Quarter 2017</b>	<b>Fourth Quarter 2017</b>
	<b>(in billions of Won, except percentages)</b>				
Interest rate VaR	237.6	335.0	354.6	372.0	394.5

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Gap analysis reports, duration gap analysis reports and interest rate limit compliance reports prepared by our risk management groups are reviewed by our Executive Risk Management Committee on a monthly basis and submitted to the Board Risk Management Committee on a quarterly basis.

*Foreign Exchange Risk*

We manage foreign exchange rate risk arising in connection with the management of our assets and liabilities together with such risks arising from our trading operations. See *Market Risk Management for Trading Activities Foreign Exchange Risk* above.

**Liquidity Risk Management**

Liquidity risk is the risk of insolvency or loss due to disparity between inflow and outflow of funds such as maturity mismatch, including having to obtain funds at a high price or to dispose of securities at an unfavorable price due to lack of available funds. We manage our liquidity in order to meet our financial liabilities from withdrawals of deposits, redemption of matured debentures and repayments at maturity of borrowed funds. We also require sufficient liquidity to fund loans and extend other forms of credits, as well as to make investments in securities. Our Board Risk Management Committee establishes liquidity policies and monitors liquidity on an on-going basis. We make constant adjustment to take into account variables affecting our liquidity levels. Our risk management groups review the uses and sources of funds on a daily basis, taking into consideration the various goals of our respective business groups. Our liquidity management goal is to be able, even under adverse conditions, to meet all our liability repayments on time and fund all investment opportunities.

We maintain diverse sources of liquidity to facilitate flexibility in meeting our funding requirements. We fund our 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. We use the majority of funds raised by us to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

In managing liquidity risk, we determine gap limits, implement those limits and monitor maturity gaps using our asset and liability management system. We also establish gap limits for liquidity management purposes. Our three-month accumulated gap limits for banking and trust accounts are between (10)% and 10%. In the foreign currency account, the limit for a one-week gap has been set as (3)% or higher and as (10)% or higher for a one-month gap.

Liquidity is maintained by holding sufficient quantities of assets that can be liquidated to meet actual or potential demands for funds from depositors and others. Liquidity is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds we believe we can raise when required. We seek to minimize our liquidity costs by managing our liquidity position on a daily basis and by limiting the amount of cash at any time that is not invested in interest-earning assets or securities.

The Financial Services Commission uses the liquidity coverage ratio, defined as the ratio of highly liquid assets to total net cash outflows over a 30-day period, as the principal liquidity risk management measure and currently requires each Korean bank to:

maintain a liquidity coverage ratio of not less than 95% from January 1, 2018 to December 31, 2018, subject to certain exceptions, with such minimum liquidity coverage ratio to increase to 100% in 2019;

maintain a foreign currency liquidity coverage ratio of not less than 70% from January 1, 2018 until December 31, 2018, with such minimum foreign currency liquidity coverage ratio to increase to 80% in 2019; provided, however, that the foreign currency liquidity ratio (defined as the ratio of foreign currency assets due within three months to foreign currency liabilities due within three months) would apply if the amount of foreign currency assets and the ratio of foreign currency liabilities to total liabilities are less than the respective amount and ratio specified under the Bank Act and the regulations thereunder; and

submit monthly reports with respect to the maintenance of these ratios.



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As of December 31, 2017, our 30-day liquidity coverage ratio was 100.87%, above the Financial Services Commission's standard of 95%.

The following table shows the liquidity status, on a cumulative basis, and limits for our foreign currency accounts on a non-consolidated basis as of December 31, 2017 in accordance with the Financial Services Commission's regulations:

	7 days or less	8 days	1 month	3 months or less
	(in millions of US\$)			
<b>Foreign currency accounts:</b>				
Foreign currency assets	US\$ 14,366	US\$ 14,508		US\$ 44,022
Foreign currency liabilities	10,468	15,106		38,990
Maturity gap	3,898	-598		5,032
Cumulative gap (A)	3,898	3,300		5,032
Total assets (B)	97,532	97,532		97,532
Liquidity gap ratio (A/B)	4.00%	3.38%		112.91% <sup>(1)</sup>
Limits	(3)%	(10)%		85%

<sup>(1)</sup> Liquidity ratio, calculated as foreign currency assets as a percentage of foreign currency liabilities.

Our Executive Risk Management Committee receives reports regarding our liquidity ratios and liquidity gap ratios on a monthly basis. Based on those reports, our Risk Management Department reports these results to the Board Risk Management Committee on a quarterly basis.

**Operational Risk Management**

Operational risk is difficult to quantify and subject to different definitions. We define our operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

To monitor and control operational risks, we maintain a system of comprehensive policies and have put in place a control framework designed to provide a stable and well-managed operational environment throughout our organization. Several bodies are responsible for managing our operational risk, including our compliance department, the Risk Management Committee and the risk management group. In order to manage operational risk, we have implemented a multi-step operational risk management process consisting of engaging in risk self-assessment, establishing key risk indicators, operating an early warning system, managing loss data, measuring operational risk capital, monitoring and reporting risks, promoting a strong risk management culture and developing action plans. We have also established policies to change operational risk profiling, select permitted levels of risk, develop action plans and manage results.

We consider legal risk as a part of our operational risk. The uncertainty of the enforceability of the obligations of our customers and counterparties, including foreclosure on collateral, creates legal risk. Legal risk is higher in new areas of business where the law is often untested in the courts although such risk can also increase in our traditional business to the extent that the legal and regulatory landscape in Korea is changing and many new laws and regulations governing the banking industry remain untested. Our legal department seeks to minimize legal risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorized and

consulting legal advisers. Our internal auditors also review loan documentation to ensure that these are correctly drawn up to withstand scrutiny in court should such scrutiny occur.

In connection with our disaster recovery capabilities, we are in the process of meeting the guidelines suggested by the Financial Services Commission. These generally require that our disaster and recovery capabilities enable us to recover data and resume operations within three hours.

The majority of our information technology systems are operated by our subsidiary, Woori FIS. We currently have a mirror site in operation which backs up transaction information on a real-time basis. We also

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have a back-up site in operation, which backs up transaction information on a daily basis. See Item 3.D. Risk Factors Other risks relating to our business We may experience disruptions, delays and other difficulties from our information technology systems.

**Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**  
**Fees and Charges**

Under the terms of the deposit agreement, as a holder of our ADSs, you are required to pay the following service fees to the depository:

<b>Services</b>	<b>Fees</b>
Issuance of ADSs	Up to \$0.05 per ADS issued
Surrender of ADSs	Up to \$0.05 per ADS surrendered
Distribution of cash dividends or other cash distributions	Up to \$0.05 per ADS held
Distribution of ADSs pursuant to (i) stock dividends or other free stock distributions, or (ii) exercise of the rights to purchase additional ADSs	Up to \$0.05 per ADS held
Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to \$0.05 per ADS held
Depository Services	Up to \$0.05 per ADS held on the applicable record date established by the depository

As a holder of our ADSs, you are also responsible for paying certain fees and expenses incurred by the depository and certain taxes and governmental charges such as:

Fees for the transfer and registration of shares charged by the registrar and transfer agent for the shares in Korea (*i.e.*, upon deposit and withdrawal of shares).

Expenses incurred for converting foreign currency into U.S. dollars.

Fees and expenses incurred in connection with compliance with exchange control regulations and other applicable regulatory requirements.

Expenses for cable, telex and fax transmissions and for delivery of securities.

Taxes and duties upon the transfer of securities (i.e., when shares are deposited or withdrawn from deposit).

Fees and expenses incurred in connection with the delivery or servicing of shares on deposit.

Depository fees payable upon the issuance and cancellation of ADSs are typically paid to the depository by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depository and by the brokers (on behalf of their clients) delivering the ADSs to the depository for cancellation. The brokers in turn charge these fees to their clients. Depository fees payable in connection with distributions of cash or securities to ADS holders and the depository services fee are charged by the depository to the holders of record of ADSs as of the applicable ADS record date.

The depository fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividend, rights), the depository charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depository sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via the Depository Trust Company, or DTC), the depository generally collects its fees through the systems provided by

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DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary.

In the event of refusal to pay the depositary fees, the depositary may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to such holder of ADSs.

Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary. You will receive prior notice of such changes.

### **Fees and Payments from the Depositary to Us**

In 2017, pursuant to an agreement with us, the depositary waived, or made payments to third parties of, approximately \$17,815 (net of applicable taxes) in the aggregate in connection with proxy process expenses (including printing, postage and distribution expenses), contributions towards investor relations efforts (including investor relations agency fees) and other standard out-of-pocket maintenance costs relating to our ADS facility that were payable by us.

In addition, as part of its service to us, the depositary waives its fees for the standard costs and operating expenses associated with the administration of the ADS facility.

### **Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

**Not Applicable**

### **Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

**Not Applicable**

### **Item 15. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

We have evaluated, with the participation of our chief executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2017. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and principal financial officer concluded that our disclosure controls and procedures as of December 31, 2017 were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

**Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements in accordance with IFRS as issued by the IASB. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation and may

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not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorization, assets are safeguarded, and financial records are reliable. Our management also takes steps to ensure that information and communication flows are effective and to monitor performance, including performance of internal control procedures.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017 based on the criteria established in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission in May 2013.

Based on this assessment, management believes that, as of December 31, 2017, our internal control over financial reporting is effective.

The effectiveness of our internal control over financial reporting as of December 31, 2017 has been audited by Deloitte Anjin LLC, an independent registered public accounting firm, as stated in its report included herein which expressed an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2017.

## **Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting during 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **Item 16. RESERVED**

### **Item 16A. *Audit Committee Financial Expert***

Our board of directors has determined that each of Dong-Woo Chang and Sang-Hoon Shin, our outside directors and members of our Audit Committee, qualifies as an audit committee financial expert and is independent within the meaning of this Item 16A.

### **Item 16B. *Code of Ethics***

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Exchange Act. Our code of ethics applies to our chief executive officer, principal financial officer and persons performing similar functions as well as to our outside directors and other officers and employees. Our code of ethics is available on our website at <http://www.wooribank.com>. If we amend the provisions of our code of ethics that apply to our chief executive officer and principal financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

**Item 16C. Principal Accountant Fees and Services**

The following table sets forth the fees billed to us by our independent registered public accountants, Deloitte Anjin LLC, the member firms of Deloitte Touche Tohmatsu Limited, and their respective affiliates (which we refer to collectively as Deloitte), during the fiscal years ended December 31, 2015, 2016 and 2017:

	<b>Year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>(in millions of Won)</b>		
Audit fees	3,272	3,405	3,590
Audit-related fees	202	121	
Tax fees	163	170	169
All other fees			
<b>Total fees</b>	<b>3,637</b>	<b>3,696</b>	<b>3,496</b>



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Audit fees in the above table are the aggregate fees billed or expected to be billed by Deloitte in connection with the audit of our annual financial statements, the review of our interim financial statements, the review of filings with the U.S. Securities and Exchange Commission and audit of the effectiveness of our internal control over financial reporting.

Audit-related fees in the above table are the aggregate fees billed or expected to be billed by Deloitte for agreed upon procedures related to the issuance of comfort letters in connection with the issuance of debt securities.

Tax fees in the above table are fees billed or expected to be billed by Deloitte for assistance in the preparation of certain tax returns and other tax advice.

## **Audit Committee Pre-Approval Policies and Procedures**

Our Audit Committee pre-approves all audit services to be provided by Deloitte Anjin LLC, our independent auditors. Our Audit Committee's policy regarding the pre-approval of non-audit services to be provided to us by our independent auditors is that all such services shall be pre-approved by our Audit Committee. Non-audit services that are prohibited to be provided to us by our independent auditors under the rules of the SEC and applicable law may not be pre-approved. In addition, prior to the granting of any pre-approval, our Audit Committee must be satisfied that the performance of the services in question will not compromise the independence of our independent auditors. Our Audit Committee also pre-approves the selection or replacement of the independent auditors of our subsidiaries.

Our Audit Committee did not pre-approve any non-audit services under the *de minimis* exception of Rule 2-01(c)(7)(i)(C) of Regulation S-X as promulgated by the U.S. Securities and Exchange Commission.

## **Item 16D. *Exemptions from the Listing Standards for Audit Committees***

Not Applicable

## **Item 16E. *Purchase of Equity Securities by the Issuer and Affiliated Purchasers***

Neither we nor any affiliated purchaser, as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

## **Item 16F. *Change in Registrant's Certifying Accountant***

Not Applicable

## **Item 16G. *Corporate Governance***

### **Differences in Corporate Governance Practices**

Pursuant to the rules of the New York Stock Exchange applicable to foreign private issuers like us that are listed on the New York Stock Exchange, we are required to disclose significant differences between the New York Stock Exchange's corporate governance standards and those that we follow under Korean law. The following is a summary

of such significant differences.

**NYSE Corporate Governance Standards**

**Director Independence**

Listed companies must have a majority of independent directors.

**Executive Session**

Non-management directors must meet in regularly scheduled executive sessions without management.

**Woori Bank**

The majority of our board of directors is independent (as defined in accordance with the New York Stock Exchange's standards), as five of our eight directors are outside directors.

Our outside directors hold quarterly meetings, which coincide with the quarterly Audit Committee

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Independent directors should meet alone in an executive session at least once a year.

**Nomination/Corporate Governance Committee**

A nomination/corporate governance committee of independent directors is required. The committee must have a charter that addresses the purpose, responsibilities (including development of corporate governance guidelines) and annual performance evaluation of the committee.

**Compensation Committee**

A compensation committee of independent directors is required. The committee must have a charter that addresses the purpose, responsibilities and annual performance evaluation of the committee. The charter must be made available on the company's website. In addition, in accordance with the SEC rules adopted pursuant to Section 952 of the Dodd-Frank Act, NYSE listing standards were amended to expand the factors relevant in determining whether a committee member has a relationship to the company that will materially affect that member's duties to the compensation committee.

Additionally, the committee may obtain or retain the advice of a compensation adviser only after taking into consideration all factors relevant to determining that adviser's independence from management.

**Audit Committee**

Listed companies must have an audit committee that satisfies the independence and other requirements of Rule 10A-3 under the Exchange Act. All members must be independent. The committee must have a charter addressing the committee's purpose, an annual performance evaluation of the committee, and the duties and responsibilities of the committee. The charter must be made available on the company's website.

**Audit Committee Additional Requirements**

Listed companies must have an audit committee that is composed of at least three directors.

**Shareholder Approval of Equity Compensation Plan**

Listed companies must allow its shareholders to exercise their voting rights with respect to any material revision to the company's equity compensation plan.

meetings, to discuss matters relating to management issues. The Audit Committee consists of two outside directors and one standing director.

We have established a separate Board of Directors Management Committee, which consists of one standing director, one non-standing director and five outside directors.

We maintain a Compensation Committee consisting of one non-standing director and five outside directors.

We maintain an Audit Committee comprised of two outside directors and one standing director, all of whom are independent. Accordingly, we are in compliance with Rule 10A-3 under the Exchange Act.

Our Audit Committee has three members, as described above.

We currently have one equity compensation plan, providing for the grant of stock options to officers and directors.

All material matters related to the granting of stock

options are provided in our articles of incorporation, and any amendments to the articles of incorporation are subject to shareholders' approval.

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**Corporate Governance Guidelines**

Listed companies must adopt and disclose corporate governance guidelines.

We have adopted corporate governance standards, the Korean-language version of which is available on our website.

**Code of Business Conduct and Ethics**

Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

We have adopted a Code of Ethics and Business Conduct for Employees, the Korean-language version of which is available on our website.

**Item 16H. *Mine Safety Disclosure***  
**Not Applicable**

**Item 17. FINANCIAL STATEMENTS**  
**Not Applicable**

**Item 18. FINANCIAL STATEMENTS**  
Reference is made to Item 19(a) for a list of all financial statements filed as part of this annual report.

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(a) List of financial statements:

	<b>Page</b>
<b>Audited consolidated financial statements of Woori Bank and subsidiaries prepared in accordance with IFRS as issued by the IASB</b>	
<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Statements of Financial Position as of December 31, 2016 and 2017</u>	F-3
<u>Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2015, 2016 and 2017</u>	F-4
<u>Consolidated Statements of Changes in Equity for the Years Ended December 31, 2015, 2016 and 2017</u>	F-5
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2016 and 2017</u>	F-7
<u>Notes to Consolidated Financial Statements</u>	F-9

## (b) Exhibits

Pursuant to the rules and regulations of the U.S. Securities and Exchange Commission, we have filed certain agreements as exhibits to this Annual Report on Form 20-F. These agreements may contain representations and warranties made by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may be intended not as statements of fact, but rather as a way of allocating the risk to one of the parties to such agreements if those statements turn out to be inaccurate, (ii) may have been qualified by disclosures that were made to such other party or parties and that either have been reflected in the company's filings or are not required to be disclosed in those filings, (iii) may apply materiality standards different from what may be viewed as material to investors and (iv) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments. Accordingly, these representations and warranties may not describe our actual state of affairs at the date of this annual report.

