

Annual Report 2017

# ENVISION

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a Future of Finance

The background features a large, abstract graphic on the left side, composed of numerous overlapping, semi-transparent rectangular blocks in various shades of gray and teal, arranged in a curved, fan-like pattern. On the right side, there are two large, stylized, curved shapes with a fine, parallel line texture, resembling a thick, curved arrow or a stylized 'C' shape, pointing towards the bottom right.

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ENABLE  
Stronger Growth

A clear vision and bold choices, together with a steadfast focus on long-term shareholder value creation, have helped transform Hana Financial Group into a leading financial group in Korea.

Now we envision a future of finance and aim to realize it by creating integrated synergies, expanding the global network and accelerating our digital innovation drive.





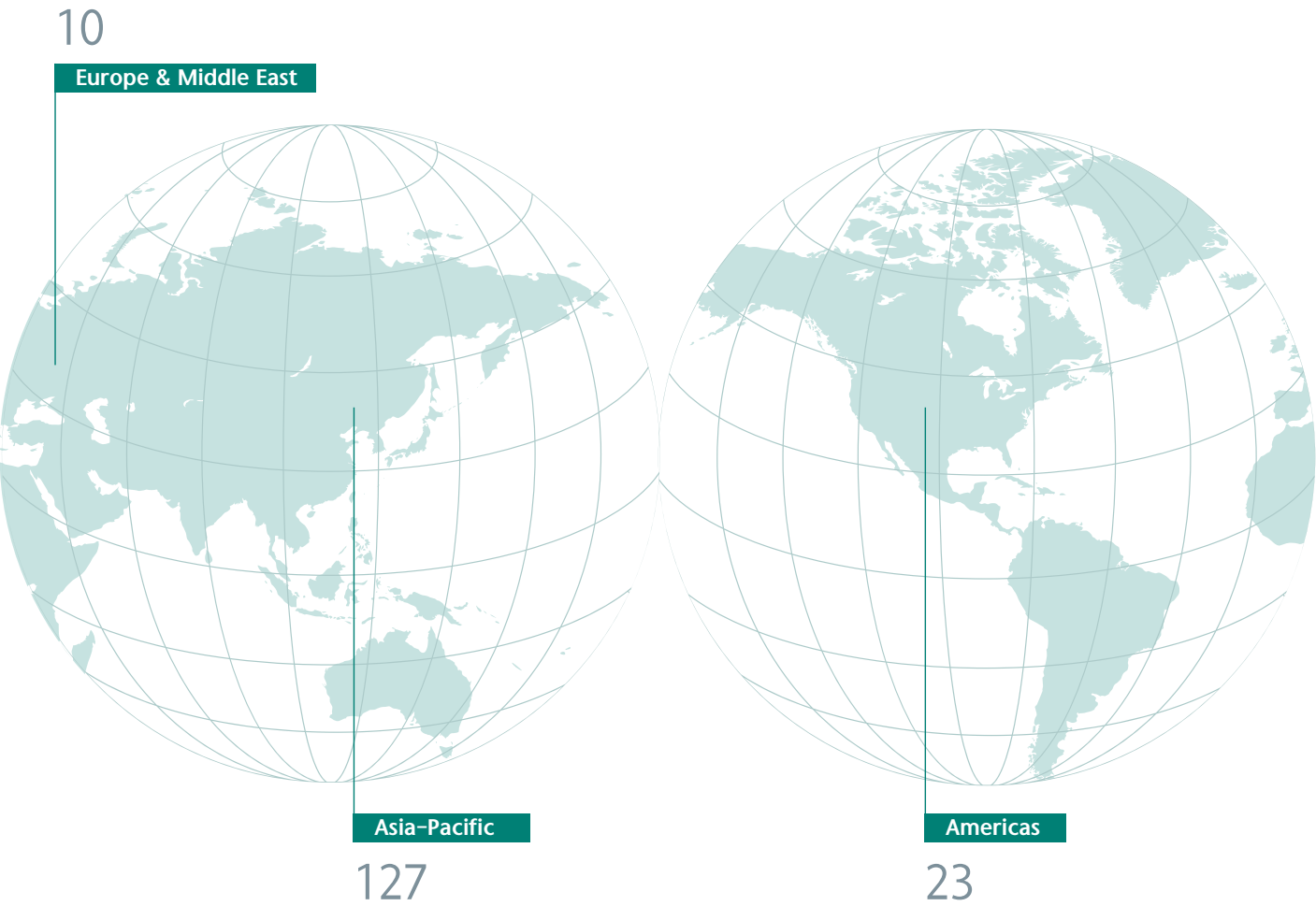
# Key Highlights

## GLOBAL NETWORK

(As of Dec. 2017)

Points of Operation  
**160**

Countries  
**24**



## TOTAL ASSETS

(Consolidated)



## KRW LOANS

(Ending balance)



## KRW DEPOSITS

(Ending balance)



## GLOBAL AWARDS IN 2017

**Best Private Bank in Korea**  
(10 times)

**Outstanding Wealth Management Service for the Affluent**  
(6 times)

**World's Best Private Bank in Digital Client Solutions**  
(2 times)

## KEY FIGURES

**8,368,500**  
Mobile Banking Users  
(As of Dec. 2017)

**19,194**  
Employees  
(As of Dec. 2017)

**80th**  
The Banker 'Top 1000 World Banks 2016'  
(As of Jul. 2017)

# Financial Highlights

## FINANCIAL SUMMARY

(Unit : KRW billion)

	2017	2016
<b>Profitability (Unit: KRW billion)</b>		
General operating income	7,599.8	6,612.3
Operating income	2,718.1	1,614.1
Consolidated net income	2,036.8	1,330.5
ROA (%)	0.60	0.42
ROE (%)	8.77	5.92
EPS (KRW)	6,817	4,421
Cost to income ratio (%)	53.2	61.7
<b>Business Volume (Unit: KRW billion)</b>		
Total assets	360,089.3	348,177.5
Total sales	272,091.6	256,897.1
(Total deposits)	232,591.8	222,791.6
(Sales of beneficiary certificates)	39,499.8	34,105.5
<b>Asset Soundness (Unit: %)</b>		
Substandard & below (NPL) ratio	0.78	0.92
Substandard & below (NPL) coverage ratio	87.36	82.39
Delinquency ratio	0.39	0.50
<b>Capital Adequacy (Unit: %)</b>		
BIS capital adequacy ratio	14.97	14.33
Tier 1 ratio	13.29	12.31
Common equity tier 1 ratio	12.74	11.77
<b>BPS (KRW)</b>	<b>79,154</b>	74,472

## NII

(Consolidated)



## NIM

(Consolidated)



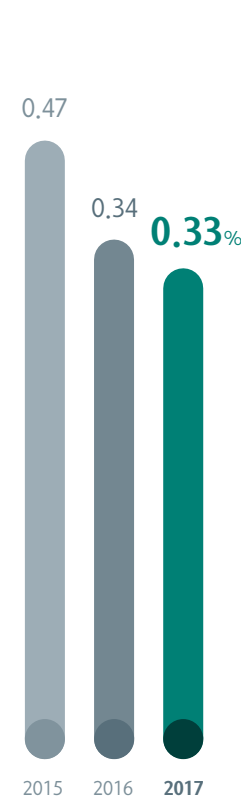
## NPL RATIO

(Consolidated)



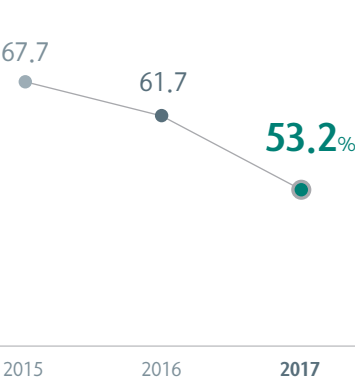
## CREDIT COST

(Cumulative)



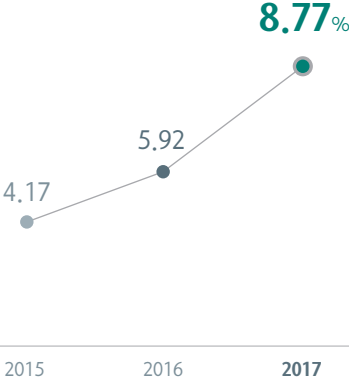
## C/I RATIO

(Cumulative)



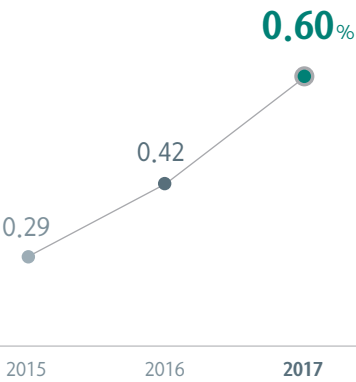
## ROE

(Cumulative)



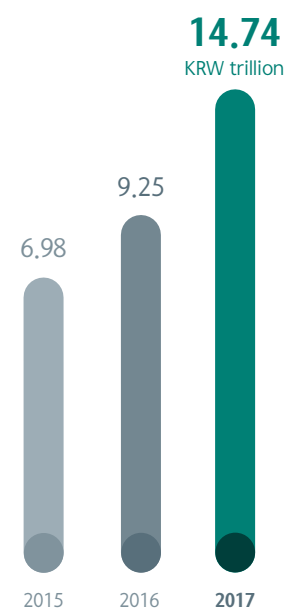
## ROA

(Cumulative)

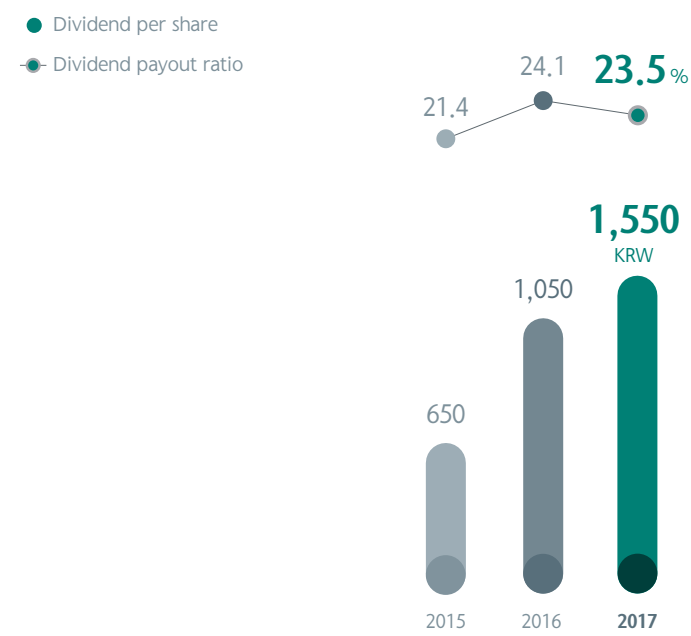


# Stock Information

## MARKET CAPITALIZATION



## CONSISTENT DIVIDEND HISTORY



## OUTSTANDING CREDIT RATINGS

(KEB Hana Bank)

S&P

A+

MOODY'S

A1

FITCH

A-

## SHARE OWNERSHIP

(As of Dec. 2017)



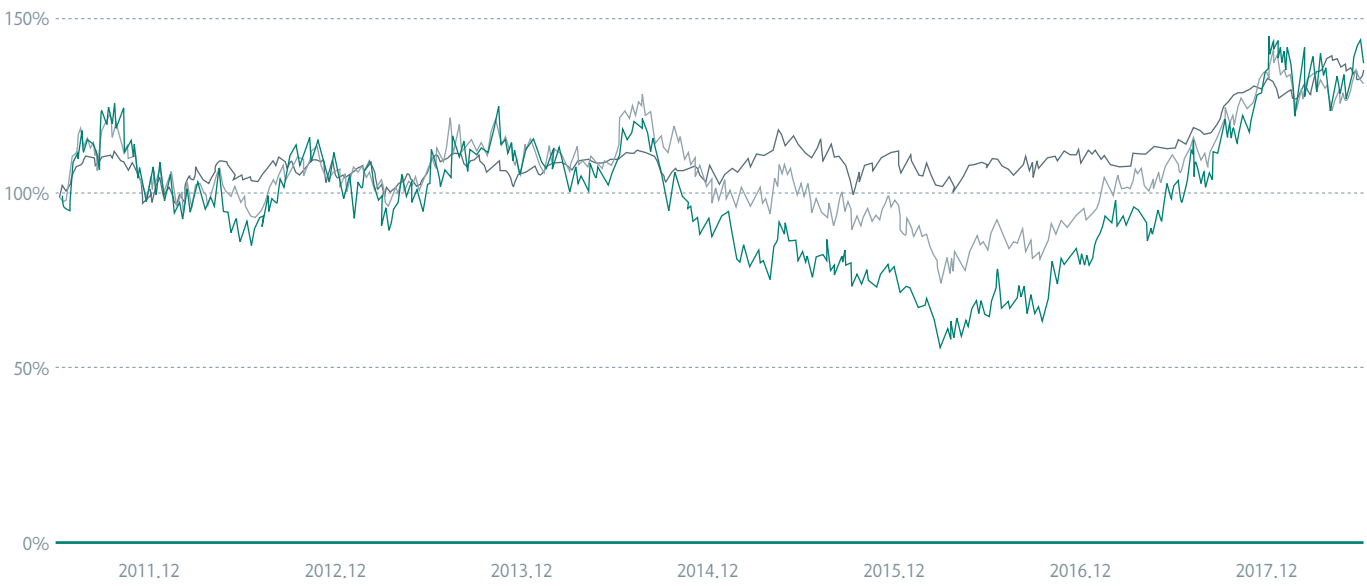
## SHARE PRICE CHANGES

(Unit: KRW, Point)