<b>Number</b>	<b>Description</b>
1.1*	<u>Articles of Incorporation of Woori Bank (translation in English).</u>
2.1**	<u>Form of Stock Certificate of Woori Bank's common stock, par value 5,000 per share (translation in English).</u>
2.2***	<u>Form of Deposit Agreement among Woori Bank, Citibank, N.A., as depositary, and all holders and beneficial owners of American depositary shares evidenced by American depositary receipts, including the form of American depositary receipt.</u>
4.1****	<u>Agreement between the Korea Deposit Insurance Corporation and Woori Bank in Connection with the Sale of Woori Bank Shares (translation in English).</u>
8.1*****	<u>List of subsidiaries of Woori Bank.</u>
11.1**	<u>Code of Ethics (translation in English).</u>
12.1	<u>Section 302 certifications.</u>
13.1	<u>Section 906 certifications.</u>

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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- \* Incorporated by reference to exhibit 1.1 to the Annual Report on Form 20-F (File No. 001-31811), filed on April 27, 2017.
- \*\* Incorporated by reference to the corresponding exhibit to the Annual Report on Form 20-F (File No. 001-31811), filed on April 30, 2015.
- \*\*\* Incorporated by reference to exhibit (a) to the Registration Statement on Form F-6 (File No. 333-199370), filed on October 15, 2014.
- \*\*\*\* Incorporated by reference to exhibit 4.1 to the Annual Report on Form 20-F (File No. 001-31811), filed on April 27, 2017.
- \*\*\*\*\* Incorporated by reference to Note 1 of the notes to the consolidated financial statements of the registrant included in this Annual Report.



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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Woori Bank

(Registrant)

/s/ Tae-Seung Sohn  
(Signature)

**Tae-Seung Sohn**  
**President and Chief Executive Officer**  
(Name/Title)

Date: April 30, 2018

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the shareholders and the Board of Directors of Woori Bank

**Opinion on Internal Control over Financial Reporting**

We have audited the internal control over financial reporting of Woori Bank and subsidiaries (the Group) as of December 31, 2017, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2017 of the Group and our report dated April 30, 2018, expressed an unqualified opinion on those financial statements.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may

deteriorate.

/s/ DELOITTE ANJIN LLC

Seoul, Korea

April 30, 2018

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the shareholders and the Board of Directors of Woori Bank

**Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of the financial position of Woori Bank and subsidiaries (the Group) as of December 31, 2016 and 2017, the related consolidated statements of comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2017 (all expressed in Korean Won), and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2016 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Group's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 30, 2018, expressed an unqualified opinion on the Group's internal control over financial reporting.

**Basis for Opinion**

These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the Group's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE ANJIN LLC

Seoul, Korea

April 30, 2018

We have served as the Company's auditor since 2002.

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**WOORI BANK AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2016 AND 2017**

	<b>Korean Won</b>	<b>Korean Won</b>	<b>U.S. Dollars</b>
	<b>December 31,</b>	<b>December 31,</b>	<b>December 31,</b>
	<b>2016</b>	<b>2017</b>	<b>2017</b>
	<b>(in millions)</b>		<b>(in</b>
			<b>thousands)</b>
			<b>(Note 2)</b>
<b>ASSETS</b>			
Cash and cash equivalents (Note 6)	7,591,324	6,908,286	6,471,947
Financial assets at fair value through profit or loss			
(Notes 4,7,11,12,18 and 26)	5,650,724	5,843,077	5,474,019
Available-for-sale financial assets (Notes 4,8,11,12 and 18)	20,817,583	15,352,950	14,383,232
Held-to-maturity financial assets (Notes 4,9,11,12 and 18)	13,910,251	16,749,296	15,691,383
Loans and receivables (Notes 4,10,11,12,18 and 45)	258,392,633	267,106,204	250,235,337
Investments in joint ventures and associates (Note 13)	439,012	417,051	390,709
Investment properties (Note 14)	358,497	371,301	347,849
Premises and equipment (Notes 15 and 18)	2,458,025	2,477,545	2,321,059
Intangible assets and goodwill (Note 16)	483,739	518,599	485,844
Assets held for sale (Note 17)	2,342	48,624	45,553
Current tax assets (Note 42)	6,229	4,722	4,424
Deferred tax assets (Note 42)	232,007	280,130	262,436
Derivative assets (Notes 4,11,12 and 26)	140,577	59,272	55,529
Net defined benefit assets (Note 24)	70,938		
Other assets (Notes 19 and 45)	128,846	158,404	148,399
<b>Total assets</b>	<b>310,682,727</b>	<b>316,295,461</b>	<b>296,317,720</b>
<b>LIABILITIES</b>			
Financial liabilities at fair value through profit or loss			
(Notes 4,11,12,20 and 26)	3,803,358	3,427,909	3,211,397
Deposits due to customers (Notes 4,11,21 and 45)	221,020,411	234,695,084	219,871,357
Borrowings (Notes 4,6,11,12 and 22)	18,769,515	14,784,706	13,850,880
Debentures (Notes 4,6,11 and 22)	23,565,449	27,869,651	26,109,358
Provisions (Notes 23, 44 and 45)	428,477	410,470	384,544
Net defined benefit liability (Note 24)	64,666	43,264	40,531
Current tax liabilities (Note 42)	171,192	232,600	217,909
Deferred tax liabilities (Note 42)	22,023	22,681	21,249
Derivative liabilities (Notes 4,11,12 and 26)	7,221	67,754	63,475
Other financial liabilities (Notes 4,11,12, 25 and 45)	21,985,086	13,892,461	13,014,991

Other liabilities (Notes 25 and 45)	299,376	283,981	266,041
Total liabilities	290,136,774	295,730,561	277,051,732
<b>EQUITY</b>			
Owners equity:	20,386,160	20,365,892	19,079,549
Capital stock (Note 28)	3,381,392	3,381,392	3,167,818
Hybrid securities (Note 29)	3,574,896	3,017,888	2,827,273
Capital surplus (Note 28)	286,331	285,880	267,824
Other equity (Note 30)	(1,468,025)	(1,939,274)	(1,816,787)
Retained earnings (Notes 31 and 32)	14,611,566	15,620,006	14,633,421
Non-controlling interests	159,793	199,008	186,439
Total equity	20,545,953	20,564,900	19,265,988
Total liabilities and equity	310,682,727	316,295,461	296,317,720

See notes to consolidated financial statements.

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## WOORI BANK AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

## FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

	Korean Won			U.S. Dollars
	2015	2016	2017	2017
	(in millions, except for per share data)			(in thousands, except per share data) (Note 2)
Interest income	8,698,235	8,512,312	8,550,687	8,010,611
Interest expense	(3,936,335)	(3,492,768)	(3,330,037)	(3,119,707)
<b>Net interest income</b> (Notes 34 and 45)	<b>4,761,900</b>	<b>5,019,544</b>	<b>5,220,650</b>	<b>4,890,904</b>
Fees and commissions income	1,757,340	1,865,470	2,069,198	1,938,504
Fees and commissions expense	(780,544)	(928,339)	(998,732)	(935,651)
<b>Net fees and commissions income</b> (Notes 35 and 45)	<b>976,796</b>	<b>937,131</b>	<b>1,070,466</b>	<b>1,002,853</b>
Dividend income (Note 36)	102,923	184,510	124,992	117,097
Net gain (loss) on financial instruments at fair value through profit or loss (Note 37)	240,342	114,387	(104,827)	(98,206)
Net gain (loss) on available-for-sale financial assets (Note 38)	(3,281)	(1,035)	192,708	180,536
Impairment losses due to credit loss (Notes 39 and 45)	(966,646)	(834,076)	(785,133)	(735,543)
General and administrative expenses (Notes 40 and 45)	(3,150,387)	(3,478,476)	(3,530,801)	(3,307,789)
Net other operating expenses (Notes 40 and 45)	(610,061)	(367,779)	(31,313)	(29,334)
<b>Operating income</b>	<b>1,351,586</b>	<b>1,574,206</b>	<b>2,156,742</b>	<b>2,020,518</b>
Share of losses of joint ventures and associates (Note 13)	(70,124)	(19,507)	(101,514)	(95,102)
Other net non-operating income (expense) (Note 41)	170,484	(1,310)	(105,722)	(99,044)
<b>Non-operating income (loss)</b>	<b>100,360</b>	<b>(20,817)</b>	<b>(207,236)</b>	<b>(194,146)</b>
<b>Net income before income tax expense</b>	<b>1,451,946</b>	<b>1,553,389</b>	<b>1,949,506</b>	<b>1,826,372</b>
Income tax expense (Note 42)	(376,554)	(275,856)	(419,418)	(392,927)
<b>Net income</b>	<b>1,075,392</b>	<b>1,277,533</b>	<b>1,530,088</b>	<b>1,433,445</b>
Remeasurement of the net defined benefit liability	(78,267)	34,162	10,497	9,834
<b>Items that will not be reclassified to profit or loss</b>	<b>(78,267)</b>	<b>34,162</b>	<b>10,497</b>	<b>9,834</b>
Gain (loss) on available-for-sale financial assets	72,297	12,586	(84,498)	(79,161)
Share of other comprehensive income (loss) of joint ventures and associates	3,295	(7,937)	612	574
	33,837	28,712	(208,329)	(195,171)

Gain on foreign currency translation of foreign operations				
Gain (loss) on valuation of cash flow hedge		10,371	777	728
Equity related to assets held for sale			4,145	3,883
<b>Items that may be reclassified to profit or loss</b>	<b>109,429</b>	<b>43,732</b>	<b>(287,293)</b>	<b>(269,147)</b>
<b>Other comprehensive income (loss), net of tax</b>	<b>31,162</b>	<b>77,894</b>	<b>(276,796)</b>	<b>(259,313)</b>
<b>Total comprehensive income</b>	<b>1,106,554</b>	<b>1,355,427</b>	<b>1,253,292</b>	<b>1,174,132</b>
<b>Net income attributable to:</b>				
Net income attributable to owners	1,059,157	1,261,266	1,512,148	1,416,638
Net Income (loss) attributable to non-controlling interests	16,235	16,267	17,940	16,807
<b>Total comprehensive income attributable to:</b>				
Comprehensive income attributable to owners	1,094,870	1,332,614	1,249,057	1,170,164
Comprehensive income (loss) attributable to non-controlling interests	11,684	22,813	4,235	3,969
<b>Basic and diluted earnings from continuing and discontinued operations per share (Note 43)(Unit: Korean Won and U.S. Dollar)</b>	<b>1,301</b>	<b>1,567</b>	<b>1,999</b>	<b>1,873</b>
<b>Basic and diluted earnings from continuing operations per share (Note 43) (Unit: Korean Won and U.S. Dollar)</b>	<b>1,301</b>	<b>1,567</b>	<b>1,999</b>	<b>1,873</b>

See notes to consolidated financial statements.



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**WOORI BANK AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

	Capital stock	Hybrid securities	Capital surplus	Other equity (Korean Won in millions)	Retained earnings	Owners equity	Non- controlling interests	Total equity
<b>January 1, 2015</b>	3,381,392	2,538,823	291,066	(2,393,138)	14,165,358	17,983,501	109,924	18,093,425
Net income					1,059,157	1,059,157	16,235	1,075,392
Dividends					(504,952)	(504,952)	(824)	(505,776)
Change in ownership interest of investments in consolidated subsidiaries and others			3,193			3,193	660	3,853
Gain (loss) on valuation of available-for-sale financial assets				73,691		73,691	(1,394)	72,297
Share of other comprehensive income of joint ventures and associates				3,295		3,295		3,295
Gain (loss) on foreign currencies translation of foreign operations				36,932		36,932	(3,095)	33,837
Remeasurement of the net defined benefit liability				(78,204)		(78,204)	(63)	(78,267)
Dividends to hybrid securities					(183,320)	(183,320)		(183,320)
Issuance of hybrid securities		795,179				795,179		795,179
Retirement of treasury stock				3,481	(3,481)			
				806,640	(806,640)			

Appropriation of  
merger losses

<b>December 31, 2015</b>								
	<b>Capital stock</b>	<b>Hybrid securities</b>	<b>Capital surplus</b>	<b>Other equity</b>	<b>Retained earnings</b>	<b>Owners equity</b>	<b>Non- controlling interests</b>	<b>Total equity</b>
<b>January 1, 2016</b>	3,381,392	3,334,002	294,259	(1,547,303)	13,726,122	19,188,472	121,443	19,309,915
Net income					1,261,266	1,261,266	16,267	1,277,533
Dividends					(168,317)	(168,317)	(1,286)	(169,603)
Change in capital surplus of consolidated subsidiaries			(7,928)	7,930			2	2
Changes in non-controlling interests due to acquisition of subsidiary							16,823	16,823
Gain on valuation of available-for-sale financial assets				12,296		12,296	290	12,586
Share of other comprehensive loss of joint ventures and associates				(7,937)		(7,937)		(7,937)
Gain on foreign currencies translation of foreign operations				22,436		22,436	6,276	28,712
Remeasurement of the net defined benefit liability				34,182		34,182	(20)	34,162
Gain on valuation of cash flow hedge				10,371		10,371		10,371
Dividends to hybrid securities					(206,515)	(206,515)		(206,515)
Issuance of hybrid securities		549,904				549,904		549,904
Repayment of hybrid securities		(309,010)			(990)	(310,000)		(310,000)
	3,381,392	3,574,896	286,331	(1,468,025)	14,611,566	20,386,160	159,793	20,545,953

**December 31,  
2016**

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## WOORI BANK AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

## FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

	Capital stock	Hybrid securities	Capital surplus	Other equity	Retained earnings	Owners equity	Non- controlling interests	Total equity
<b>January 1, 2017</b>	3,381,392	3,574,896	286,331	(1,468,025)	14,611,566	20,386,160	159,793	20,545,953
Net income					1,512,148	1,512,148	17,940	1,530,088
Dividends					(336,636)	(336,636)	(1,554)	(338,190)
Subsidiary capital increase			(451)			(451)	36,534	36,083
Gain(loss) on valuation of available-for-sale financial assets				(85,051)		(85,051)	553	(84,498)
Share of other comprehensive gain of joint ventures and associates				612		612		612
Loss on foreign currencies translation of foreign operations				(194,347)		(194,347)	(13,982)	(208,329)
Gain on valuation of cash flow hedge				777		777		777
Remeasurement of the net defined benefit liability				10,773		10,773	(276)	10,497
Equity related to assets held for sale				4,145		4,145		4,145
Dividends on hybrid securities					(167,072)	(167,072)		(167,072)
Issuance of hybrid securities		559,565				559,565		559,565
Redemption of hybrid securities		(1,116,573)		(208,158)		(1,324,731)		(1,324,731)
	3,381,392	3,017,888	285,880	(1,939,274)	15,620,006	20,365,892	199,008	20,564,900

**December 31,  
2017**

	<b>Capital stock</b>	<b>Hybrid securities</b>	<b>Capital surplus</b>	<b>Other equity</b>	<b>Retained earnings</b>	<b>Owners equity</b>	<b>Non- controlling interests</b>	<b>Total equity</b>
				<b>(U.S. Dollars in thousands)</b>				
<b>January 1, 2017</b>	3,167,818	3,349,100	268,246	(1,375,303)	13,688,675	19,098,536	149,700	19,248,236
Net income					1,416,638	1,416,638	16,807	1,433,445
Dividends					(315,373)	(315,373)	(1,456)	(316,829)
Subsidiary capital increase			(422)			(422)	34,227	33,805
Gain(loss) on valuation of available-for-sale financial assets				(79,679)		(79,679)	518	(79,161)
Share of other comprehensive gain of joint ventures and associates				574		574		574
Loss on foreign currencies translation of foreign operations				(182,072)		(182,072)	(13,099)	(195,171)
Gain on valuation of cash flow hedge				728		728		728
Remeasurement of the net defined benefit liability				10,092		10,092	(258)	9,834
Equity related to assets held for sale				3,883		3,883		3,883
Dividends on hybrid securities					(156,519)	(156,519)		(156,519)
Issuance of hybrid securities		524,222				524,222		524,222
Redemption of hybrid securities		(1,046,049)		(195,010)		(1,241,059)		(1,241,059)
<b>December 31, 2017</b>	3,167,818	2,827,273	267,824	(1,816,787)	14,633,421	19,079,549	186,439	19,265,988

See notes to consolidated financial statements.