	2017	2016	2015	2014	2013
High	52,000	34,500	33,850	43,850	43,900
Low	30,900	19,650	23,600	31,450	31,850
Year-end	49,800	31,250	23,600	32,000	43,900
KOSPI index (year-end)	2,467.49	2,026.46	1,961.31	1,915.59	2,011.34

## STOCK PERFORMANCE

Hana Financial Group   KRX BANKS   KOSPI



Jan. 2012

Financial Services Commission (FSC) approved the KEB acquisition

Jan. 2013

BoD approved plan to turn KEB into a 100% subsidiary through a share swap

Dec. 2014

Newly integrated KEB Hana Card, launched

Jul. 2015

HFG & KEB Labor Union announced 'The Bank Integration'

Sep. 2015

KEB Hana Bank, launched

Jun. 2016

IT System, integrated



# Letter from the CEO



We will continue to do our best to be  
focused on one goal and one strategy,  
with an aim to fulfill our mission,  
'Growing Together, Sharing Happiness'.

Kim Jung-tai  
Chairman & CEO, Hana Financial Group

We envision a future of finance and plan to get there by creating integrated synergy, expanding our presence in the global market, and staying ahead in digital innovation, while continuing to be focused on the ultimate goal of achieving stronger, sustainable growth together with our stakeholders.

### Dear shareholders and customers,

I would like to express my sincere appreciation to all of our shareholders and customers for your unwavering support of and trust in Hana Financial Group.

In 2017, Hana Financial Group recorded KRW 2 trillion in net income, the best performance since the foundation of a holding company, as a result of all Group affiliates working in unison with a 'One Company' perspective despite uncertainties at home and abroad. In addition, we completed the construction of KEB Hana Bank's new headquarters which will be a landmark of the global financial institution. We also further strengthened our digital competitiveness by consolidating human, physical and IT infrastructure resources at the Hana Financial Group Data Center in Cheongna International City.

All these achievements can be attributed to the continued trust and encouragement that our shareholders and customers have given Hana Financial Group over the years.

In 2018, the challenge from fin-tech companies and Internet-only banks will begin to show their effect in earnest, in addition to a rising protectionism and interest rate hikes by major advanced countries seeking to reduce liquidity. In such an environment of industry-transcending competition, financial institutions relying on traditional business models are unlikely to survive. Hana Financial Group therefore will focus on the following three key tasks, with an aim to create new opportunities in the flood of changes and crises, and thus grow into a global financial group.



## I. Synergy Creation

We will focus on creating synergy through collaboration. In 2017, we made tangible progress in generating investment banking (IB) earnings at home and abroad by establishing a Group-wide 'One IB' system and demonstrated the possibilities of integrated financial services by operating banking-securities hybrid branches. We also led by example in collaboration among Group affiliates by using non-face-to-face and face-to-face channels of KEB Hana Bank to attract new customers for KEB Hana Card.

In 2018, we will further expand collaboration within the Group based on the fully integrated One Company system, and maximize synergy by enhancing our competencies in asset management, trust, IB, global and future finance. Over the mid to long-term, we will strengthen our non-banking business portfolio to ensure stable revenue sources. Also, while incrementally implementing our plan to expand securities, card and insurance operations, we will pursue capital increase, M&A and other strategic investment opportunities to improve capital efficiency and diversify income sources.



## II. Global Expansion

We will continue to expand our global operations. As the growth pace of the domestic financial industry is expected to slow down, we will secure new growth engines in the global market. By adopting the '5-hub Strategy' of strengthening our presence in India, Vietnam and the Philippines, in addition to China and Indonesia, we will complete the 'Hana Asia Belt', based on which we will pursue the acquisition of or equity investment in regional banks and non-banking institutions that are in good financial condition. We will also expand growth momentum by leveraging existing bank networks. Moreover, we will accelerate the expansion into the Asian financial IT solution business through partnership or joint venture with information and communication technology (ICT) leaders in the regions, with a goal of securing sustainable income sources in step with the Fourth Industrial Revolution and other changes in the financial environment.

## III. Digital Innovation

We will grow into a hub for digital finance. In the era of the Fourth Industrial Revolution, financial companies need to reform themselves into a data-oriented IT company. With a focus on a participatory platform where customer experiences can be reflected, we will lead a paradigm shift in the financial industry. In addition, we will make exchanging financial assets easy and convenient worldwide by building a Global Loyalty Network (GLN) – an integrated platform that offers cross-border use of digital assets based on blockchain. Efforts will be also made to improve convenience in financial life by using new technologies, including artificial intelligence (AI) and big data.

The basic philosophy underlying all these key strategies is humanity management, of which humans are at the center. The humanity of Hana Financial Group is directed toward the happiness of employees, customers and society. Only when employees are happy can they offer the value of happiness to customers through financial services, which in turn comes back to employees as job satisfaction and happiness. We will ensure that the life of all individual employees is respected by striking the right work-life balance; and we will build a corporate culture where employee happiness can proliferate into customer happiness by establishing an arena of communication and collaboration in which employees freely take part.

The year 2017 was meaningful to Hana Financial Group in that the changes and innovations we have pursued over the years started to bear intended results. We have visualized synergies among the non-banking subsidiaries, envisioned us being a global financial group, and demonstrated we could achieve sustainable growth. In 2018, we will continue to do our best to keep the entire Group focused on one goal and one strategy, in order to fulfill our mission, 'Growing Together, Sharing Happiness'. Let us look forward to the year 2018 in which Hana Financial Group will open up a new chapter for the future of finance.

Thank you.

김정태

Kim Jung-tai

Chairman & CEO, Hana Financial Group

In 2017, Hana Financial Group achieved the best business performance since its establishment in December 2005 as a result of all Group affiliates working together as 'One Company'. We have improved earnings in investment banking (IB) by building a 'One IB' structure, while demonstrating the possibilities of integrated financial services by successfully operating banking-securities hybrid branches. Moreover, we completed the construction of the Hana Financial Group Data Center, the industry's first of its kind where human, physical and IT infrastructure resources are consolidated. Based on the integrated system, we will further expand business collaboration within and outside the Group and thus realize our vision to become a global financial group.

## Synergy Creation

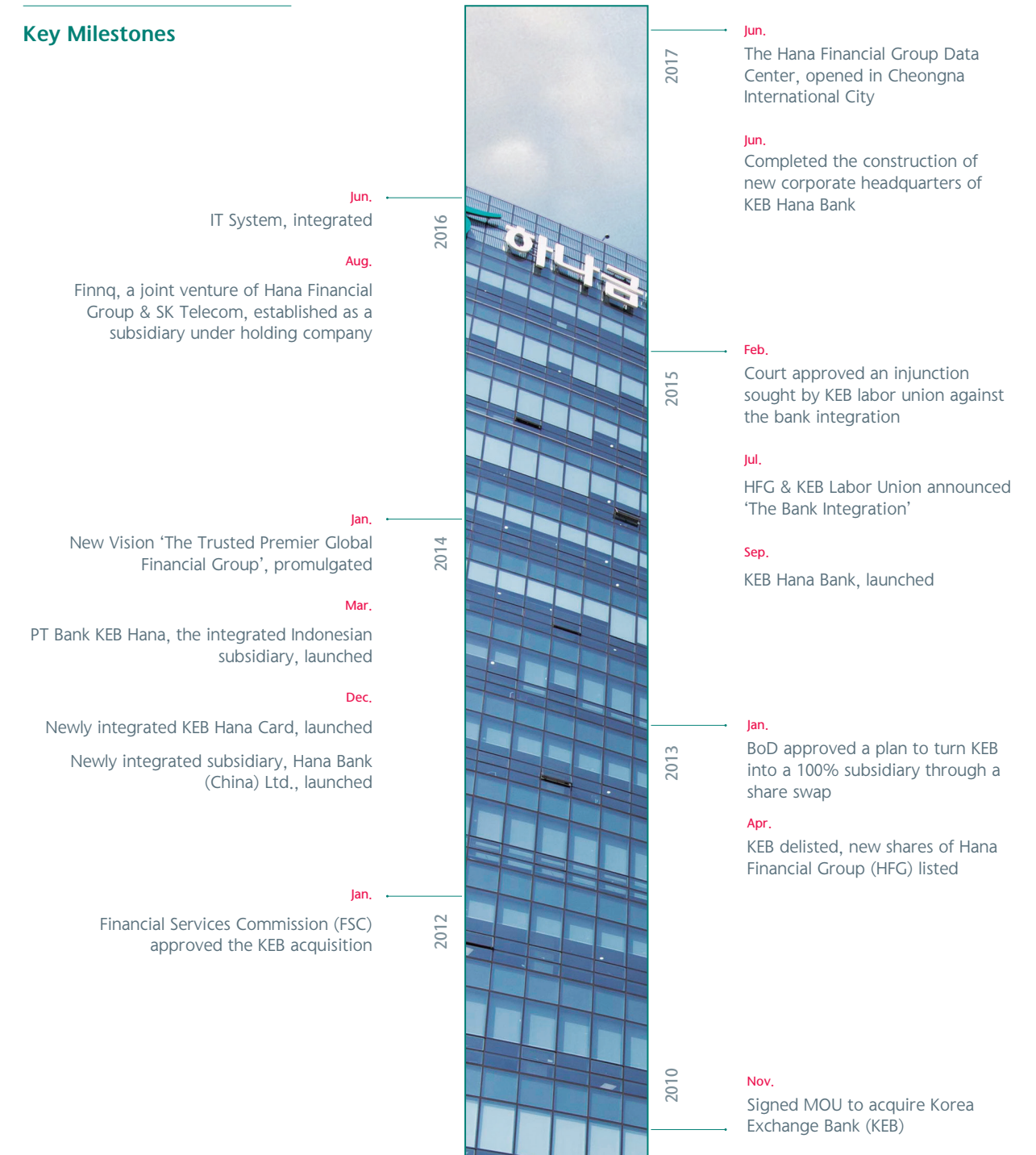
### Hana Network

As of 2017 year-end, there are 11 Group affiliates under Hana Financial Group, a holding company, providing professional, comprehensive asset management services.

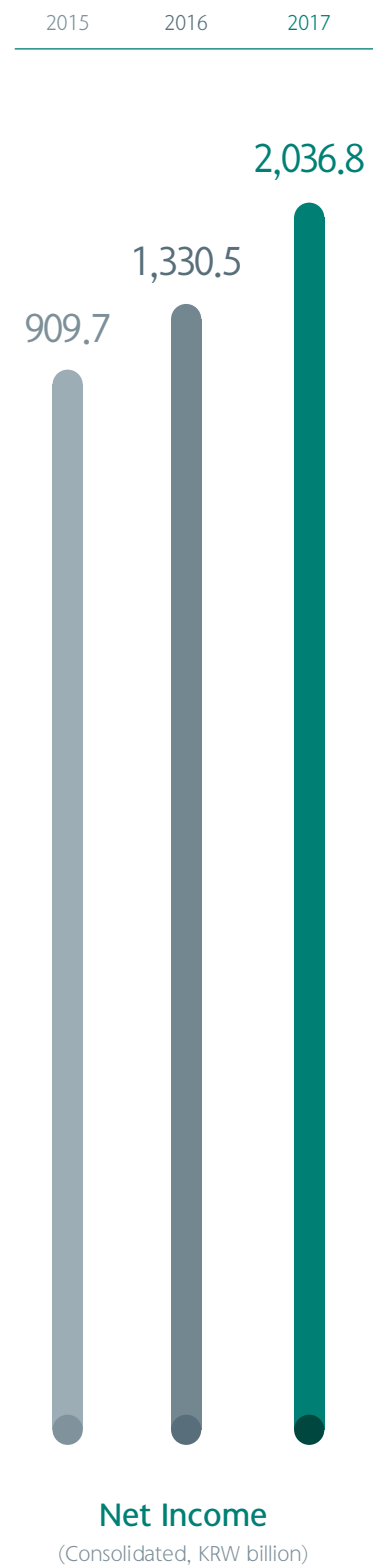


Hana Financial Group has achieved successful post-merger integration in 2017, followed by the launch of KEB Hana Bank in 2015 and the integration of IT systems in 2016, thereby completing an integrated structure ideal for synergy maximization.