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**WOORI BANK AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

	2015	Korean Won 2016 (in millions)	2017	U.S. Dollars 2017 (in thousands) (Note 2)
<b>Cash flows from operating activities:</b>				
Net income	1,075,392	1,277,533	1,530,088	1,433,445
Adjustments:				
Income tax expense	376,554	275,856	419,418	392,927
Interest income	(8,698,235)	(8,512,312)	(8,550,687)	(8,010,611)
Interest expense	3,936,335	3,492,768	3,330,037	3,119,707
Dividend income	(102,923)	(184,510)	(124,992)	(117,097)
Impairment losses due to credit loss	966,646	834,076	785,133	735,543
Loss on valuation of financial instruments at fair value through profit or loss			15,267	14,302
Loss on available-for-sale financial assets	3,281	1,035		
Share of losses of investments in joint ventures and associates	111,487	56,264	185,020	173,334
Loss on transaction of derivatives / valuation of derivatives	20,982	98,981	109,569	102,648
Loss on fair value hedged items	56,532	475		
Provisions	72,062	34,774	107,028	100,268
Retirement benefits	132,131	152,609	142,902	133,876
Depreciation and amortization	240,764	252,031	235,795	220,901
Loss on disposal of investments in joint ventures and associates	10	15,060	38,713	36,268
Loss on disposal of premises and equipment and other assets	2,707	9,718	9,994	9,363
Impairment loss on premises and equipment and other assets	2,990	1,936	390	365
Gain on valuation of financial instruments at fair value through profit or loss	(55,773)	(75,690)		
Gain on available-for-sale financial assets			(192,708)	(180,536)
Share of profits of investments in joint ventures and associates	(41,363)	(36,757)	(83,506)	(78,232)
Gain on transaction of derivatives / valuation of derivatives	(59,003)	(130)	(122)	(114)
Gain on fair value hedged items	(25,235)	(99,302)	(53,532)	(50,150)
Reversal of provisions	(854)	(1,396)	(2,567)	(2,405)
Gain on disposal of investments in joint ventures and associates	(61,653)	(23,457)	(39,932)	(37,410)

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Gain on disposal of premises and equipment and other assets	(6,814)	(1,885)	(5,028)	(4,711)
Reversal of impairment loss on premises and equipment and other assets	(539)	(3,581)	(666)	(624)
Changes in operating assets and liabilities:				
Financial instruments at fair value through profit or loss	(495,507)	(99,581)	(583,068)	(546,241)
Loans and receivables	(23,150,910)	(14,433,390)	(9,647,563)	(9,038,208)
Other assets	1,922	219,323	35,953	33,682
Deposits due to customers	20,620,287	11,878,628	13,634,873	12,773,672
Provision for guarantee and loan commitment	(66,399)	34,376	(122,711)	(114,960)
Net defined benefit liability	(255,585)	(261,097)	(46,789)	(43,834)
Other financial liabilities	1,205,411	5,158,055	(7,966,786)	(7,463,591)
Other liabilities	(91,116)	(6,163)	(27,550)	(25,811)
Cash received from (paid for) operating activities:				
Interest income received	8,692,851	8,511,349	8,570,715	8,029,375
Interest expense paid	(4,355,880)	(3,593,358)	(3,404,608)	(3,189,567)
Dividends received	100,368	184,674	127,343	119,300
Income tax paid	(534,829)	(251,627)	(404,428)	(378,884)
Net cash provided by (used in) operating activities	(383,906)	4,905,285	(1,979,005)	(1,854,010)

(Continued)

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**Table of Contents****WOORI BANK AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)****FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

	2015	Korean Won 2016 (in millions)	2017	U.S. Dollars 2017 (in thousands) (Note 2)
<b>Cash flows from investing activities:</b>				
Disposal of available-for-sale financial assets	18,426,846	20,395,744	24,912,752	23,339,222
Redemption of held-to-maturity financial assets	6,404,711	8,462,346	8,587,092	8,044,717
Disposal of investments in joint ventures and associates	75,599	97,135	70,180	65,747
Disposal of subsidiaries			203	191
Disposal of investment properties			418	392
Disposal of premises and equipment	18,600	63	7,428	6,959
Disposal of intangible assets	1,782	4,325	1,188	1,113
Disposal of assets held for sale	3,711	22,723	24,808	23,241
Decrease of derivatives for hedging	56,956			
Net cash flows through business combination (Note 46)	(38,535)	(132,301)		
Acquisition of available-for-sale financial assets	(16,305,797)	(23,844,849)	(19,674,346)	(18,431,682)
Acquisition of held-to-maturity financial assets	(7,138,013)	(8,818,376)	(11,521,065)	(10,793,376)
Acquisition of investments in joint ventures and associates	(1,098)	(43,281)	(143,161)	(134,119)
Acquisition of investment properties		(4,428)	(9,872)	(9,248)
Acquisition of premises and equipment	(129,454)	(131,009)	(162,245)	(151,998)
Acquisition of intangible assets	(97,891)	(191,161)	(195,929)	(183,552)
Increase of derivatives for hedging	(3,273)	(42,544)	(13,742)	(12,874)
Net cash provided by (used in) investing activities	1,274,144	(4,225,613)	1,883,709	1,764,733
<b>Cash flows from financing activities:</b>				
Increase in borrowings	12,674,649	8,259,380	9,057,999	8,485,881
Issuance of debentures	13,502,777	15,848,055	18,438,221	17,273,633
Issuance of hybrid securities	795,179	549,904	559,565	524,222
Capital increase of subsidiaries			35,841	33,578
Increase of paid in capital in subsidiaries	3,787			
Decrease in borrowings	(10,346,919)	(9,524,626)	(12,692,883)	(11,891,179)
Repayment of debentures	(16,425,353)	(14,118,720)	(13,620,520)	(12,760,226)
Dividends paid	(504,952)	(168,317)	(336,636)	(315,373)
Dividends paid on hybrid securities	(179,758)	(201,328)	(177,730)	(166,505)
Repayment of hybrid securities		(310,000)	(1,323,400)	(1,239,812)
Dividends paid on non-controlling interests	(824)	(1,286)	(1,554)	(1,456)

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Net cash provided by (used in) financing activities	(481,414)	333,062	(61,097)	(57,237)
Net increase (decrease) in cash and cash equivalents	408,824	1,012,734	(156,393)	(146,514)
Cash and cash equivalents, beginning of the period	5,962,861	6,644,055	7,591,324	7,111,843
Effects of exchange rate changes on cash and cash equivalents	272,370	(65,465)	(526,645)	(493,382)
Cash and cash equivalents, end of the period (Note 6)	6,644,055	7,591,324	6,908,286	6,471,947

See notes to consolidated financial statements

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**WOORI BANK AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**1. GENERAL**

(1) Summary of the parent company

Woori Bank (hereinafter referred to the Bank), which is a controlling entity in accordance with International Financial Reporting Standards (IFRS) 10 *Consolidated Financial Statements*, was established in 1899 and is engaged in the commercial banking business under the Banking Act, trust business under the Financial Investment Services and Capital Market Act, and foreign currencies exchange business with approval from the Bank of Korea (BOK) and the Ministry of Finance and Economy (MOFE).

Previously, Woori Finance Holdings Co., Ltd., the former holding company of Woori Financial Group, established on March 27, 2001 held a 100% ownership of the Bank. Effective November 1, 2014, Woori Finance Holdings Co., Ltd. completed its merger with and into Woori Bank, its wholly-owned subsidiary, as contemplated by the merger agreement dated July 28, 2014, by and between Woori Finance Holdings Co., Ltd. and Woori Bank. Accordingly, the shares of the Bank, 597 million shares, prior to the merger, were reduced to nil in accordance with capital reduction procedure, and then, in accordance with the merger ratio, the Bank newly issued 676 million shares. As a result, as of December 31, 2017, the common stock of the Bank amounts, expressed in Korean Won (the KRW or Won), to 3,381,392 million Won.

During the year ended December 31, 2016, the Korea Deposit Insurance Corporation (KDIC), as the majority shareholder of the Bank, sold 187 million shares in the Bank in accordance with the contract of Disposal of Woori Bank's shares to Oligopolistic Shareholders. In addition to the sale, during the year ended December 31, 2017, KDIC sold additional 33 million shares. As of December 31, 2016 and 2017, KDIC held 158 million shares and 125 million shares (23.37% and 18.43% ownership interest) respectively, of the Bank's shares issued.

On June 24, 2002, Woori Finance Holdings Co., Ltd. listed its common shares on the Korea Exchange through public offering. In addition, on September 29, 2003, the holding company registered with the Securities and Exchange Commission in the United States of America and, on the same day, listed its American Depositary Shares on the New York Stock Exchange. As Woori Finance Holdings Co., Ltd. was merged into the Bank, the Bank, which is the existing company, succeeded such rights and obligations as a listed company on the Korea Exchange and the New York Stock Exchange.

As a result of such merger, the Bank incorporated Woori Card Co., Ltd., Woori Investment Bank Co., Ltd., Woori FIS Co., Ltd., Woori Private Equity Asset Management Co., Ltd., and Woori Finance Research Institute Co., Ltd. as its subsidiaries.

The head office of the Bank is located in 51 Sogong-ro, Jung Gu, Seoul, Korea. The Bank has 876 branches and offices in Korea, and 23 branches and offices overseas as of December 31, 2017.



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(2) The consolidated financial statements for Woori Bank and its subsidiaries (the Group) include the following subsidiaries:

Subsidiaries	Main business	Percentage of ownership (%)	
		December 31, 2016	December 31, 2017
Woori Bank:			
Woori FIS Co., Ltd.	System software development & maintenance	100.0	100.0
Woori Private Equity Asset Management Co., Ltd.	Finance	100.0	100.0
Woori Finance Research Institute Co., Ltd.	Other service business	100.0	100.0
Woori Card Co., Ltd.	Finance	100.0	100.0
Woori Investment Bank Co., Ltd. <sup>(*1)</sup>	Other credit finance business	58.2	59.8
Woori Credit Information Co., Ltd.	Credit information	100.0	100.0
Woori America Bank	Finance	100.0	100.0
Woori Global Markets Asia Limited		100.0	100.0
Woori Bank China Limited		100.0	100.0
AO Woori Bank		100.0	100.0
PT Bank Woori Saudara Indonesia 1906 Tbk <sup>(*1)</sup>		74.0	79.9
Banco Woori Bank do Brasil S.A.		100.0	100.0
Korea BTL Infrastructure Fund		99.9	99.9
Woori Fund Service Co., Ltd.		100.0	100.0
Woori Finance Cambodia PLC.		100.0	100.0
Woori Finance Myanmar Co., Ltd.		100.0	100.0
Wealth Development Bank		51.0	51.0
Woori Bank Vietnam Limited		100.0	100.0
Kumho Trust First Co., Ltd. <sup>(*2)</sup>	Asset securitization	0.0	0.0
Asiana Saigon Inc. <sup>(*2)</sup>		0.0	0.0
An-Dong Raja First Co., Ltd. <sup>(*6)</sup>		0.0	0.0
Consus Eighth Co., LLC <sup>(*2)</sup>		0.0	0.0
KAMCO Value Recreation First Securitization Specialty Co., Ltd. <sup>(*2)</sup>		15.0	15.0
Hermes STX Co., Ltd. <sup>(*2)</sup>		0.0	0.0
BWL First Co., LLC <sup>(*2)</sup>		0.0	0.0
Woori Poongsan Co., Ltd. <sup>(*6)</sup>		0.0	0.0
Deogi Dream Fourth Co., Ltd. <sup>(*2)</sup>		0.0	0.0
Jeonju Iwon Ltd. <sup>(*2)</sup>		0.0	0.0
Wonju I one Inc. <sup>(*2)</sup>		0.0	0.0
Heitz Third Co., Ltd. <sup>(*2)</sup>		0.0	0.0
Woorihansoop 1st Co., Ltd. <sup>(*2)</sup>		0.0	0.0
Electric Cable First Co., Ltd. <sup>(*2)</sup>		0.0	0.0
Woori International First Co., Ltd. <sup>(*2)</sup>		0.0	0.0
Woori HJ First Co., Ltd. <sup>(*2)</sup>		0.0	0.0
Woori WEBST 1st Co., Ltd. <sup>(*2)</sup>			0.0

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HNLD 1st Inc. <sup>(*2)</sup>			0.0
Wibihansoop 1st Co., Ltd. <sup>(*2)</sup>			0.0
Uri QS 1st Co., Ltd. <sup>(*2)</sup>			0.0
Uri Display 1st Co., Ltd. <sup>(*2)</sup>			0.0
Tiger Eyes 2nd Co., Ltd. <sup>(*2)</sup>			0.0
Woori Serveone 1st Co., Ltd. <sup>(*2)</sup>			0.0
HeungkukWoori Tech Company Private Placement Investment Trust No.1 and 5 beneficiary certificates <sup>(*3)</sup>	Securities investment and others		
Principle Guaranteed Trust <sup>(*4)</sup>	Trust	0.0	0.0
Principle and Interest Guaranteed Trust <sup>(*4)</sup>		0.0	0.0
Woori Bank and Woori Private Equity Asset Management Co., Ltd.:			
Woori Private Equity Fund <sup>(*5)</sup>	Other financial business	31.9	
Woori Private Equity Fund:			
Woori EL Co., Ltd. <sup>(*5)</sup>	Other financial business	100.0	
Woori Investment Bank:			
Dongwoo First Securitization Specialty Co., Ltd. <sup>(*2)</sup>	Asset securitization	5.0	5.0
Seari First Securitization Specialty Co., Ltd. <sup>(*2)</sup>	Asset securitization		5.0
Namjong 1st Securitization Specialty Co., Ltd. <sup>(*2)</sup>			5.0
Bukgeum First Securitization Specialty Co., Ltd. <sup>(*2)</sup>			5.0
Woori Card Co., Ltd.:			
TUTU Finance-WCI Myanmar Co., Ltd.	Finance	100.0	100.0
Woori Card one of 2017-1 Securitization Specialty Co., Ltd. <sup>(*2)</sup>	Asset securitization		0.5
Woori Card one of 2017-2 Securitization Specialty Co., Ltd. <sup>(*2)</sup>			0.5

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- (\*1) The entity issued a rights offering that entitles its existing shareholders to buy additional shares directly from the entity in proportion to its existing holders. But, some shareholders opted not to buy the new share and Woori Bank was able to purchase more shares than they would be in accordance with their ownership percentage. This purchase resulted in the increase of its ownership percentage.
- (\*2) The entity is a structured entity for the purpose of asset securitization and is in scope for consolidation. Although the Group is not a majority shareholder, the Group 1) has the power over the investee, 2) is exposed, or has rights, to variable returns from its involvement with the investee, and 3) has the ability to use its power to affect its returns.
- (\*3) The entity is a structured entity for the purpose of investment in securities and is in scope for consolidation, considering that the Group 1) has the power over the investee, 2) is exposed, or has rights, to variable returns from its involvement with the investee, and 3) has the ability to use its power to affect its returns.
- (\*4) The entity is a money trust under the Financial Investment Services and Capital Markets Act and is in scope for consolidation. Although the Group is not a majority shareholder, the Group 1) has the power over the investee, 2) is exposed, or has rights, to variable returns from its involvement with the investee, and 3) has the ability to use its power to affect its returns.
- (\*5) Due to liquidation of Woori Private Equity Asset Management Co., Ltd. during the year ended December 31, 2017 the entity was excluded from the scope for consolidation.
- (\*6) Due to liquidation during the year ended of December 31, 2017, the entity was excluded from the scope for consolidation.

To determine whether the Group controls the structured entities, where the Group does not hold any ownership in them, the Group considered various factors in accordance with the Group's accounting policy, which can be summarized as follows:

**Involvement with the entity**

The Group is involved with structured entities through the purchase of securities issued by the structured entities, such as senior, mezzanine, or subordinated bonds.

**The Group's role within the entity**

This is a case where the Group arranges the securitizations of its own or third parties' assets and supports the transaction by purchasing the subordinated bond issued by the structured entity.

**Structured Entities**

KAMCO Value Recreation First Securitisation Specialty CO., Ltd.

As for the consolidated structured entities in this category, the Group is significantly exposed to the variable returns from the entities through the subordinated holdings more than other investors and the Group has the power over relevant activities that significantly affect the variable return such as the Group has the right to determine to wind down the entity, as a major investor, in case of default.

The Group is involved with structured entities through the provision of credit facilities to the entities, such as through financial guarantee and purchase agreement of asset-backed commercial papers ( ABCP ).

This is a case where the Group supports the securitization transactions through provision of liquidity facilities or other credit enhancements, such as financial guarantees. The Group also sponsors a number of asset-backed commercial paper (ABCP) conduits by arranging the acquisition of loans.

Kumho Trust First Co., Ltd and 14 structured entities

As for the consolidated structured entities in this category, the Group is significantly exposed to the variable returns from the entities through the financial guarantees or purchase

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<b>Involvement with the entity</b>	<b>The Group's role within the entity</b>	<b>Structured Entities</b>
The Group is involved with a structured entity by originating loans directly to the entity.	agreement provided more than other investors and the Group has the power over relevant activities that significantly effects the variable return such as the Group has the right to determine to dispose the securitized assets of the entity, through the contracts, in case of default.  This is a case where the Group invests in a structured entity, such as origination of loans.	Consus Eighth Co., LLC.
The Group manages funds on behalf of the customers through the operation of trusts accounts.	As for the consolidated structured entities in this category, the Group is significantly exposed to the variable returns from the entities through the loan originated and the Group has the power over relevant activities that significantly effects the variable return such as the Group makes significant investment decisions.  This is a case where the Group is designated as a trustee by the customers (or investors) of the trusts to manage operations, investments, and financing, and they do not participate in such decision making process.	Principal guaranteed trusts  Principal and interest guaranteed trusts
	As for the consolidated structured entities in this category, the Group is exposed to expected loss from the trusts, through its provision of guarantee on the original principal or both of principal and interests.	

(3) As of December 31, 2016 and 2017, despite having more than a 50% ownership interests, the Group has not consolidated the following companies as the Group do not have the ability to control following subsidiaries:

<b>Entities</b>	<b>Location</b>	<b>As of December 31, 2016 Main business</b>
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			<b>Percentage of ownership (%)</b>
Golden Bridge NHN Online Private Equity Investment <sup>(*1)</sup>	Korea	Securities Investment	60.0
Mirae Asset Maps Clean Water Private Equity Investment Trust 7th <sup>(*1)</sup>	Korea	Securities Investment	59.7
Kiwoom Yonsei Private Equity Investment Trust <sup>(*1)</sup>	Korea	Securities Investment	88.9
Kiwoom Frontier Professional Investment Private Fund 6 (Bond) <sup>(*2)</sup>	Korea	Securities Investment	50.0

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Subsidiaries	Location	Main Business	As of December 31, 2017	
				Percentage of ownership (%)
Golden Bridge NHN Online Private Equity Investment <sup>(*1)</sup>	Korea	Securities Investment		60.0
Mirae Asset Maps Clean Water Private Equity Investment Trust 7th <sup>(*1)</sup>	Korea	Securities Investment		59.7
Kiwoom Yonsei Private Equity Investment Trust <sup>(*1)</sup>	Korea	Securities Investment		88.9
Hana Walmart Real Estate Investment Trust 41-1 <sup>(*1)</sup>	Korea	Securities Investment		90.1
IGIS Global Private Placement Real Estate Fund No. 148-1 <sup>(*1)</sup>	Korea	Securities Investment		75.0
IGIS Global Private Placement Real Estate Fund No. 148-2 <sup>(*1)</sup>	Korea	Securities Investment		75.0

(\*1) The Group owns the majority ownership interest in these structured entities, but has no power on the investees relevant activities. As results, it is deemed that the Group has no power or control on the structured entities.

(\*2) Due to redemption of the fund during 2017, the fund was excluded from the list as of December 31, 2017 above.