### Key Milestones







2025 → **Best Bank:  
No. 1 in Korea  
in terms of profit**

## BEGINNING OF THE NEW ERA

In 2017, Hana Financial Group completed the construction of KEB Hana Bank's new headquarter building, which will be a landmark of a global financial group. We then adopted agile working systems as a part of our efforts to nurture an open corporate culture, befitting the new era. We also built an integrated data center in Cheongna International City, accelerating the drive toward a global financial group. As a result, the IT networks, technologies and human resources, which had previously been dispersed among and managed by different subsidiaries, have now converged at one place. This has enabled the Group affiliates to interchange the resources with one another more efficiently, so that integration synergies are expected to take effect in earnest.





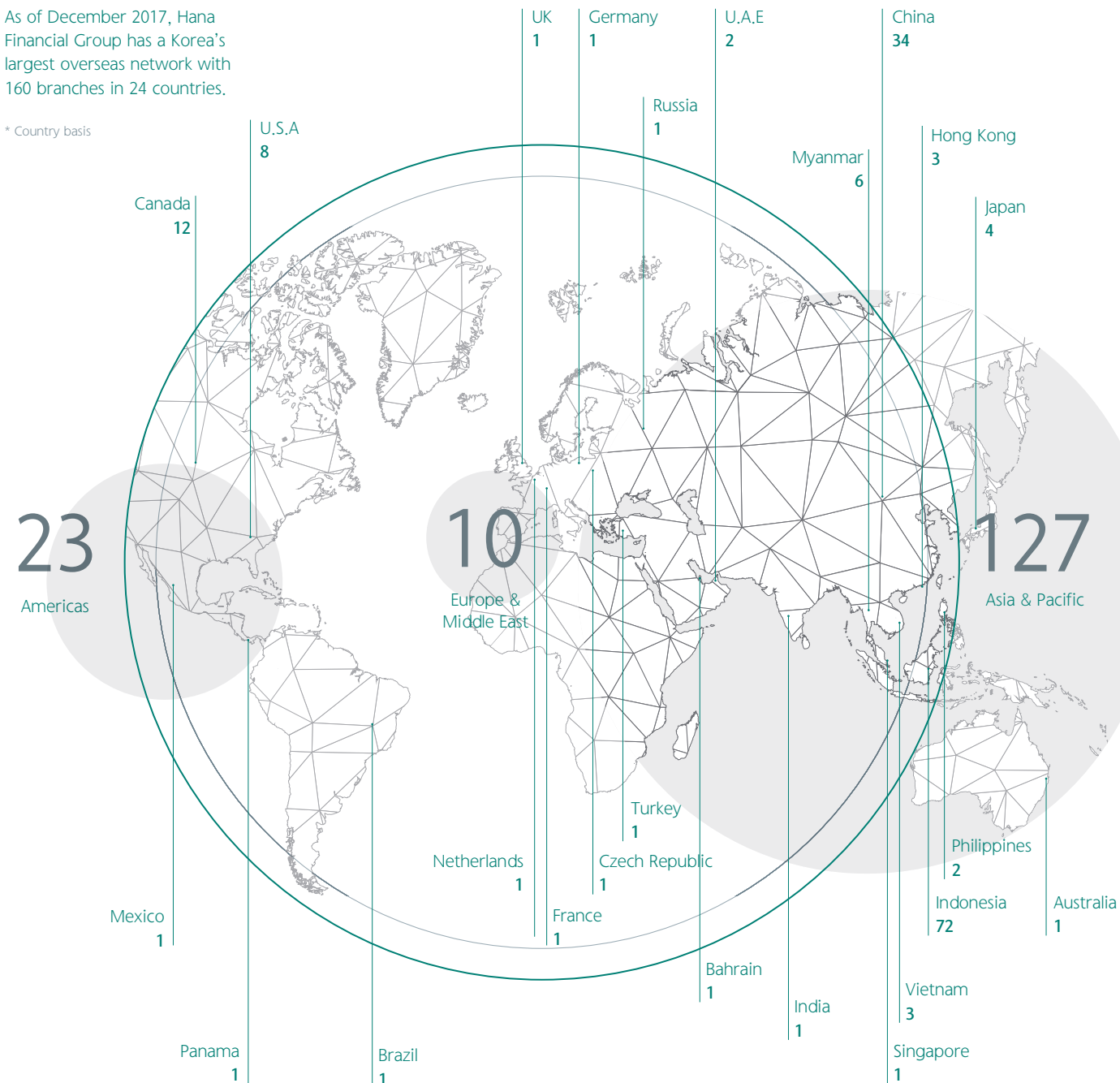
Hana Financial Group has been expanding our global business sphere by taking full advantage of our overseas network, the largest in the Korean banking industry. In 2017, we extended the global reach of our corporate investment banking (CIB) business based on the synergy between KEB Hana Bank and Hana Financial Investment, and secured a point of entry into financial IT solutions markets in Asia by establishing PT. Next TI in Indonesia. Also, KEB Hana Card made inroads into electronic payment settlement business in Japan through the establishment of Hana Card Payments. By maintaining our global strategy based on localization and synergy creation, we will grow into a global financial group earning 40% of income from overseas.

## Global Expansion

### Global Network

As of December 2017, Hana Financial Group has a Korea's largest overseas network with 160 branches in 24 countries.

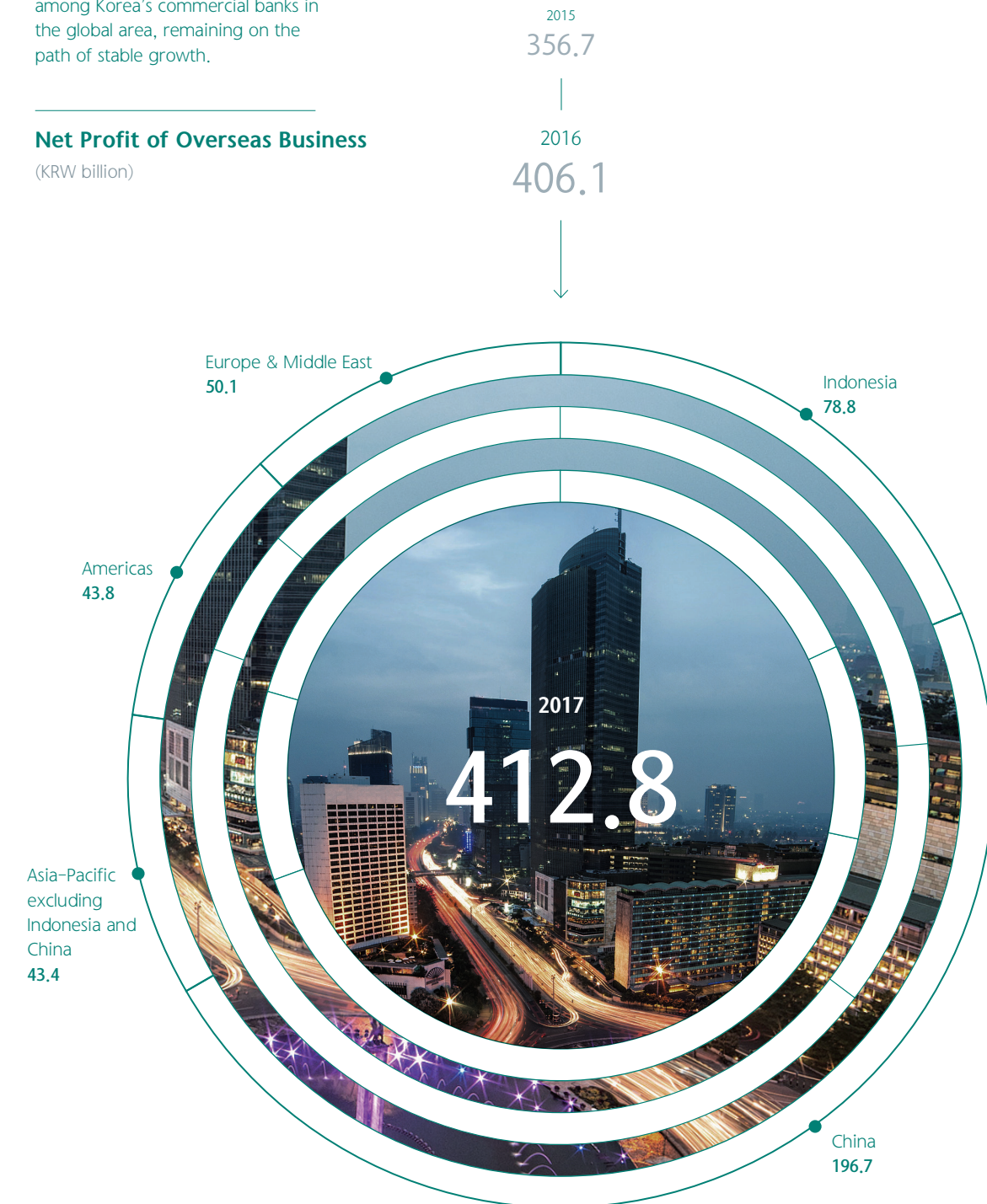
\* Country basis



In 2017, KEB Hana Bank achieved the best net income performance among Korea's commercial banks in the global area, remaining on the path of stable growth.

### Net Profit of Overseas Business

(KRW billion)



\* Based on pre-tax income

\*\* Including equity investment (Bank of Jilin, CM International Financial Leasing, etc.)



Dec. 2015   Dec. 2016   Dec. 2017



2025 → Expanding to Global:  
Generate 40% of  
profits from  
overseas operations

## GLOBAL GROWTH MOMENTUM

In 2017, the overseas operations of KEB Hana Bank reported KRW 237.5 billion in net profit on the strength of its extensive global network, visualizing the Group's goal to generate 40% of income overseas. The net income performance can be attributed to its sales capability which has been strengthened through localization. In the case of KEB Hana Bank's Indonesian subsidiary, the ratios of local employees and customers as the end of 2017 exceeded 90%. In addition, the Bank is expanding its CIB by channeling its resources into promising aircraft financing, and arranged USD 300 million aircraft financing for Avolon in 2017.







Hana Financial Group has been staying ahead as a first mover in digital banking. We became the first in Korea to introduce mobile banking services in 2009, and rolled out an integrated membership system ‘Hana Members’ for the first time among Korea’s financial group in 2015. And in 2017, we launched an AI-based financial service, ‘HAI’, and a daily life financial platform, ‘Finnq’, and also established a Global Loyalty Network (GLN) based on blockchain, reaffirming our leadership in the fin-tech area. GLN is expected to be the base of Hana Members evolving into a global participatory platform, and by capitalizing on these efforts, we will make sure to increase non-banking earnings to 30% of the Group profit.

## Digital Innovation

### Digital Banking

Hana Financial Group further strengthened its leading position in Korea’s digital banking by launching Finnq in 2017.

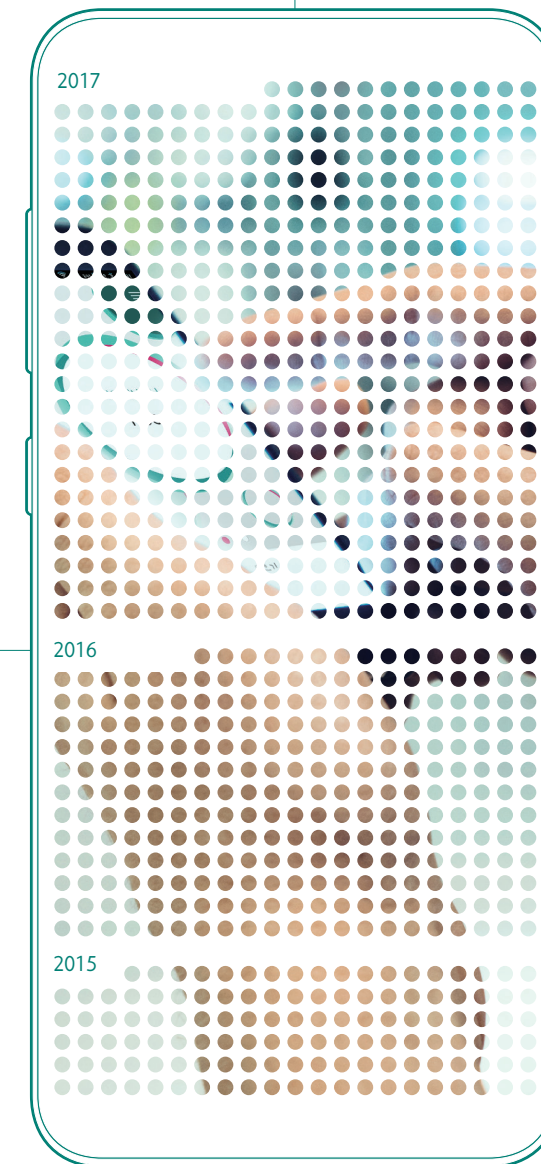


Hana Members, the industry’s first integrated membership service, surpassed a 12 million membership milestone in 2017, leading to our best-ever performance.