(4) The summarized financial information before the elimination of intercompany transactions of the subsidiaries whose financial information were prepared under IFRS for the Group's consolidated financial statements is as follows (Unit: Korean Won in millions):

	As of and for the year ended December 31, 2016				
	Assets	Liabilities	Operating revenue	Net income (loss) attributable to owners	Comprehensive income (loss) attributable to owners
Woori FIS Co., Ltd.	141,329	105,821	244,783	1,048	1,432
Woori Private Equity Asset Management Co., Ltd.	97,338	53,244	2,154	312	219
Woori Finance Research Institute Co., Ltd.	3,710	334	4,445	108	100
Woori Card Co., Ltd.	7,606,108	6,180,893	1,555,373	109,393	116,381
Woori Investment Bank Co., Ltd.	1,576,627	1,404,566	178,572	23,872	23,897
Woori Credit Information	31,292	4,416	27,884	543	618
Woori America Bank	2,186,049	1,973,263	73,909	15,266	20,899
Woori Global Markets Asia Limited	272,008	147,581	7,255	1,863	5,582
Woori Bank (China) Limited	4,984,017	4,466,812	475,174	32,025	11,505
AO Woori Bank	239,860	188,474	16,221	5,650	15,553
PT Bank Woori Saudara Indonesia 1906 Tbk	2,089,822	1,693,111	179,014	24,573	48,542
Banco Woori Bank do Brasil S.A.	241,229	206,043	17,059	2,786	9,600
Korea BTL Infrastructure Fund	784,770	299	33,476	29,617	29,617

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Woori Fund Service Co., Ltd.	11,386	1,372	7,787	1,011	1,011
Woori Finance Cambodia PLC.	32,405	24,751	4,545	1,250	1,494
Woori Finance Myanmar Co., Ltd.	4,305	2,651	380	(613)	(569)
Wealth Development Bank	209,779	174,446	12,519	1,248	1,876
Woori Bank Vietnam Limited	159,223	278		(346)	3,545
Money trust under the FISCMA Act <sup>(*)</sup>	1,525,145	1,495,815	55,540	697	697
Structured entity for the securitization of financial assets	487,431	895,824	29,480	6,912	7,138
Structured entity for the investments in securities	4,397,163	1,898,977	137,896	56,605	61,535

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	<b>Assets</b>	<b>Liabilities</b>	<b>Operating revenue</b>	<b>Net income (loss) attributable to owners</b>	<b>Comprehensive income (loss) attributable to owners</b>
Woori FIS Co., Ltd.	103,932	71,386	252,460	1,940	(2,963)
Woori Private Equity Asset Management Co., Ltd.	42,894	2,670	7,257	(4,114)	(4,074)
Woori Finance Research Institute Co., Ltd.	3,790	350	4,733	83	64
Woori Card Co., Ltd.	8,605,993	6,973,705	1,771,157	101,214	107,321
Woori Investment Bank Co., Ltd.	1,880,157	1,588,610	183,376	20,023	20,210
Woori Credit Information Co., Ltd.	33,298	6,175	31,580	861	752
Woori America Bank	1,954,301	1,679,248	81,337	11,869	(16,833)
Woori Global Markets Asia Limited	290,226	178,343	11,345	1,922	(12,544)
Woori Bank (China) Limited	4,960,637	4,458,683	388,913	13,809	(15,252)
AO Woori Bank	201,704	149,101	15,656	4,748	1,217
PT Bank Woori Saudara Indonesia 1906 Tbk	2,230,617	1,745,171	192,485	38,488	(18,689)
Banco Woori Bank do Brasil S.A.	213,889	181,544	20,455	1,843	(2,840)
Korea BTL Infrastructure Fund	786,480	301	30,240	26,390	26,390
Woori Fund Service Co., Ltd.	12,653	1,242	9,021	1,398	1,398
Woori Finance Cambodia PLC.	51,304	32,873	5,895	983	(473)
Woori Finance Myanmar Co., Ltd.	18,236	5,307	2,506	791	15
Wealth Development Bank	191,049	156,808	13,632	1,323	(1,093)
Woori Bank Vietnam Limited	775,758	632,160	29,698	2,436	(15,347)
Money trust under the FISCMA Act <sup>(*)</sup>	1,560,672	1,530,760	44,344	582	582
Structured entity for the securitization of financial assets	867,583	1,275,719	22,730	1,179	(2,800)
Structured entity for the investments in securities	34,939	76	377	(475)	(38,592)

(\*) FISCMA Act: Financial Investment Services and Capital Markets Act

(5) Structured entities

The Group is involved with structured entities, mainly through securitization of financial assets, investment fund, and money trust.

Structured entity for the securitization of financial assets

The structured entity is established for the purpose of securitization of project financing loans, corporate bonds, and other financial assets. The Group is involved with the structured entity through providing with credit facility over asset-backed commercial papers issued by the entity, originating loans directly to the structured entity, or purchasing 100% of the subordinated debts issued by the structured entity.

Structured entity for the investments in securities

The structured entity is established for the purpose of investments in securities. The Group acquires beneficiary certificates through its contribution of fund to the structured entity, and it is exposed to the risk that it may not be able to recover its fund depending on the result of investment performance of asset managers of the structured entity.

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### Money trust under the Financial Investment Services and Capital Markets Act

The Group provides with financial guarantee of principal and interest or principal only to some of its trust products. Due to the financial guarantees, the Group may be obliged to supplement when the principal and interest or principal of the trust product sold is short of the guaranteed amount depending on the result of investment performance of the trust product.

Structured entities are assessed for consolidation in accordance with the accounting policy set out in Note 2. (2), and also refer to Note 1. (2).

Consolidated structured entities

### Securitizations

The Group uses structured entities to securitize loan and receivables, corporate bonds, and other financial assets that it has originated or acquired in order to diversify its source of funding for asset origination and capital efficiency purposes. In turn, the structured entities issue asset backed securities collateralized by the transferred financial assets. In these securitizations, various classes of debt securities are issued to the Group and third parties, and the structured entities have mainly issued subordinated notes to the Group, an assets transferor. The subordinated notes are designed to absorb potentially could be significant to the structured entities. These structured entities are generally consolidated when the Group has the power to direct the relevant activities of the entities and exposed to or have rights to variable returns from the entities. In addition, the Group involves with structured entities which are established by third parties mainly for securitization through provision of liquidity facilities including financial guarantees, which are designed to provide credit support to the entities, or investing in securities issued by structured entities or providing financing to structured entities through loans.

### Investment funds

The Group has established a number of money market and non-money market funds where it is deemed to be acting as principal rather than agent its role as investment manager, the Group controls and hence consolidate these funds. Also the Group is deemed to control a number of third-party managed funds through its involvement as a principal in the funds.

### Money trusts under the Trust Business Act

The Group has consolidated its guaranteed money trusts due to its provision of financial guarantee for investors over principal and interest or principal only. Thus, the Group may be obliged to supplement when the principal or interest of the money trusts is short of the guaranteed amount.

Unconsolidated structured entities

The Group has entered into various agreements with structured entities such as asset securitization vehicles, and structured finance and investment funds. Where it is determined in accordance with IFRS 10 that the Group has no controlling power over such structured entities, the entities are not consolidated. The nature of interests, which the Group retains, and the risks, to which the Group is exposed, of the unconsolidated structured entities are as follows:

Asset securitization vehicle issues asset-backed securities and redeems the principal and interest or distributes dividends on asset-backed securities with profits from collecting cash flows or sale of securitized assets. The Group, as a secondary guarantor, provides purchase commitments for its asset-backed securities or guarantees to such asset securitization vehicle and recognizes commission income or interest income related to the commitment or guarantees. Therefore, the Group would be exposed to risks to purchases or pays back asset-backed securities issued by the vehicles when a primary guarantor fails to provide the financing asset securitization vehicles.



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Structured finance includes investments in project financing on real estates, social overhead capital ( SOC ), infrastructure and shipping finance. They are formed as special purpose entity by funding through equity investments and loans from various investors. Investment decisions are made by the Group based on business outlook of such projects. In relation to such investments, the Group recognizes interest income on loans, gains or losses on valuation of equity investments or dividend income. The structured finance is secured by additional funding agreement, guarantee or credit facilities. However, the structured financing project would fail to return the capital of equity investments or principal of loans to the Group if it is discontinued or did not achieve business outcome.

Investment funds include trusts and private equity funds. A trust is formed by contributions from various investors, operated by a manager engaged to the trust and distributed proceeds from sales of investments to the investors. A private equity fund is established in order to acquire ownership interests in a portfolio company with exit strategy after implementing financial and operational restructuring of the company. The Group recognizes unrealized gains or losses on change in value of investments in proposition of ownership interests in investments. The Group would be exposed to risks of loss when the value of portfolio investment is decreased.

Total assets of the unconsolidated structured entities, the carrying value of the related items recorded, the maximum exposure to risks, and the loss recognized in conjunction with the unconsolidated structured entities as of December 31, 2016 and 2017 are as follows (Unit: Korean Won in millions):

	<b>December 31, 2016</b>		
	<b>Asset securitization vehicle</b>	<b>Structured finance</b>	<b>Investment Funds</b>
Total asset of the unconsolidated structured entities	8,426,713	61,324,862	9,131,362
Assets recognized in the consolidated financial statements related to the unconsolidated structured entities	3,361,910	2,790,215	1,749,494
Loans and receivables	65,470	2,414,044	
Financial assets held for trading		254,150	
Available-for-sale financial assets	1,216,446	115,843	1,664,865
Held-to-maturity financial assets	2,079,648		
Investments in joint ventures and associates			84,629
Derivative assets	346	6,178	
Liabilities recognized in the consolidated financial statements related to the unconsolidated structured entities	1,363	1,224	
Derivative liabilities	201	362	
Other liabilities (including provisions)	1,162	862	
The maximum exposure to risks	4,263,993	3,802,210	1,749,494
Investments	3,361,910	2,790,215	1,749,494
Purchase agreements	28,000		
Credit facilities	834,083	970,195	
Other commitments	40,000	41,800	
Loss recognized on unconsolidated structured entities	6,353	71,185	683

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	<b>December 31, 2017</b>		
	<b>Asset securitization vehicle</b>	<b>Structured finance</b>	<b>Investment Funds</b>
Total asset of the unconsolidated structured entities	7,295,601	40,172,830	13,641,135
Assets recognized in the consolidated financial statements related to the unconsolidated structured entities	3,215,159	2,314,043	1,138,523
Loans and receivables	43,180	1,969,760	
Financial assets held for trading		233,428	10,160
Available-for-sale financial assets	902,390	106,819	904,774
Held-to-maturity financial assets	2,269,451		
Investments in joint ventures and associates			223,589
Derivative assets	138	4,036	
Liabilities recognized in the consolidated financial statements related to the unconsolidated structured entities	1,433	1,506	
Derivative liabilities	575	968	
Other liabilities (including provisions)	858	538	
The maximum exposure to risks	4,032,531	2,918,448	1,138,523
Investments	3,215,159	2,314,043	1,138,523
Credit facilities	817,372	604,405	
Loss recognized on unconsolidated structured entities	837	3,939	5,993

(6) The details of the limitations with regard to the transfer of assets or the redemption of liabilities within the Group are provided below.

Some subsidiaries are regulated by the rules of the jurisdictions, in which they were incorporated, with regard to funding or management of deposits. Also, there is the limitation that they must have pre-approval from their regulators in case of remittance of earnings to the Group.

(7) Subsidiaries of which non-controlling interests are significant to the Group's consolidated financial statements are as follows (Unit: Korean Won in millions):

1) Accumulated non-controlling interests at the end of the period

	<b>December 31, 2016</b>	<b>December 31, 2017</b>
Woori Investment Bank	73,986	119,111
PT Bank Woori Saudara Indonesia 1906 Tbk	70,249	64,877
Wealth Development Bank	16,983	16,778

2) Net income attributable to non-controlling interests

<b>For the year ended December 31, 2015</b>	<b>For the year ended December 31, 2016</b>	<b>For the year ended December 31, 2017</b>
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Woori Investment Bank	4,353	9,990	8,370
PT Bank Woori Saudara Indonesia 1906 Tbk	6,241	6,383	8,882
Wealth Development Bank		611	648

3) Dividends to non-controlling interests

	<b>For the year ended December 31, 2015</b>	<b>For the year ended December 31, 2016</b>	<b>For the year ended December 31, 2017</b>
PT Bank Woori Saudara Indonesia 1906 Tbk	778	1,242	1,513

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**Table of Contents****2. SIGNIFICANT BASIS OF PREPARATION AND ACCOUNTING POLICIES****(1) Basis of presentation**

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board ( IASB ).

The Group operates primarily in Korea and its official accounting records are maintained in Korean Won. The United States dollar ( U.S. dollar or US\$ or USD ) amounts are provided herein as supplementary information solely for the convenience of readers outside Korea. Korean Won amounts are expressed in U.S. Dollars at the rate of 1,067.42 Korean Won to US\$1.00, the noon buying exchange rate in effect on December 31, 2017, as quoted by the Federal Reserve Bank of New York in the United States. Such convenience translation into U.S. Dollars should not be construed as representations that Korean Won amounts have been, could have been, or could in the future be, converted at this or any other rate of exchange.

The significant accounting policies that have been applied for the preparation of the consolidated financial statements for the year ended December 31, 2017 are described below. There have not been changes to the significant accounting policies except for the impacts from the adoptions of accounting standards or interpretations which are explained below.

The Group's consolidated financial statements have been prepared based on the historical cost method except for specific non-current assets and certain financial assets or liabilities reported at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The consolidated financial statements of the Group were approved by the board of directors on March 2, 2018.

1) The Group has newly adopted the following new standards and interpretations that affected the Group's accounting policies.

**Amendments to IAS 7 *Statement of Cash Flows***

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. Additional disclosure required related to the first time application of these amendments in the current year are in note 6. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 6, the application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

**Amendments to IAS 12 *Income Taxes***

The amendments clarify that in evaluating the deferred tax assets arising from deductible temporary difference of debt instruments measured at fair value, the carrying amount of an asset does not limit the estimation of probable future taxable profits. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

Other than the amendment stated above, there are several annual improvements in the current period, but the application of the amendments has had no material effect on the Group's consolidated financial statements.

2) The Group has not applied the following IFRSs that have been issued but are not yet effective:

Enactments to IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification

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and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a fair value through other comprehensive income (FVTOCI) measurement category for certain simple debt instruments. This standards supersedes IAS 39 *Financial Instruments: Recognition and Measurement*, and will be applied for annual periods beginning on or after January 1, 2018.

In principle, IFRS 9 must be applied retrospectively. However, there are certain exemptions to the application of retroactive approach such as presenting comparative information on classification, measurement and impairment of financial instruments. In addition, IFRS 9 is applied prospectively for hedge accounting with exceptions such as accounting for the time value of options. The Group will apply the standard retrospectively, in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, but will not restate previous periods provided that it is not possible to do so without the use of hindsight. Because of this, the Group will recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of IFRS 9 (January 1, 2018) in the opening retained earnings as of January 1, 2018.

The Group has completed the design and implementation of the internal controls and/or financial reporting processes related to the presentation of financial instruments in order to adopt IFRS 9. The Group has completed a financial impact analysis on the 2017 financial statements based on available information as of year-end in order to determine the impact of adopting IFRS 9 for the first time. The expected financial impact of each key issue on the financial statement, is as follows.

a) Classification and Measurement of Financial Instruments

When IFRS 9 is adopted, all recognized financial assets that in scope are subsequently measured at either amortized cost, fair value through other comprehensive income (FVTOCI), or fair value through profit or loss (FVTPL) as shown below, based on the business model for managing financial assets and based on the nature of contractual cash flows arising from the financial assets. Also, when hybrid contracts contain financial asset as its host contract, the embedded derivative will not be bifurcated as the whole hybrid contract would be classified as a financial asset.

Nature of the contractual cash flow	Business Model		
	Collection of the contractual cashflow	Collection of the contractual cashflow and sale of asset	Sale of asset, others
Principal and Interest only	Amortized Cost <sup>(*1)</sup>	FVTOCI <sup>(*1)</sup>	FVTPL
Other than the above		FVTPL <sup>(*2)</sup>	

(\*1) An irrevocable election is available to designate a financial asset to be classified as FVTPL, for the purpose of eliminating or reducing accounting discrepancies.

(\*2) For equity securities held for purposes other than short-term trading, an irrevocable election is available to designate them as FVTOCI financial assets.

As the requirements to classify a financial asset as either amortized cost or FVTOCI are more stringent in IFRS 9 than in IAS 39, the variability of net income may increase as the amount of FVTPL financial assets is increased due to the adoption of IFRS 9.

As of year-end the Group currently holds loans and receivables amounting to 267,106,204 million Won, held-to-maturity financial assets amounting to 16,749,296 million Won. This amount includes 51,653 million Won of hybrid contracts in which the host contract, after separating the embedded derivatives, is a debt security. In addition, The group also holds available-for-sale financial assets amounting to 15,352,950 million Won, and FVTPL financial assets (except derivatives) amounting to 2,727,302 million Won as of year end in accordance with IAS 39.

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According to IFRS 9, a financial asset may be measured at amortized cost only when its cashflows are solely principal and interest on specified dates on the contract and when the purpose of holding such asset is only to receive the contractual cashflows.

The estimated impact on the classification and measurement of Group's financial assets (except derivatives) as of year-end is presented as follows. The following information is constructed from the accounting system for financial instruments built for the purpose of adopting IFRS 9.