### Number of Hana Members Customers

12,237,110

5,912,733



1,802,135





2025 → Stable Portfolio:  
Generate 30%  
of profit from  
non-banking sectors

## FIRST-MOVER OF DIGITAL BANKING

Maintaining a leading position in the competition with the 'Hana Members', Hana Financial Group continued our digital banking dominance in 2017 by introducing 'Finnq'. The daily life financial platform is the outcome of the collaboration with SK Telecoms formed to develop a mobile banking service that is easy to use in asset management, payment settlement, overseas remittance and other daily life financial activities. In a month of its introduction, membership exceeded 400,000, proving our leadership in digital banking once again. Looking forward, we will focus on creating innovative services using AI, blockchain, Internet of things (IoT), augmented reality (AR) and other leading technologies of the Fourth Industrial Revolution.





# ENSURE

Future Growth

Mission

Growing Together, Sharing Happiness

The new mission captures our will to fulfill social responsibilities by fully embracing the demands and changes of the times. Hana Financial Group aims to achieve “healthy growth”, in which we balance our growth and social responsibilities, and we also carry out activities that enable all stakeholders to work together and build a better society. We will actively help members of society pursue their happiness by sharing the benefits of the growth with all stakeholders and creating shared values through finance, while faithfully conducting our given roles.

Vision

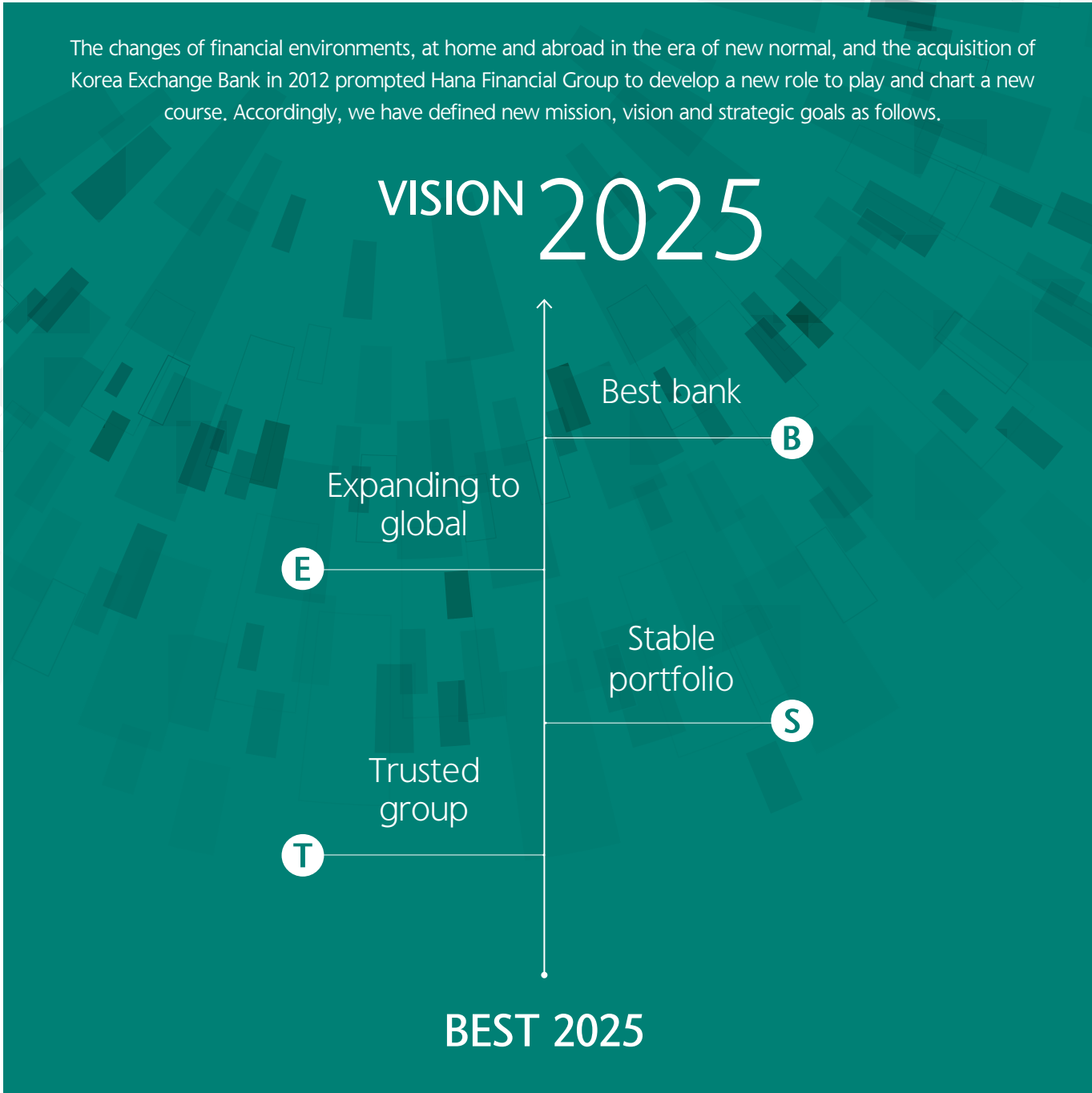
The Trusted Premier Global Financial Group

The new vision embodies the pledge of Hana Financial Group’s employees to start from customer trust, which is the essence of financial business, and become a forerunner of change and innovation through outstanding strategies and thus stay ahead. Also included is our ambition to compete not in the already saturated domestic market, but with top-tier global financial institutions in the international arena backed by Korea’s largest global network. In addition, we aim to be a financial group offering financial services that transcend business boundaries and meet diverse customer needs.

Strategic Goals  
– BEST 2025

Best Bank, Expanding to Global, Stable Portfolio, Trusted Group

BEST 2025 represents Hana Financial Group’s strategic goals to achieve qualitative development, beyond quantitative growth, by 2025.



B

Best Bank

We aim to become the best bank in Korea in terms of profit by strengthening our customer basis, improving market dominance and thus further fortifying profit generation basis.

E

Expanding to Global

In search of core growth engines with which to overcome growth limitations in the domestic market, we focus on global localization and staying ahead in the global payment settlement market. By doing so, we aim to generate 40% of our profits from overseas operations.

S

Stable Portfolio

We are focused on building a stable business portfolio and offering genuine synergy-based total financial services. By doing so, we aim to generate 30% of profit from our non-banking sector.