(Unit : Korean Won in millions)

<b>Classification per IAS 39</b>	<b>Classification per IFRS 9</b>	<b>Carrying Amount per IAS 39</b>	<b>Carrying Amount per IFRS 9</b>
Loans and receivables (Deposits)	Amortized cost	8,870,835	8,870,835
Financial assets at FVTPL (Deposits)	FVTPL	25,972	25,972
Financial assets at FVTPL (Debt securities)	FVTPL	2,654,027	2,654,027
AFS financial assets (Debt securities)	FVTPL	46,855	46,855
AFS financial assets (Debt securities)	FVTOCI	12,874,209	12,874,209
AFS financial assets (Debt securities)	Amortized cost	308,181	322,300
Held-to-maturity financial assets (Debt securities)	Amortized cost	16,749,296	16,749,296
Financial assets at FVTPL (Equity securities)	FVTPL	47,304	47,304
AFS financial assets (Equity securities)	FVTPL	1,273,498	1,274,716
AFS financial assets (Equity securities)	FVTOCI	850,207	850,207
Loans and receivables (Loans)	FVTPL	279,032	280,001
Loans and receivables (Loans)	Amortized cost	253,014,491	253,014,491
Loans and receivables (Other financial assets)	Amortized cost	6,772,088	6,772,088
Total financial assets except derivatives		303,765,995	303,782,301

Among the financial assets measured at amortized cost, loans and receivables and held-to-maturity financial assets amounting to 279,032 million Won and AFS financial assets amounting to 1,320,353 million Won would be reclassified to FVTPL financial assets as a result of adopting IFRS 9.

#### b) Classification and Measurement of Financial Liabilities

According to the IFRS 9, the amount of changes in the fair value of financial liabilities measured at FVTPL due to changes in credit risk is presented as part of other comprehensive income, and such amount is not recycled subsequently in profit or loss. However, when recognizing the fair value changes in other comprehensive income causes or magnifies accounting discrepancies, the amount is recognized in profit or loss instead.

As of year-end the Group holds financial liabilities amounting to 294,809,262 million Won, and out of this amount 251,796 million Won has been designated as FVTPL financial liabilities. In relation to these financial liabilities, the increase in fair value amounting to 31,275 million Won has been recognized as losses for the year ended 2017 in accordance with IAS 39.



The results of the analysis conducted to determine the financial impact of applying IFRS 9 on FVTPL financial liabilities as of year-end show that the cumulative changes in fair value of FVTPL financial liabilities as a result of changes in credit risk amounted to 133 million Won.

c) Impairment: Financial assets and Contract assets

IFRS 9 requires the recognition of allowance for expected credit losses for debt instruments, lease receivables, contract assets, loan commitments and financial guarantee contracts measured at either amortized cost or FVTOCI.

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The allowance to be recognized under IFRS 9 is the amount of expected 12-month credit loss or the expected lifetime credit loss, according to the 3 stages of credit risk deterioration since initial recognition as shown below.

	<b>Stage 1</b>	<b>Stage 2</b> <b>Credit risk has significantly increased since initial recognition</b>	<b>Stage 3</b> <b>Credit has been impaired</b>
<b>Credit risk has not significantly increased since initial recognition(*)</b>			
Allowance for expected credit losses	Expected 12-month credit losses: Expected credit losses due to possible defaults on financial instruments within 12-month period from the year-end.	Expected lifetime credit losses:  Expected credit losses from all possible defaults during the expected lifetime of the financial instruments.	

(\*) Credit risk may be considered to not have been significantly increased when credit risk is low at the reporting date. The Group considers that a financial asset's credit risk is low when its credit risk rating is equivalent to the generally understood definition of investment grade.

Meanwhile, for purchased or originated credit impaired assets, the allowance for expected credit losses per IFRS 9 is the amount of cumulative changes in the expected lifetime credit losses after its initial recognition.

**Determining a significant increase in credit risk since initial recognition**

The Group assess when a significant increase in credit risk has occurred based on quantitative and qualitative assessments. For the financial assets subject to the impairment provision of IFRS 9, it is considered to have a significant increase in credit risk and are moved to stage 2 when the following indicator exists:

Credit rating decrease by more than the agreed threshold relative to the credit rating at initial recognition

Accounts that is classified as precautionary level defined by Financial Supervisory Service

Borrower has financial difficulties or has early warning signal as defined by the Group

Backstop criteria accounts that are 30 calendar days or more past due.

**Forward-looking information**

Credit losses are the expected cash shortfalls from what is contractually due over the expected life of the financial instrument, discounted at the original effective interest rate. Expected credit losses (ECL) are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. The Group incorporated forward-looking information by using statistical analysis on various

macroeconomic variables. The Group has integrated such results in modelling probability of default (PD)

### **Modeling techniques**

ECL are calculated by multiplying three main components, being the PD, loss given default and the exposure at default, discounted at the original effective interest rate. ECL is measured at the individual financial instrument level, however a collective approach where financial instruments with similar risk characteristics are grouped together, with apportionment to individual financial instruments, is used where effects can only be seen at collective level.

For the IFRS 9 impairment assessment, the Group developed models are used to determine the probability of default, loss given default and exposure at default. For stage 2 and 3, the Group applies lifetime PDs but uses 12 month PDs for stage 1. The ECL drivers of PD, exposure at default and loss given default are modelled at an account level which considers historical data available by the Group.

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As of year-end the Group holds loans and receivables amounting to 267,106,204 million Won in accordance with IAS 39. In relation to this amount, the Group has recognized allowance for credit losses amounting to 1,830,242 million Won.

The expected impact on the allowance for credit losses as of year-end using the Group's system for allowances is as follows.

(Unit : Korean Won in millions)

	Allowance for credit losses per IAS 39 (A)	Allowance for credit losses per IFRS 9 (B)	Increases(B-A)
Deposits	2,458	3,092	634
Debt securities		9,331	9,331
AFS debt securities		4,253	4,253
Held-to-maturity debt securities		5,078	5,078
Loan receivables and other financial assets	1,827,785	2,075,752	247,967
Guarantees	183,247	192,376	9,129
Loan commitments	66,115	104,887	38,772
Total	2,079,605	2,385,438	305,833

## d) Hedge accounting

The requirements for hedge accounting in IFRS 9 has become more lenient as compared to IAS 39. That is, more financial instruments may now be considered to be a hedged item and/or a hedging instrument, the quantitative basis for evaluating high hedge effectiveness (80~125%) has been abolished, and the retroactive assessment requirement has also been abolished. These allow the firms to concentrate on hedging activities.

There are no significant impacts to the Group's financial statements related to hedge accounting as a result of adopting IFRS 9.

## e) Effect on regulatory capital ratios

Based on the analysis on IFRS 9, there are no significant impacts to the regulatory capital ratios.

Enactments to IFRS 15 *Revenue from Contracts with Customers*

The core principle under IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments introduces a 5-step approach to revenue recognition and measurement: 1) Identify the contract with a customer, 2) Identify the performance obligations in the contract, 3) Determine the transaction price, 4) Allocate the transaction price to the performance obligations in the contract, 5) Recognize revenue when (or as) the entity satisfies a performance obligation. This standard will supersede IAS 11 Construction Contracts, IAS 18- Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the

Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC 31 Revenue-Barter Transactions Involving Advertising Services. The enactment is effective for annual periods beginning on or after 1 January 2018. The Group does not expect the enactments to have a significant impact on the consolidated financial statements.

#### Enactments to IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accountings treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations. The enactments are effective for annual periods beginning on or after 1 January 2019.

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IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting and is replaced by model where a right-of-use asset and corresponding liability have to be recognized for all leases by lessees except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by IFRS 16.

In contrast, 1) for finance leases where the Group is a lessee and 2) in cases where the Group is a lessor, the Group do not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognized in the Group's consolidated financial statements.

***Amendments to IFRS 2 Share-based Payment***

The amendments include: 1) when measuring the fair value of share-based payment, the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment should be consistent with the measurement of equity-settled share-based payment, 2) Share-based payment transaction in which the Group settles the share-based payment arrangement net by withholding a specified portion of the equity instruments per statutory tax withholding requirements would be classified as equity-settled in its entirety, if otherwise would be classified as equity-settled without the net settlement feature, and 3) when a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions, the original liability recognized is derecognized and the equity-settled share-based payment is recognized at the modification date fair value. Any difference between the carrying amount of the liability at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately. The amendments are effective for annual periods beginning on or after January 1, 2018. The Group does not expect the amendments to have a significant impact on the consolidated financial statements.

***Amendments to IAS 40 Transfers of Investment Property***

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. The Group does not expect the amendments to have a significant impact on the consolidated financial statements.



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### Enactments to IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation addresses how to determine the date of transaction for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The Group does not expect the enactments to have a significant impact on the consolidated financial statements.

The interpretation is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Entities can apply the interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

### (2) Basis of consolidated financial statement presentation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (including structured entities) controlled by the Bank (the Group). The Group determines that the Group controls an investee if the Group has all the following: 1) power over the investee, 2) exposure, or rights, to variable returns from its involvement with the investee, 3) the ability to use its power over the investee to affect the amount of the investor's returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it still has the power over the investee if the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

The size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

Potential voting rights held by the Group, other vote holders or other parties;

Rights arising from other contractual arrangements; or

Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.



Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, respectively, as appropriate. The carrying amount of non-controlling interests is adjusted to reflect their proportional share of changes in equity subsequent to the initial recognition. Total comprehensive income of subsidiaries is attributed to the owners of the Group and the non-controlling interests even if this result in the non-controlling interests has a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those adopted by the Group.

All intra-group transactions, related assets and liabilities, income and expenses are eliminated in full on consolidation.

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Changes in the Group's ownership interests in subsidiaries, without a loss of control, are accounted for as equity transactions. The carrying amounts of the owners' interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the adjusted non-controlling interests and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When the assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to net income or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

**(3) Business combinations**

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in net income as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the condition for recognition under IFRS 3 are recognized at their fair value, except that:

deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively;

liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and

non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured at the lower of their previous carrying amounts and fair value less costs to sell.

Any excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest (if any) in the acquiree over the net of identifiable assets and liabilities assumed of the acquiree at the acquisition date is recognized as goodwill which is included in intangible assets.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognized immediately in net income as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the

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non-controlling interests proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRSs.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured at fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in net income. Amounts arising from changes in value of interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to net income where such treatment would be appropriate if that interest were disposed of.

In case where i) a common entity ultimately controls over all participating entities, or businesses, in business combination transaction, prior to and after the transaction continuously, and ii) the control is not temporary, the transaction meets the definition of business combination under common control and it is deemed that the transaction only results in the changes in legal substance, not economic substance, from the perspective of the ultimate controlling party. Thus, in such transactions, the acquirer recognizes the assets and liabilities of the acquiree on its financial statements at the book values as recognized in the ultimate controlling party's consolidated financial statements, and the difference between the book value of consideration transferred to and the book value of net assets transferred in is recognized as equity.

**(4) Investments in joint ventures and associates**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in making decision on the financial and operating policy of the investee but is not control or joint control over those policies.

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

The net income of current period and the financial results of the joint ventures and associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and*

*Discontinued Operations.* Under the equity method, an investment in the joint ventures and associates is initially recognized in the consolidated statements of financial position at cost and adjusted thereafter to recognize the Group's share of the net assets of the joint ventures and associates and any

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impairment. When the Group's share of losses of the joint ventures and associates exceeds the Group's interest in the associate (including any long term interests that, in substance, form part of the entity's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint ventures and associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the joint ventures and associates recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognized immediately in net income.

Upon a loss of significant influence over the joint ventures and associates, the Group discontinues the use of the equity method and measures at fair value of any investment that the Group retains in the former joint ventures and associates from the date when the Group loses significant influence. The fair value of the investment is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The Group recognized differences between the carrying amount and fair value in net income and it is included in determination of the gain or loss on disposal of joint ventures and associates. The Group accounts for all amounts recognized in other comprehensive income in relation to that joint ventures and associates on the same basis as would be required if the joint ventures and associates had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by an associate would be reclassified to net income on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to net income as a reclassification adjustment.

When the Group's ownership of interest in an associate or a joint venture decreases but the Group continues to maintain significant influence over an associate or a joint venture, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that decrease in ownership interest if the gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. Meanwhile, if interest on associate or joint venture meets the definition of non-current asset held for sale, it is accounted for in accordance with IFRS 5.

The requirements of IAS 39 *Financial Instruments: Recognition and Measurement* to determine whether there has been a loss event are applied to identify whether it is necessary to recognize any impairment loss with respect to the Group's investment in the joint ventures and associates. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized is not allocated to any asset (including goodwill), which forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When a subsidiary transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

(5) Investment in joint operation

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the

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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.

When the Group operates as a joint operator, it recognizes in relation to its interest in a joint operation:

- (a) its assets, including its share of any assets held jointly;
- (b) its liabilities, including its share of any liabilities incurred jointly;
- (c) its revenue from the sale of its share of the output arising from the joint operation;
- (d) its share of the revenue from the sale of the output by the joint operation; and
- (e) its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When the Group enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, it is conducting the transaction with the other parties to the joint operation and, as such, the Group recognizes gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.

When the Group enters into a transaction with a joint operation in which it is a joint operator, such as a purchase of assets, it does not recognize its share of the gains and losses until it resells those assets to a third party.

### **(6) Revenue recognition**

#### **1) Interest income**

Interest income is recognized when earned. Interest income on financial assets that are classified as loans and receivables, available-for-sale or held-to-maturity is determined using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset (or group of financial assets) and of allocating the interest income over the expected life of the asset. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable that is an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

#### **2) Loan origination fees and costs**

The commission fees earned on loans, which is part of the effective interest rate of loans, is accounted for as deferred origination fees. Incremental cost related to the acquisition or disposal is accounted for as deferred origination costs, and it is amortized on the effective interest method and included in interest revenues on loans.

#### **3) Fees and commissions income**



Commitment and utilization fees are determined as a percentage of the outstanding facility. If it is unlikely that a specific lending arrangement will be entered into, such fees are taken to net income over the life of the facility, otherwise, they are deferred and included in the effective interest rate on the advance.

Fees in respect of services are recognized as the right to consideration accrues through the provision of the service to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and determinable.

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Credit card fees include commission received from merchants for processing credit card transaction and annual fees received from credit card holders. Revenue from the commission is accrued to net income when the service is performed and annual fee is deferred and recognized as income over the period of the service provided.

## 4) Trust fees and compensation related to trust accounts

The Group receives fees for its management of unconsolidated trust assets, which are recognized on an accrual basis when the management services are provided and earned. The Group also is entitled to receive performance-based fees for certain trust accounts. These performance-based fees are recognized at the end of the performance period. In addition, a certain trust account which the Group guarantees to repay the principals and minimum interests of the trust account to its beneficiaries shall be included in the consolidated financial statements. The Group recognizes incomes when earned and expenses when interests to be paid to beneficiaries are accrued.

## (7) Accounting for foreign currencies

The Group's consolidated financial statements are presented in Korean Won, which is the functional currency of the Bank. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at its prevailing exchange rates at the date. Foreign exchange differences on monetary items that qualify as hedging instruments in a cash flow hedge or that form part of net investment in foreign operations are recognized in equity.

A monetary available-for-sale ( AFS ) financial asset is treated as if it were carried at amortized cost in the foreign currency. Accordingly, for such financial assets, exchange differences resulting from retranslating amortized cost are recognized in net income.

Non-monetary items denominated in foreign currencies that are stated at fair value are translated into Korean Won at foreign exchange rates at the dates the values were determined. Translation differences arising on non-monetary items measured at fair value are recognized in net income except for differences arising on non-monetary AFS financial assets, for example equity shares, which are included in the AFS reserve in equity unless the asset is the hedged item in a fair value hedge.

The Group identifies the most appropriate functional currency for each foreign operation based on the foreign operation's activities. If Korean Won is not the foreign operation's functional currency, its assets and liabilities, including goodwill and fair value adjustments arising on acquisition, are translated into Korean Won at foreign exchange rates at the end of each reporting date while the revenues and expenses are translated into Korean Won at average exchange rates for the period unless these do not approximate to the foreign exchange rates at the dates of the transactions. Foreign exchange differences arising on the translation of a foreign operation are recognized directly in equity and included in net income on its disposal.

## (8) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, interest-earning deposits with original maturities of up to 90 days of acquisition date and highly liquid investment assets that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

## (9) Financial assets and financial liabilities

## 1) Financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose term requires delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

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On initial recognition, financial assets are classified into held-for-trading, designated as at fair value through profit or loss ( FVTPL ), AFS financial assets, held-to-maturity ( HTM ) investments and loans and receivables. Regular way purchases of financial assets classified as loans and receivables are recognized on settlement date; all other regular way transactions in financial assets are recognized on trade date.

*a) Held-for-trading:*

A financial asset is classified as held-for-trading if it is acquired principally for sale in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative (not in a qualifying hedge relationship). Held-for-trading financial assets are recognized at fair value with transaction costs being recognized in net income. Subsequently they are measured at fair value. Gains and losses on held-for-trading financial assets are recognized in net income as they arise.

*b) Designated as at FVTPL:*

Financial assets may be designated as at FVTPL only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; (b) applies to a group of financial assets, financial liabilities or both, which is managed and performance is evaluated on a fair value basis; or (c) is related to a contract containing one or more embedded derivative that would be required to be separated from the host contract.

Financial assets designated by the Group on initial recognition as at FVTPL are recognized at fair value, with transaction costs recognized in net income, and are subsequently measured at fair value. Gains and losses on financial assets that are designated as at FVTPL are recognized in net income as they arise.

*c) AFS financial assets:*

Financial assets that are not classified as HTM; held-for-trading; designated as at FVTPL; or loans and receivables, are classified as AFS. Financial assets can be designated as AFS on initial recognition. AFS financial assets are initially recognized at fair value plus directly related transaction costs. They are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost and classified as AFS financial assets. Impairment losses in monetary and non-monetary AFS financial assets and dividends on non-monetary financial assets are recognized in net income. Interest revenue on monetary financial assets is calculated using the effective interest method and recognized as a net income. Changes in the fair value of AFS financial assets other than those resulting from retranslation of monetary AFS at the reporting date, and any related tax are reported in a separate component of shareholders' equity until disposal, and then the cumulative gain or loss is recognized in net income.

*d) HTM investments:*

A financial asset may be classified as a HTM investment only if it has fixed or determinable payments, a fixed maturity, and the Group has the positive intention and ability to hold the financial asset to maturity. HTM investments are initially recognized at fair value plus directly related transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment losses.

*e) Loans and receivables:*

Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except those that are classified as AFS or as held-for-trading, or designated as at

FVTPL. Loans and receivables are initially recognized at fair value plus directly related transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment losses. Interest income is recognized using the effective interest method, except for the short-term receivables to which the present value discount is not meaningful.

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### 2) Financial liabilities

On initial recognition financial liabilities are classified into held-for-trading; designated as at FVTPL; or amortized cost. Issues of equity or financial liabilities measured at amortized cost are recognized on settlement date; all other regular way transactions in financial instruments are recognized on trade date.

#### a) Held-for-trading:

A financial liability is classified as held-for-trading if it is incurred principally for repurchase in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is an evidence of short-term profit taking, or it is a derivative (not in a qualifying hedge relationship). Held-for-trading financial liabilities are recognized at fair value with transaction costs being recognized in net income. Subsequently, they are measured at fair value. Gains and losses are recognized in net income as they arise.

#### b) Designated as at FVTPL:

Financial liabilities may be designated as at FVTPL only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; (b) applies to a group of financial liabilities or both that the Group manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract. Financial liabilities that the Group designates on initial recognition as being at FVTPL are recognized at fair value, with transaction costs being recognized in net income, and are subsequently measured at fair value. Gains and losses on financial liabilities that are designated as at FVTPL are recognized in net income as they arise.

#### c) Amortized cost:

All other financial liabilities are measured at amortized cost using the effective interest method.

### 3) Reclassifications

Held-for-trading and AFS financial assets that meet the definition of loans and receivables (non-derivative financial assets with fixed or determinable payments that are not quoted in an active market) may be reclassified to loans and receivables if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. The Group typically regards the foreseeable future as twelve months from the date of reclassification. Reclassifications are made at fair value. This fair value becomes the asset's new cost or amortized cost as appropriate. Gains and losses recognized up to the date of reclassification are not reversed.

### 4) Derecognition of financial assets and liabilities

The Group derecognizes a financial asset when the contractual right to the cash flows from the asset is expired, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another company. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulated gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset, or it retains a residual interest and such a retained interest indicates that

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the transferor has neither transferred nor retained substantially all the risks and rewards of ownership and has retained control of the transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair value of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part that is no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair value of those parts.

The Group derecognizes the financial liability, when Group's obligations are discharged, cancelled or expired. The difference between paid cost and the carrying amount of financial liabilities is recorded in profit or loss.

#### 5) Fair value of financial assets and liabilities

Financial instruments classified as held-for-trading or designated as at FVTPL and financial assets classified as AFS are recognized in the financial statements at fair value. All derivatives are measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where these are available. The Group characterizes active markets as those in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Where a financial instrument is not in active market characterized by low transaction volumes, price quotations which vary substantially among market participants, or in which minimal information is released publicly, fair values are established using valuation techniques relying on alternative market data or internally developed models using significant inputs that are generally readily observable from objective sources. Market data includes prices of financial instruments with similar maturities and characteristics, duration, interest rate yield curves, and measures of volatility. The amount determined to be fair value may incorporate the management of the Group's own assumptions (including assumptions that the Group believes market participants would use in valuing the financial instruments and assumptions relating to appropriate risk adjustments for nonperformance and lack of marketability).

The valuation techniques used to estimate the fair value of the financial instruments include market approach and income approach, each of which involves a significant degree of judgment. Under the market approach, fair value is determined by reference to a recent transaction involving the financial instruments or by reference to observable valuation measures for comparable companies or assets.

Under the income approach, fair value is determined by converting future amounts (e.g., cash flows or earnings) to a single present amount (discounted) using current market expectations about the future amounts. In determining value under this approach, the Group makes assumptions regarding, among other things, revenues, operating income, depreciation and amortization, capital expenditures, income taxes, working capital needs, and terminal value of the financial investments. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data.

The following are descriptions of valuation methodologies used by the Group to measure various financial instruments at fair value.



a) Financial assets at FVTPL and AFS financial assets:

The fair value of the securities included in financial assets at FVTPL and AFS financial assets are recognized in the consolidated statements of financial position based on available quoted market prices. For debt

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securities traded in the OTC market, the Group generally determines fair value based on prices obtained from independent pricing services. Specifically, with respect to independent pricing services, the Group obtains three prices per instrument from reputable independent pricing services in Korea, and generally uses the lowest of the prices obtained from such services without further adjustment. For non-marketable equity securities, the Group obtains prices from the independent pricing services. The Group validates prices received from such independent pricing services using a variety of means, including verification of the qualification of the independent pricing services, corroboration of the pricing by comparing the prices among the independent pricing services and by reference to other available market data, and review of the pricing model and assumptions used by the independent pricing services by the Group's personnel who are familiar with market-related conditions.

## b) Derivative assets and liabilities:

Quoted market prices are used for the Group's exchange-traded derivatives, such as certain interest rate futures and option contracts. All of the Group's derivatives that are traded in OTC markets where quoted market prices are not readily available are valued using internal valuation techniques. Valuation techniques and inputs to internally developed models depend on the type of derivative and nature of the underlying rate, price or index upon which the derivative's value is based. If the model inputs for certain derivatives are not observable in a liquid market, significant judgments on the level of inputs used for valuation techniques are required.

## c) Valuation Adjustments:

By using derivatives, the Group is exposed to credit risk if counterparties to the derivative contracts do not perform as expected. If counterparty fails to perform, counterparty credit risk is equal to the amount reported as a derivative asset in the consolidated statements of financial position. The amounts reported as a derivative asset are derivative contracts in a gain position. Few of the Group's derivatives are listed on an exchange. The majority of derivative positions are valued using internally developed models that use as their basis observable market inputs. Therefore, an adjustment is necessary to reflect the credit quality of each counterparty to arrive at fair value. Counterparty credit risk adjustments are applied to derivative assets, such as OTC derivative instruments, when the market inputs used in valuation models may not be indicative of the creditworthiness of the counterparty. Adjustments are also made when valuing financial liabilities to reflect the Group's own credit standing.

The adjustment is based on probability of default of a counterparty and loss given default. The adjustment also takes into account contractual factors designed to reduce the Group's credit exposure to each counterparty. To the extent derivative assets (liabilities) are subject to master netting arrangements, the exposure used to calculate the credit risk adjustment is net of derivatives in a loss (gain) position with the same counterparty and cash collateral received (paid).

## 6) Impairment of the financial assets

The Group assesses at the end of each reporting date whether there is any objective evidence that a financial asset or group of financial assets classified as AFS, HTM or loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurs if there is an objective evidence of impairment as result of one or more events that occurred after the initial recognition of an asset and that event (or events) has an impact on the estimated future cash flows of the financial asset.

## a) Financial assets carried at amortized cost:

If there is an objective evidence that an impairment loss on a financial asset or group of financial assets classified as HTM investments or as loans and receivables has been incurred, the Group measures the amount of the loss as the

difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition. For collateralized loans and receivables, estimated future cash flows include cash flows that may result from foreclosure less the costs of obtaining and selling the collateral.

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Impairment losses are assessed individually for financial assets that are individually significant and assessed either individually or collectively for assets that are not individually significant. In making collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted, on the basis of observable data, to reflect current conditions not affecting the period of historical experience.

Impairment losses are recognized in net income and the carrying amount of the financial asset or group of financial assets is reduced by establishing a provision for impairment losses. If, in a subsequent period, the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognized, the previously recognized loss is reversed by adjusting the provision. Once an impairment loss has been recognized on a financial asset or group of financial assets, interest income is recognized on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

It is not the Group's usual practice to write-off the asset at the time an impairment loss is recognized. Impaired loans and receivables are written off (i.e. the impairment provision is applied in writing down the loan's carrying value in full) when the Group concludes that there is no longer any realistic prospect of recovery of part or the entire loan. Amounts recovered after a loan has been written off are reflected to the provision for the period in which they are received.

**b) Financial assets carried at fair value:**

When a decline in the fair value of a financial asset classified as AFS has been recognized directly in other comprehensive income and there is an objective evidence that the asset is impaired, the cumulative loss is removed from other comprehensive income and recognized in net income. The loss is measured as the difference between the amortized cost of the financial asset and its current fair value. Impairment losses on AFS equity instruments are not reversed through net income, but those on AFS debt instruments are reversed, if there is a decrease in the cumulative impairment loss that is objectively related to a subsequent event.

**(10) Offsetting financial instruments**

Financial assets and liabilities are presented in net in the consolidated statements of financial position when the Group has an enforceable legal right to set off and an intention to settle on a net basis or to realize an asset and settle the liability simultaneously.

**(11) Investment properties**

The Group classifies a property held to earn rentals and/or for capital appreciation as an investment property. Investment properties are measured initially at cost, including transaction costs, less subsequent depreciation and impairment.

Subsequent costs are included in the carrying amount of the asset or recognized as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

While land is not depreciated, all other investment properties are depreciated based on the respective assets' estimated useful lives using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any change in estimate accounted for on a prospective

basis.

An investment property is derecognized from the consolidated financial statements on disposal or when it is permanently withdrawn from use and no future economic benefits are expected even from its disposal. The gain

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or loss on derecognition of an investment property is calculated as the difference between the net disposal proceeds and the carrying amount of the property and is recognized in profit or loss in the period of the derecognition.

**(12) Premises and equipment**

Premises and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of premises and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs to replace part of the premises and equipment are recognized in carrying amount of an asset or as an asset if it is probable that the future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

While land is not depreciated, for all other premises and equipment, depreciation is charged to net income on a straight-line basis on the estimated economic useful lives as follows:

	<b>Useful life</b>
Buildings used for business purpose	35 to 57 years
Structures in leased office	4 to 5 years
Properties for business purpose	4 to 5 years
Leased assets	Useful lives of the same kind or

similar other premises and equipment

The Group reassesses the depreciation method, the estimated useful lives and residual values of premises and equipment at the end of each reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate. When the carrying amount of a fixed asset exceeds the estimated recoverable amount, the carrying amount of such asset is reduced to the recoverable amount.

**(13) Intangible assets and goodwill**

Intangible assets are stated at the manufacturing cost or acquisition cost plus additional incidental expenses less accumulated amortization and accumulated impairment losses. The Group's intangible assets are amortized on a straight-line basis on the estimated economic useful lives as follows. The estimated useful life and amortization method are reviewed at the end of each reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

	<b>Useful life</b>
Patents	10 years
Development costs	5 years
Software and others	4 to 5 years

In addition, when an indicator that intangible assets are impaired is noted, and the carrying amount of the asset exceeds the estimated recoverable amount of the asset, the carrying amount of the asset is reduced to its recoverable

amount immediately.

Goodwill acquired in a business combination is included in intangible assets. Goodwill is not amortized but tested for impairment annually to the extent of reporting unit and when there is any indication of impairment.

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Goodwill acquired is allocated to each of the Group's cash-generating units ( CGU ) expected to benefit from the synergies of the combination. A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro-rata basis based on the carrying amount of each asset in the CGU. Any impairment loss for goodwill is recognized directly in net income in the consolidated statements of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

**(14) Impairment of non-monetary assets**

Intangible assets with indefinite useful lives such as goodwill and membership, or intangible assets that are not yet available for use are tested for impairment annually, regardless of whether or not there is any indication of impairment. All other assets are tested for impairment when there is an objective indication that the carrying amount may not be recoverable, and if the indication exists. The Group estimates the recoverable amount. Recoverable amount is the higher of value in use and net fair value less costs to sell. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and such impairment loss is recognized immediately in net income.

**(15) Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**1) As a lessor**

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases being the minimum lease payments and any unguaranteed residual value discount interest rate implicit in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term. Operating lease assets are included within other assets and depreciated over their useful lives.

**2) As a lessee**

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Contingent rentals arising under finance leases are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as expenses in the period in which they are incurred.



(16) Derivative instruments

Derivative instruments are classified as forward, futures, option, and swap, depending on the types of transactions and are classified as either trading or hedging depending on the purpose. Derivatives are initially

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recognized at fair value at the date the derivative contract is entered into and are subsequently measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in net income immediately unless the derivative is designated and effective as a hedging instrument.

A derivative embedded in a contract is accounted for as a stand-alone derivative if its economic characteristics are not closely related to the economic characteristics of the host contract; unless the entire contract is measured at fair value with changes in fair value recognized in net income.

The Group designates certain hedging instruments to (a) hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment (fair value hedge); (b) hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction (cash flow hedge); and (c) hedge of a net investment in a foreign operation.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

#### 1) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognized in net income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Hedge accounting is discontinued when the Group revokes the hedging relationship or when the hedging instrument is no longer qualified for hedge accounting. If the hedging instrument no longer meets the criteria for hedge accounting, the fair value adjustment to the carrying amount of the hedged item is amortized to net income from that date to maturity using the effective interest method.

#### 2) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in net income. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to net income when the hedged item is recognized in net income.

Hedge accounting is discontinued when the hedging instrument is expired or sold, or it is no longer qualified for hedge accounting, and any cumulative gain or loss in other comprehensive income remains in equity until the forecast transaction is ultimately recognized in net income. When a forecasted transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in net income.

#### 3) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The effective portion of changes in the fair value of the hedging instrument is recognized in equity while the ineffective portion is recognized immediately in net income. The cumulated gain and loss in other comprehensive income is reclassified from equity to profit or loss on the disposal or partial disposal of the foreign operations.

#### (17) Assets (or Disposal group) held for sale

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this, the non-current asset

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(or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

**(18) Provisions**

The Group recognizes provision if it has a present or contractual obligations as a result of the past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation is reliably estimated. Provision is not recognized for the future operating losses.

The Group recognizes provision related to the unused portion of point rewards earned by credit card customers, payment guarantees, loan commitment and litigations. Where the Group is required to restore a leased property that is used as a branch, to an agreed condition after the contractual term expires, the present value of expected amounts to be used to dispose, decommission or repair the facilities is recognized as an asset retirement obligation.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the obligations as a whole. Although the likelihood of outflow for any one item may be small, if it is probable that some outflow of resources will be needed to settle the obligations as a whole, a provision is recognized.

**(19) Capital and compound financial instruments**

The Group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities. The components of a compound financial instrument issued by the Group

are classified and accounted for separately as financial liabilities or equity as appropriate.

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If the Group reacquires its own equity instruments, those instruments ( treasury shares ) are presented as a deduction from total equity. The gain or loss on the purchase, sale, issue, or cancellation of treasury shares is not recognized in net income but recognized directly in equity.

**(20) Financial guarantee contracts**

Under a financial guarantee contract, the Group, in return for a fee, undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so.

A financial guarantee is recognized as a liability; initially at fair value and will be amortized, if not designated as at FVTPL, subsequently at the higher of its initial value less cumulative amortization and any provision under the contract measured in accordance with provision policy. Amortization is calculated so as to recognize fees receivable in profit or loss over the period of the guarantee.

**(21) Employee benefits and pensions**

The Group recognizes the undiscounted amount of short-term employee benefits expecting payment in exchange for the services, when employee renders services. Also, the Group recognizes expenses and liabilities in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences. Though the Group may have no legal obligation to pay a bonus, considering some cases, the Group has a practice of paying bonuses. In such cases, the Group has a constructive obligation, and thus recognizes expenses and liabilities when the employees render service.

The Group is operating defined contribution retirement pension plans and defined benefit retirement pension plans. Contributions to defined contribution retirement pension plans are recognized as an expense when employees have rendered service entitling them to the contributions. For defined benefit retirement pension plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur.

Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income), and remeasurement.

The Group presents the service cost and net interest expense (income) components in profit or loss, and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Liabilities for termination benefits are recognized at the earlier of either 1) when the Group has become not able to cancel its proposal for termination benefits, or 2) when the Group has recognized the cost of restructuring that

accompanies the payment of termination benefits.

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**Table of Contents****(22) Income taxes**

Income tax expense represents the sum of the tax currently payable and deferred tax. Current income tax expense approximates taxes to be paid or refunded for the current period and deferred income tax expense is provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences, including operating losses and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the carrying values of assets and liabilities for financial reporting purposes and their tax bases. Deferred income tax benefit or expense is then recognized for the change in deferred tax assets or liabilities between periods. Deferred tax assets and liabilities are measured at the tax rates on the date of enactment or substantive enactment that are expected to apply in the period in which the liability is settled or the asset realized. Deferred tax assets, including the carryforwards of unused tax losses, are recognized to the extent it is probable that the deferred tax assets will be realized.

Deferred income tax assets and liabilities are offset if, and only if the Group has a legally enforceable right to offset current tax assets against current tax liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred liabilities are not recognized if the temporary difference arises from goodwill. Deferred tax assets or liabilities are not recognized if they arise from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

**(23) Earnings per share ( EPS )**

Basic EPS is calculated by earnings subtracting the dividends paid to holders of preferred stock and hybrid securities from the net income attributable to ordinary shareholders from the statements of comprehensive income and dividing by the weighted average number of common shares outstanding. Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of all dilutive potential common shares.

**3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS**

The significant accounting estimates and assumptions are continually evaluated and are based on historical experiences and various factors including expectations of future events that are considered to be reasonable. Actual results can differ from those estimates based on such definitions.

The significant judgments which management has made about the application of the Group's accounting policies and key sources of uncertainty in estimate do not differ from those used in preparing the consolidated financial statements for the year ended December 31, 2016.

**(1) Income taxes**



The Group is subject to income taxes in numerous jurisdictions, which requires significant judgment in determining realization of deferred tax. Actual tax payment may be different from the provision estimate and such difference may affect the income tax expense. There are various transactions and calculations for which the

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ultimate tax determination is uncertain. Deferred tax assets relating to tax losses carried forward and deductible temporary differences are recognized, only to the extent that it is probable that future taxable profit will be available against which the tax losses carried forward and the deductible temporary differences can be utilized. This assessment requires significant management estimates and judgments. Future taxable profit is estimated based on, among other relevant factors, forecasted operating results, which are based on historical financial performance. In the event the Group was to determine that it would be able to realize its deferred income tax assets in the future at an amount different than their net recorded amount, the Group would make an adjustment to the provision for income taxes at such time.

**(2) Valuation of financial instruments**

Financial instruments classified as held-for trading or designated as at FVTPL and financial instruments classified as AFS are recognized in the financial statements at fair value. All derivatives are measured at fair value. Financial instruments, which are not traded in active market will have less objective fair value and require broad judgment in liquidity, concentration, uncertainty in market factors and assumption in price determination and other risks. The fair value of those assets is established by using valuation techniques.

As described in the significant accounting policies in Note 2-(9)-5), Fair value of financial assets and liabilities, a range of valuation techniques, which include market approach and income approach and internally developed models that incorporate various types of assumptions and variables, are used to determine the fair value of financial instruments.

**(3) Impairment of loan and receivables**

Impairment loss for loan and receivables carried at amortized cost is measured as the difference between such assets carrying value and the present value of estimated recoverable cash flows (excluding any future loss events that have not occurred) discounted by using the initial effective interest rate. In the event that the estimated cash flow of the financial asset is affected by one or more loss events occurred after initial recognition, it is determined that the financial asset is impaired.

The objective evidences that a financial asset is impaired incorporate below loss events:

**1) Financial assets that are individually significant**

Delinquent loans

Debt in restructuring

Probable state of debtor's bankruptcy or liquidation

Occurrence of significant reduction in the value of securities

Breach of limit or debt covenant

Deterioration of operating performance

2) Financial assets that are not individually significant

Repayment status of debtor or observable macro-economic indexes

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant (individual evaluation of impairment), and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (collective evaluation of impairment).

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There are two components to the Group's loan impairment provisions (individual and collective).

Individual assessment of impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's carrying amount. This process normally encompasses management's best estimate, such as operating cash flow of debtor and net realizable value of any collateral held and the timing of anticipated receipts.

Collective assessment of impairment losses are established on a portfolio basis using the methodology based on historical loss experience. The methodology based on historical loss experience is used to estimate inherent incurred loss on groups of assets for collective evaluation of impairment. Such methodology incorporates factors such as type of product and debtors, credit rating, portfolio size, loss emergence period and recovery period and applies probability of default on each assets (or pool of assets) and loss given default by type of collateral. Also, consistent assumptions are applied to form a formula-based model in estimating inherent loss and to determine factors on the basis of historical loss experience and current condition. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### (4) Defined benefit plan

The Group operates defined benefit retirement pension plans. Defined benefit retirement pension plans are measured through actuarial valuation and the Group estimates discount rate, future wage growth rate, mortality rates to produce actuarial valuation. Defined benefit retirement pension plans contain significant uncertainty in these estimates due to their long-term characteristic.

## **4. RISK MANAGEMENT**

The Group's operating activity is exposed to various financial risks. The Group is required to analyse and assess the level of complex risks, and determine the permissible level of risks and manage such risks. The Group's risk management procedures have been established to improve the quality of assets for holding or investment purposes by making decisions as how to avoid or mitigate risks through the identification of the source of the potential risks and their impact.

The Group has established an approach to manage the acceptable level of risks and reduce the excessive risks in financial instruments in order to maximize the profit given risks present, for which the Group has implemented processes for risk identification, assessment, control, and monitoring and reporting.

The risk is managed by the risk management department in accordance with the Group's risk management policy. The Risk Management Committee makes decisions on the risk strategies such as the avoidance of concentration on capital at risk and the establishment of acceptable level of risk.

### (1) Credit risk

Credit risk represents the possibility of financial losses incurred when the counterparty fails to fulfill its contractual obligations. The goals of credit risk management are to maintain the Group's credit risk exposure to a permissible degree and to optimize its rate of return considering such credit risk.

#### 1) Credit risk management

The Group considers the probability of failure in performing the obligation of its counterparties, credit exposure to the counterparty, the related default risk and the rate of default loss. The Group uses the credit rating model to assess the possibility of counterparty's default risk; and when assessing the obligor's credit grade, the Group utilizes credit grades derived using statistical methods.

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In order to manage credit risk limit, the Group establishes the appropriate credit line per obligor, company or industry. It monitors obligor's credit line, total exposures and loan portfolios when approving the loan.

The Group mitigates credit risk resulting from the obligor's credit condition by using financial and physical collateral, guarantees, netting agreements and credit derivatives. The Group has adopted the entrapment method to mitigate its credit risk. Credit risk mitigation is reflected in qualifying financial collateral, trade receivables, guarantees, residential and commercial real estate and other collaterals. The Group regularly performs a revaluation of collateral reflecting such credit risk mitigation.

## 2) Maximum exposure to credit risk

The Group's maximum exposure to credit risk refers to net book value of financial assets net of allowances, which shows the uncertainties of maximum changes of net value of financial assets attributable to a particular risk without considering collateral and other credit enhancements obtained. However, the maximum exposure is the fair value amount (recorded on the books) for derivatives, maximum contractual obligation for payment guarantees and loan commitment for loan contracts.

The maximum exposure to credit risk is as follows (Unit: Korean Won in millions):

	December 31, 2016	December 31, 2017
<b>Loans and receivables:</b>		
Korean treasury and government agencies	16,058,305	8,823,584
Banks	20,242,260	26,845,309
Corporates	88,985,566	90,570,551
Consumers	133,106,502	140,866,760
Sub-total	258,392,633	267,106,204
<b>Financial assets at fair value through profit or loss ( FVTPL ):</b>		
Deposits indexed to gold prices	26,180	25,972
Debt securities held for trading	2,644,916	2,644,333
Designated at FVTPL	4,348	9,694
Derivative assets for trading	2,898,295	3,115,775
Sub-total	5,573,739	5,795,774
Available-for-sale ( AFS ) debt securities	16,541,888	13,229,244
Held-to-maturity ( HTM ) securities	13,910,251	16,749,296
Derivative assets for hedging	140,577	59,272
<b>Off-balance sheet items:</b>		
Guarantees	14,761,784	12,859,715
Loan commitments	83,795,496	80,760,325
Sub-total	98,557,280	93,620,040

Total

393,116,368

396,559,830

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## a) Credit risk exposure by geographical areas

The following tables analyze credit risk exposure by geographical areas (Unit: Korean Won in millions):

	December 31, 2016						Total
	Korea	China	USA	UK	Japan	Others <sup>(*)</sup>	
Loans and receivables	241,380,250	4,286,018	2,792,088	895,874	323,470	8,714,933	258,392,633
Financial assets at							
FVTPL	5,205,849	6,525		261,547	81	99,737	5,573,739
AFS debt securities	16,155,290	13,845	137,861			234,892	16,541,888
HTM securities	13,758,863		20,336			131,052	13,910,251
Derivative assets for							
hedging	74,166			66,342		69	140,577
Off-balance sheet items	96,245,092	737,513	103,130	80,831	23,250	1,367,464	98,557,280
<b>Total</b>	<b>372,819,510</b>	<b>5,043,901</b>	<b>3,053,415</b>	<b>1,304,594</b>	<b>346,801</b>	<b>10,548,147</b>	<b>393,116,368</b>

	December 31, 2017						Total
	Korea	China	USA	UK	Japan	Others <sup>(*)</sup>	
Loans and receivables	250,678,479	4,104,912	2,823,247	1,094,988	381,890	8,022,688	267,106,204
Financial assets at							
FVTPL	5,551,870	2,937		148,955		92,012	5,795,774
AFS debt securities	12,407,602	52,259	151,131			618,252	13,229,244
HTM securities	16,606,692		63,732			78,872	16,749,296
Derivative assets for							
hedging	16,590			42,682			59,272
Off-balance sheet items	91,603,852	529,193	172,570	66,974	25,039	1,222,412	93,620,040
<b>Total</b>	<b>376,865,085</b>	<b>4,689,301</b>	<b>3,210,680</b>	<b>1,353,599</b>	<b>406,929</b>	<b>10,034,236</b>	<b>396,559,830</b>

(\*) Others consist of financial assets in Indonesia, Vietnam, Panama and the European countries and others.

## b) Credit risk exposure by industries

The following tables analyze credit risk exposure by industries, which are service, manufacturing, finance and insurance, construction, individuals and others in accordance with the Korea Standard Industrial Classification Code (Unit: Korean Won in millions):

	December 31, 2016						Total
	Service	Manufacturing	Finance and	Construction	Individuals	Others	



**insurance**

Loans and receivables	46,040,278	35,652,974	37,711,983	3,789,670	125,558,637	9,639,091	258,392,633
Financial assets at FVTPL	77,198	360,881	4,093,567	24,140	993	1,016,960	5,573,739
AFS debt securities	1,092,279	57,781	9,568,151	63,166		5,760,511	16,541,888
HTM securities	1,673,971		8,290,451	251,599		3,694,230	13,910,251
Derivative assets for hedging			140,577				140,577
Off-balance sheet items	18,423,611	26,878,320	9,927,574	4,621,971	33,603,651	5,102,153	98,557,280
<b>Total</b>	<b>67,307,337</b>	<b>62,949,956</b>	<b>69,732,303</b>	<b>8,750,546</b>	<b>159,163,281</b>	<b>25,212,945</b>	<b>393,116,368</b>

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	<b>December 31, 2017</b>						
	<b>Finance and</b>						
	<b>Service</b>	<b>Manufacturing</b>	<b>insurance</b>	<b>Construction</b>	<b>Individuals</b>	<b>Others</b>	<b>Total</b>
Loans and receivables	47,192,641	34,502,509	38,260,051	3,574,746	133,094,287	10,481,970	267,106,204
Financial assets at FVTPL	100,766	83,239	4,640,068	15,073	1,040	955,588	5,795,774
AFS debt securities	707,737	37,719	7,331,774	153,534		4,998,480	13,229,244
HTM securities	1,348,754		10,962,149	296,214		4,142,179	16,749,296
Derivative assets for hedging			59,272				59,272
Off-balance sheet items	16,892,926	21,427,378	9,841,379	3,842,479	36,928,554	4,687,324	93,620,040
<b>Total</b>	<b>66,242,824</b>	<b>56,050,845</b>	<b>71,094,693</b>	<b>7,882,046</b>	<b>170,023,881</b>	<b>25,265,541</b>	<b>396,559,830</b>

## 3) Credit risk of loans and receivables

The credit exposure of loans and receivables by customer and loan classification are as follows (Unit: Korean Won in millions):

	<b>December 31, 2016</b>							
	<b>Corporates</b>							
	<b>Korean treasury and government agencies</b>	<b>Banks</b>	<b>General business</b>	<b>Small and medium sized enterprise</b>	<b>Project financing and others</b>	<b>Sub-total</b>	<b>Consumers</b>	<b>Total</b>
Loans and receivables neither overdue nor impaired	16,062,399	20,258,860	49,815,352	31,520,617	7,142,440	88,478,409	132,195,005	256,994,673
Loans and receivables overdue but not impaired			48,294	57,245		105,539	765,829	871,368
Impaired loans and receivables			1,404,568	429,955	208,372	2,042,895	510,793	2,553,688
Gross loans and receivables	16,062,399	20,258,860	51,268,214	32,007,817	7,350,812	90,626,843	133,471,627	260,419,729

Allowance for credit losses	4,094	16,600	1,156,000	424,142	61,135	1,641,277	365,125	2,027,096
Total, net	16,058,305	20,242,260	50,112,214	31,583,675	7,289,677	88,985,566	133,106,502	258,392,633

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<b>December 31, 2017</b>								
<b>Corporates</b>								
	<b>Korean treasury and government agencies</b>	<b>Banks</b>	<b>General business</b>	<b>Small and medium sized enterprise</b>	<b>Project financing and others</b>	<b>Sub-total</b>	<b>Consumers</b>	<b>Total</b>
Loans and receivables neither overdue nor impaired	8,825,767	26,861,286	50,463,112	34,107,547	5,547,950	90,118,609	139,886,407	265,692,069
Loans and receivables overdue but not impaired	8		65,616	63,067		128,683	878,406	1,007,097
Impaired loans and receivables			1,402,131	251,431	46,717	1,700,279	537,001	2,237,280
Gross loans and receivables	8,825,775	26,861,286	51,930,859	34,422,045	5,594,667	91,947,571	141,301,814	268,936,446
Allowance for credit losses	2,191	15,977	1,078,733	267,162	31,125	1,377,020	435,054	1,830,242
Total, net	8,823,584	26,845,309	50,852,126	34,154,883	5,563,542	90,570,551	140,866,760	267,106,204

## a) Credit quality of loans and receivables

The Group manages credit quality of its loans and receivables, (neither overdue nor impaired, net of allowance) through an internal rating system. Segregation of credit quality is as follows (Unit: Korean Won in millions):

<b>December 31, 2016</b>								
<b>Corporates</b>								
	<b>Korean treasury and government agencies</b>	<b>Banks</b>	<b>General business</b>	<b>Small and medium sized enterprise</b>	<b>Project financing and others</b>	<b>Sub-total</b>	<b>Consumers</b>	<b>Total</b>
Upper grade <sup>(*1)</sup>	16,058,288	20,242,260	41,461,420	18,755,963	5,337,033	65,554,416	128,374,017	230,228,981
Lower grade <sup>(*2)</sup>	17		7,941,871	12,550,282	1,763,658	22,255,811	3,680,920	25,936,748

Total	16,058,305	20,242,260	49,403,291	31,306,245	7,100,691	87,810,227	132,054,937	256,165,729
Value of collateral <sup>(*3)</sup>		358,456	18,003,674	25,493,006	3,996,162	47,492,842	111,054,910	158,906,208

**December 31, 2017**  
**Corporates**

	<b>Korean treasury and government agencies</b>	<b>Banks</b>	<b>General business</b>	<b>Small and medium sized enterprise</b>	<b>Project financing and others</b>	<b>Sub-total</b>	<b>Consumers</b>	<b>Total</b>
Upper grade <sup>(*1)</sup>	8,823,576	26,845,309	43,613,460	23,191,627	4,623,750	71,428,837	135,893,496	242,991,218
Lower grade <sup>(*2)</sup>			6,565,274	10,767,062	898,536	18,230,872	3,835,030	22,065,902
Total	8,823,576	26,845,309	50,178,734	33,958,689	5,522,286	89,659,709	139,728,526	265,057,120
Value of collateral <sup>(*3)</sup>	1,409	483,469	19,868,185	29,600,362	2,642,674	52,111,221	114,441,637	167,037,736

(\*1) AAA~BBB for Corporates, and 1~6 level for Consumers

(\*2) BBB- ~C for Corporates, and 7~10 level for Consumers

(\*3) The value of collateral held is the recoverable amount when calculating the allowance for credit losses.

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The total amount in the above table are net of allowances for credit losses, for loans and receivables neither overdue nor impaired, amounting to 828,944 million Won and 634,949 million Won as of December 31, 2016 and 2017, respectively.

## b) Aging analysis of loans and receivables

Aging analysis of loans and receivables (overdue but not impaired, net of allowance) is as follows (Unit: Korean Won in millions):

Past due	December 31, 2016						Total	
	Korean treasury and government agencies	Banks	General business	Corporates Small & medium sized enterprise	Project financing and others	Sub-total		Consumers
Less than 30 days			45,255	41,329		86,584	584,995	671,579
30 to 59 days			1,553	8,933		10,486	90,296	100,782
60 to 89 days			337	2,123		2,460	49,151	51,611
Total			47,145	52,385		99,530	724,442	823,972
Value of collateral(*)			7,021	45,304		52,325	546,164	598,489

Past due	December 31, 2017						Total	
	Korean treasury and government agencies	Banks	General business	Corporates Small & medium sized enterprise	Project financing and others	Sub-total		Consumers
Less than 30 days	8		59,560	48,002		107,562	683,445	791,015
30 to 59 days			3,702	6,550		10,252	94,376	104,628
60 to 89 days			928	4,935		5,863	55,011	60,874
Total	8		64,190	59,487		123,677	832,832	956,517
Value of collateral(*)			4,619	46,513		51,132	619,867	670,999

(\*) The value of collateral held is the recoverable amount used when calculating allowance for credit losses. The total amounts in the above table are net of allowances for credit losses, for loans and receivables that are overdue but not impaired, amounting to 47,396 million Won and 50,580 million Won as of December 31, 2016 and 2017, respectively.

## c) Impaired loans and receivables

Impaired loans and receivables, net of allowance are as follows (Unit: Korean Won in millions):

	December 31, 2016						
	<b>Korean treasury and government agency banks</b>	<b>General business</b>	<b>Corporates Small &amp; medium sized enterprise</b>	<b>Project financing and others</b>	<b>Sub-total</b>	<b>Consumers</b>	<b>Total</b>
Impaired loans		661,778	225,045	188,986	1,075,809	327,123	1,402,932
Value of collateral <sup>(*)</sup>		482,680	236,954	42,166	761,800	250,583	1,012,383

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	December 31, 2017							
	Korean treasury and government agencies	Banks	General business	Corporates Small & medium sized enterprise	Project financing and others	Sub-total	Consumers	Total
Impaired loans			609,202	136,707	41,256	787,165	305,402	1,092,567
Value of collateral <sup>(*)</sup>			562,638	141,026	20,351	724,015	227,966	951,981

(\*) The value of collateral held is the recoverable amount used when calculating allowance for credit losses. The total amounts in the above table are net of allowances for credit losses, for impaired loans and receivables amounting to 1,150,756 million Won and 1,144,713 million Won as of December 31, 2016 and 2017, respectively.

## 4) Credit risk of debt securities

The Group manages debt securities based on the credit rating. Credit soundness of debt securities on the basis of External Credit Assessment Institution ( ECAI ), Korea's qualified external rating agency, is as follows (Unit: Korean Won in millions):

	December 31, 2016			
	Financial assets at FVTPL <sup>(*)</sup>	AFS debt securities	HTM securities	Total
AAA	1,658,332	12,490,934	13,342,384	27,491,650
AA- ~ AA+	720,535	3,372,310	466,401	4,559,246
BBB- ~ A+	266,049	618,736	101,466	986,251
Below BBB-	4,348	59,908		64,256
Total	2,649,264	16,541,888	13,910,251	33,101,403

	December 31, 2017			
	Financial assets at FVTPL <sup>(*)</sup>	AFS debt securities	HTM securities	Total
AAA	1,685,099	9,897,689	15,806,327	27,389,115
AA- ~ AA+	722,923	2,386,567	888,547	3,998,037
BBB- ~ A+	236,311	876,482	52,188	1,164,981
Below BBB-	9,694	68,506	2,234	80,434
Total	2,654,027	13,229,244	16,749,296	32,632,567

(\*) Financial assets at FVTPL comprise debt securities held for trading and financial assets designated at FVTPL.



(2) Market risk

Market risk is the possible risk of loss arising from trading activities and non-trading activities in the volatility of market factors such as interest rates, stock prices and foreign exchange rates.

Market risk occurs as a result of changes in the interest rates and foreign exchange rates for financial instruments that are not yet settled, and all contracts are exposed to a certain level of volatility according to changes in the interest rates, credit spreads, foreign exchange rates and the price of equity securities.

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## 1) Market risk management

For trading activities and non-trading activities, the Group avoids, bears, or mitigates risks by identifying the underlying source of the risks, measuring parameters and evaluating their appropriateness.

At the beginning of each year, the Risk Management Committee establishes a Value at Risk ( VaR ), maximum losses) limit, loss limit and risk capital limit by subsidiaries for its management purposes. The limit by investment desk/dealer is independently managed to the extent of the limit given to subsidiaries and the limit by investment and loss cut is managed by the risk management personnel with department.

The Group uses both a standard-based and an internal model-based approach to measure market risk. The standard-based approach is used to calculate individual market risk of required capital while the internal model-based approach is used to calculate general capital market risk and it is used to measure internal risk management measure. For the trading activities, the Risk Management department measures the VaR limit by department, risk factor and loss limit on a daily basis and reports regularly to the Risk Management Committee.

## 2) Sensitivity analysis of market risk

The Group performs the sensitivity analyses both for trading and for non-trading activities.

For the trading activities, the Group uses a VaR model that uses certain assumptions of possible fluctuations in market conditions and, by conducting simulations of gains and losses, under which the model estimates the maximum losses that may occur. A VaR model predicts based on statistics of possible losses on the portfolio at a certain period currently or in the future. It indicates the maximum expected loss with at least 99% credibility. In short, there exists a one percent possibility that the actual loss might exceed the predicted loss generated from the VaR calculation. The actual results are periodically monitored to examine the validity of the assumptions and variables and factors that are used in VaR calculations. However, this approach cannot prevent the loss when the market fluctuation exceeds expectation.

For the non-trading activities, interest rate Earning at Risk ( EaR ) and interest rate VaR, which is based on the simulations of the Net Interest Income ( NII ) and Net Present Value ( NPV ), are calculated for the Bank, and the risks for all other subsidiaries are measured and managed by the interest rate EaR and the interest rate VaR calculations based on the Bank for International Settlements ( BIS ) Framework.

NII is a profit based indicator for displaying profit changes in the short term due to short term interest changes. It will be estimated as subtracting interest expenses of liabilities from the interest income of assets. NPV is an indicator for displaying risks in economic view according to unfavorable changes related to interest rate. It will be estimated as subtracting the present value of liabilities from the present value of assets.

EaR shows the maximum profit-loss amount, which indicates the maximum deduction amount caused by the unfavorable changes related to the interest rate of a certain period (i.e. 1 year). Interest rate VaR shows the potential maximum loss generated by the unfavorable changes during a certain period of time in the present or future.

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## a) Trading activities

The minimum, maximum and average VaR for the year ended December 31, 2016 and 2017, respectively, and the VaR as of December 31, 2016 and 2017, respectively, are as follows (Unit: Korean Won in millions):

Risk factor	As of	For the year ended			As of	For the year ended		
	December 31, 2016	Average	Maximum	Minimum	December 31, 2017	Average	Maximum	Minimum
Interest rate	3,250	2,844	6,430	1,367	4,183	3,799	4,918	2,467
Stock price	4,191	3,456	5,063	2,304	909	2,863	4,419	909
Foreign currencies	4,396	4,914	7,686	3,967	4,750	5,051	6,636	4,061
Commodity price	152	113	325	21		31	188	
Diversification	(5,630)	(5,355)	(10,385)	(4,034)	(4,472)	(4,621)	(6,798)	(2,067)
Total VaR(*)	6,359	5,972	9,119	3,625	5,370	7,123	9,363	5,370

(\*) VaR= Value at Risk

## b) Non-trading activities

The NII and NPV are calculated for the assets and liabilities owned by the Bank, respectively, by using the simulation method. The scenario responding to interest rate ( IR ) changes are as follows (Unit: Korean Won in millions):

Name of scenario	December 31, 2016		December 31, 2017	
	NII(*1)	NPV(*2)	NII(*1)	NPV(*2)
Base case	4,367,411	21,556,632	4,916,138	23,472,792
Base case (Prepay)	4,384,783	20,666,425	4,916,015	23,163,942
IR 100bp up	4,802,118	20,893,490	5,361,546	22,886,122
IR 100bp down	3,903,129	22,279,204	4,386,437	24,127,559
IR 200bp up	5,236,879	20,289,742	5,806,723	22,372,208
IR 200bp down	2,975,351	23,052,848	3,452,590	24,830,482
IR 300bp up	5,671,639	19,742,627	6,251,897	21,929,189
IR 300bp down	1,968,273	25,096,193	2,254,609	26,633,807

(\*1) Net Interest Income

(\*2) Net Portfolio Value

The interest EaR and VaR are calculated based on the BIS Framework of other subsidiaries excluding the Bank are as follows (Unit: Korean Won in millions):

December 31, 2016

December 31, 2017

<b>EaR</b>	<b>VaR</b>	<b>EaR</b>	<b>VaR</b>
188,381	110,335	255,679	130,821

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The Group estimates and manages risks related to changes in interest rate due to the difference in the maturities of interest-bearing assets and the liabilities and discrepancies in the terms of interest rate. Cash flows of principal amounts and interests from interest bearing assets and liabilities by re-pricing date are as follows (Unit: Korean Won in millions):

	December 31, 2016						Total
	Within 3 months	4 to 6 months	7 to 9 months	10 to 12 months	1 to 5 years	Over 5 years	
<b>Asset:</b>							
Loans and receivables	148,237,350	42,032,667	8,064,502	7,757,087	55,838,192	35,245,734	297,175,532
AFS financial assets	3,165,094	2,946,992	2,854,514	2,915,226	5,029,918	713,596	17,625,340
HTM financial assets	2,770,079	1,515,213	1,246,503	1,143,170	6,853,951	892,030	14,420,946
<b>Total</b>	<b>154,172,523</b>	<b>46,494,872</b>	<b>12,165,519</b>	<b>11,815,483</b>	<b>67,722,061</b>	<b>36,851,360</b>	<b>329,221,818</b>

**Liability:**

Deposits due to customers	100,051,821	36,614,529	25,028,378	25,017,836	34,513,004	40,737	221,266,305
Borrowings	13,772,710	1,044,748	491,330	368,431	2,816,565	421,677	18,915,461
Debentures	2,109,235	2,077,681	860,455	1,545,943	14,613,799	4,143,773	25,350,886
<b>Total</b>	<b>115,933,766</b>	<b>39,736,958</b>	<b>26,380,163</b>	<b>26,932,210</b>	<b>51,943,368</b>	<b>4,606,187</b>	<b>265,532,652</b>

	December 31, 2017						Total
	Within 3 months	4 to 6 months	7 to 9 months	10 to 12 months	1 to 5 years	Over 5 years	
<b>Asset:</b>							
Loans and receivables	161,653,892	41,671,530	7,614,159	6,411,841	54,150,998	26,272,958	297,775,378
AFS financial assets	2,150,708	2,500,103	2,016,711	2,367,762	4,229,000	601,735	13,866,019
HTM financial assets	2,286,179	2,161,467	1,433,425	1,687,362	9,369,794	345,868	17,284,095
<b>Total</b>	<b>166,090,779</b>	<b>46,333,100</b>	<b>11,064,295</b>	<b>10,466,965</b>	<b>67,749,792</b>	<b>27,220,561</b>	<b>328,925,492</b>

**Liability:**

Deposits due to customers	106,815,564	37,750,367	25,117,556	27,585,458	37,518,878	91,246	234,879,069
Borrowings	9,865,249	1,056,579	412,966	437,431	2,709,010	479,827	14,961,062
Debentures	1,955,902	2,452,240	1,018,563	1,752,847	19,770,538	2,869,766	29,819,856

Total	118,636,715	41,259,186	26,549,085	29,775,736	59,998,426	3,440,839	279,659,987
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3) Currency risk

Currency risk arises from monetary financial instruments denominated in foreign currencies other than the functional currency. Therefore, no currency risk arises from non-monetary items or financial instruments denominated in the functional currency.

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Financial instruments in foreign currencies exposed to currency risk are as follows (Unit: USD in millions, JPY in millions, CNY in millions, EUR in millions, and Korean Won in millions):

	December 31, 2016									
	USD		JPY		CNY		EUR		Others	Total
	Foreign	Won	Foreign	Won	Foreign	Won	Foreign	Won	Won	Won
	currency	equivalent	currency	equivalent	currency	equivalent	currency	equivalent	equivalent	equivalent
<b>Asset:</b>										
Loans and receivables	22,868	27,635,970	108,944	1,129,539	23,194	4,018,678	1,548	1,962,856	4,382,990	39,130,033
Financial assets at FVTPL	66	79,386	57	589			30	37,562	34,124	151,661
AFS financial assets	898	1,085,108			80	13,844		570	144,799	1,244,321
HTM financial assets	17	20,517							143,535	164,052
<b>Total</b>	<b>23,849</b>	<b>28,820,981</b>	<b>109,001</b>	<b>1,130,128</b>	<b>23,274</b>	<b>4,032,522</b>	<b>1,578</b>	<b>2,000,988</b>	<b>4,705,448</b>	<b>40,690,067</b>

	December 31, 2016									
	USD		JPY		CNY		EUR		Others	Total
	Foreign	Won	Foreign	Won	Foreign	Won	Foreign	Won	Won	Won
	currency	equivalent	currency	equivalent	currency	equivalent	currency	equivalent	equivalent	equivalent
<b>Liability:</b>										
Financial liabilities at FVTPL	75	90,908	253	2,621			88	111,098	115,980	320,607
Deposits due to customers	11,294	13,648,729	124,790	1,293,835	18,950	3,283,291	651	825,165	2,402,076	21,453,096
Borrowings	7,193	8,692,792	3,243	33,625			222	280,894	115,332	9,122,643
Debentures	2,931	3,541,769			700	121,282			228,720	3,891,771
Other financial liabilities	2,235	2,700,703	12,390	128,464	1,508	261,278	245	310,396	846,990	4,247,831
<b>Total</b>	<b>23,728</b>	<b>28,674,901</b>	<b>140,676</b>	<b>1,458,545</b>	<b>21,158</b>	<b>3,665,851</b>	<b>1,206</b>	<b>1,527,553</b>	<b>3,709,098</b>	<b>39,035,948</b>

Off-balance accounts	8,593	10,384,163	28,675	297,304	1,061	183,883	374	473,845	312,187	11,651,382
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	December 31, 2017									
	USD		JPY		CNY		EUR		Others	Total
	Foreign	Won	Foreign	Won	Foreign	Won	Foreign	Won	Won	Won
	currency	equivalent	currency	equivalent	currency	equivalent	currency	equivalent	equivalent	equivalent
Asset:										
Loans and receivables	23,000	24,642,900	126,944	1,204,843	25,224	4,127,936	1,156	1,479,351	3,937,733	35,392,763
Financial assets at FVTPL	32	34,303	25	238			27	34,583	104,892	174,016
AFS financial assets	1,966	2,105,972			319	52,259		590	302,801	2,461,622
HTM financial assets	111	118,868							78,175	197,043
Total	25,109	26,902,043	126,969	1,205,081	25,543	4,180,195	1,183	1,514,524	4,423,601	38,225,444



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	December 31, 2017									
	USD		JPY		CNY		EUR		Others	Total
	Foreign	Won	Foreign	Won	Foreign	Won	Foreign	Won	Won	Won
	currency	equivalent	currency	equivalent	currency	equivalent	currency	equivalent	equivalent	equivalent
Liability:										
Financial liabilities at FVTPL	41	43,423	79	752			19	24,878	69,977	139,030
Deposits due to customers	13,744	14,725,686	195,176	1,852,440	21,865	3,578,142	883	1,129,802	2,396,826	23,682,896
Borrowings	6,604	7,080,118	2,218	21,056			247	315,685	242,874	7,659,733
Debentures	3,467	3,714,411			700	114,555			375,749	4,204,715
Other financial liabilities	2,392	2,562,740	16,125	153,043	1,802	294,950	129	165,189	588,625	3,764,547
<b>Total</b>	<b>26,248</b>	<b>28,126,378</b>	<b>213,598</b>	<b>2,027,291</b>	<b>24,367</b>	<b>3,987,647</b>	<b>1,278</b>	<b>1,635,554</b>	<b>3,674,051</b>	<b>39,450,921</b>
Off-balance accounts	8,108	8,687,009	33,624	319,127	1,199	196,261	406	519,843	176,886	9,899,126

**(3) Liquidity risk**

Liquidity risk refers to the risk that the Group may encounter difficulties in meeting obligations from its financial liabilities.

**1) Liquidity risk management**

Liquidity risk management is to prevent potential cash shortages as a result of mismatching the use of funds (assets) and sources of funds (liabilities) or unexpected cash outflows. The financial liabilities that are relevant to liquidity risk are incorporated within the scope of risk management. Derivatives instruments are excluded from those financial liabilities as they reflect expected cash flows for a pre-determined period.

Assets and liabilities are grouped by account under Asset Liability Management ( ALM ) in accordance with the characteristics of the account. The Group manages liquidity risk by identifying the maturity gap, and then gap ratio through performing various cash flows analysis (i.e. based on remaining maturity and contract period, etc.), while maintaining the gap ratio at or below the target limit.

**2) Maturity analysis of non-derivative financial liabilities**

- a) Cash flows of principals and interests by remaining contractual maturities of non-derivative financial liabilities are as follows (Unit: Korean Won in millions):

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	<b>Within 3 months</b>	<b>4 to 6 months</b>	<b>7 to 9 months</b>	<b>10 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Financial liabilities at FVTPL	678,813	1,529	94	47	154,325		834,808
Deposits due to customers	136,835,315	28,685,473	19,254,108	30,875,962	6,284,092	2,732,019	224,666,969
Borrowings	9,146,895	2,355,336	876,836	1,486,710	4,711,273	420,720	18,997,770
Debentures	2,108,780	2,077,387	860,596	1,518,524	14,641,016	4,116,768	25,323,071
Other financial liabilities	14,813,948	27,544	5,480	1,433	84,792	2,751,825	17,685,022
<b>Total</b>	<b>163,583,751</b>	<b>33,147,269</b>	<b>20,997,114</b>	<b>33,882,676</b>	<b>25,875,498</b>	<b>10,021,332</b>	<b>287,507,640</b>

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	December 31, 2017						Total
	Within 3 months	4 to 6 months	7 to 9 months	10 to 12 months	1 to 5 years	Over 5 years	
Financial liabilities at FVTPL	168,442	155,984	1,717	512	375		327,030
Deposits due to customers	148,008,777	29,563,310	18,175,348	32,468,110	7,409,118	2,624,594	238,249,257
Borrowings	6,115,732	1,893,173	1,489,272	1,178,107	3,924,681	479,568	15,080,533
Debentures	1,955,255	2,452,565	1,018,714	1,744,731	19,770,380	2,869,699	29,811,344
Other financial liabilities	7,121,342	162,871	825	1,003	128,940	2,730,001	10,144,982
Total	163,369,548	34,227,903	20,685,876	35,392,463	31,233,494	8,703,862	293,613,146

b) Cash flows of principals and interests of non-derivative financial liabilities by estimated redemption or withdrawal are as follows; (Unit: Korean Won in millions):

	December 31, 2016						Total
	Within 3 months	4 to 6 months	7 to 9 months	10 to 12 months	1 to 5 years	Over 5 years	
Financial liabilities at FVTPL	678,813	1,529	94	47	154,325		834,808
Deposits due to customers	148,089,355	30,163,971	17,600,803	20,947,335	5,128,387	2,331,993	224,261,844
Borrowings	9,146,901	2,355,332	876,835	1,486,710	4,711,273	420,719	18,997,770
Debentures	2,108,780	2,077,387	860,596	1,518,524	14,641,016	4,116,768	25,323,071