T

Trusted Group

We aim to improve our brand image at the group level and strengthen financial consumer protection by reflecting trust, the core basis of our key differentiators, in our strategic goals.

Progress  
on Vision  
Realization

In 2017, Hana Financial Group generated a net income of KRW 2,036.8 billion, a record since our foundation in December 2005. KEB Hana Bank continued to benefit from the synergy effects of the integration, which enabled the Bank strengthen its customer base, achieve the growth in core deposits and SME loans, and manage risks in a preemptive manner. As a result, its net income grew 53.1% from the year before. The non-banking sector also made impressive progress. Hana Financial Investment (HFI) achieved balanced growth in asset management, investment banking (IB) and other fee-generating operations, ending the year at a YoY increase of 68.8% in net income. KEB Hana Card achieved the best income performance since its integration by increasing credit sales and reducing expenses. The number of 'Hana Members' customers, an integrated membership program of Hana Financial Group, exceeded 12 million. We also have solidified our market leadership in the mobile banking and fin-tech areas by introducing an artificial intelligence (AI) financial service - HAI. In global operations, our strongest suit, we have further widened our lead in Korea as a global financial group by extending the network into 160 entities in 24 countries.

Major Tasks  
in 2018

01 Finance to grow together



Hana Financial Group has adopted 'Finance to grow together' as the foremost management goal of 2018, which consists of productive finance, inclusive finance and support for social enterprises. We will contribute to building an eco-system for start-up growth and job creation by funding start-ups and venture firms, provide financial supports to the under-privileged through mid-range interest rate loans, and help social enterprises by expanding loans, investment and other financial supports, so that our society benefit from and grow along with the progress of finance.

02 Improving our ability to collaborate



In response to a financial environment evolving rapidly, Hana Financial Group plans to expand synergy by widening a collaboration culture with a 'One Company' perspective. Within the group, we will share sales channels, customer data, capital and manpower among our subsidiaries, in order to improve efficiencies in the use of our resources and to strengthen ways of organically linking development of financial products with supply, sales and operation of them. Outside of the group, new business opportunity will be explored through partnership with IT, distribution, telecommunications and other non-financial businesses.

03 Business portfolio diversification



We seek to make our business portfolio more stable by strengthening the non-banking sector based on the improved fundamentals resulted from the successful integration of Hana Bank and Korea Exchange Bank, and by bolstering asset management, IB, pension and other fee-based operations. In addition, efforts will be made to improve fundamentals of securities, card, insurance and other non-banking subsidiaries, and we will explore M&A options when opportunity presents itself, to further sharpen our competitive edge. We will also actively look to develop business model and diversify income sources through expansion into new fields outside of our current business sphere.

04 Securing future core growth drivers



We will continue to strengthen our competitive advantages in the global and digital finance areas, with an aim to secure our future growth drivers. In the former, we will focus on developing diverse business opportunities in terms of growth potential and profitability by linking the overseas networks of our subsidiaries; and in the latter, we will ride the digital wave of financial business and develop business models that create new customer values and expand customer base by forming ties with digital tech companies at home and abroad and investing in fin-tech.

05 Optimizing risk management



We pursue optimal risk management as a way to respond to changes in the financial environment, including interest rate increases. By maintaining organic links with frontline operations, we will continue to nurture a front office-based risk management culture and optimize our risk management process by fine-tuning the systems customized by product, client and industry.

Hana Financial Group will continue our diverse efforts to grow into 'The Trusted Premier Global Financial Group'. Mindful of the fact that finance derives its legitimacy from the happiness of customers, we will also continue to fulfill our social responsibilities and roles as Korea's leading financial group, earn customer trust and loyalty, and help all enjoy happiness through finance.



# Board of Directors

<b>Heo, Yoon</b> Professor, Graduate School of International Studies, Sogang University <ul style="list-style-type: none"><li>• President, Korean Association of Trade and Industry Studies</li><li>• Dean, Graduate School of International Studies, Sogang University</li></ul>	<b>Kim, Jung Tai</b> Chairman & CEO, Hana Financial Group <ul style="list-style-type: none"><li>• President &amp; CEO, Hana Bank</li><li>• President &amp; CEO, Hana Daetoo Securities Co., Ltd.</li></ul>	<b>Paik, Tae Seung</b> Outside Director, Hana Financial Group <ul style="list-style-type: none"><li>• Professor, Yonsei Law School</li><li>• President, Korea Internet Law Association</li></ul>	<b>Chah, Eun Young</b> Professor, Department of Economics, Ewha Womans University <ul style="list-style-type: none"><li>• Member of Financial Development Committee, Financial Services Commission</li><li>• Chairman, Korean Women Economists Association</li></ul>
<b>Yang, Donghoon</b> Professor, Accounting Faculty, Dongguk Business School <ul style="list-style-type: none"><li>• President, Korean Accounting Association</li><li>• Associate Professor, Accounting Faculty, Dongguk Business School</li></ul>	<b>Park, Won Koo</b> Outside Director, Hana Financial Group <ul style="list-style-type: none"><li>• Special Affair Professor, Seoul National University</li><li>• Professor, Graduate School of MOT, Korea University</li></ul>	<b>Yoon, Sung Bock (Chairman of BoD)</b> Outside director, Hana Financial Group <ul style="list-style-type: none"><li>• CEO, KPMG Samjong Accounting Corp.</li><li>• Deputy CEO, KPMG Samjong Accounting Corp.</li></ul>	<b>Kim, Hongjin</b> Outside Director, Hana Financial Group <ul style="list-style-type: none"><li>• Executive Vice President, Management Support Division, Korea Securities Depository</li><li>• Head of Administration and Planning, FIU, Ministry of Finance and Economy</li></ul>



Heo, Yoon	Yang, Donghoon	Kim, Jung Tai	Park, Won Koo	Paik, Tae Seung	Yoon, Sung Bock	Chah, Eun Young	Kim, Hongjin
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# At a Glance

## Hana Financial Group



Founded in 2005, Hana Financial Group is growing into a global financial group, taking full advantage of its global financial network, the largest in Korea. As the holding company, Hana Financial Group provides business strategies and management supports to 11 subsidiaries, 21 second-tier and 2 third-tier subsidiaries.

## KEB Hana Card



KEB Hana Card was launched in December 2014 through the integration between KEB Card (established in 1978) and Hana SK Card, a joint venture launched in 2010 between SK Telecom and Hana Bank's credit card business line (established in 1992). Having pioneered a mobile credit card service in Korea, KEB Hana Card leads the mobile payment settlement market as a 'Smart Financial Innovator' leading a smart life.

## Hana Savings Bank



Launched in 2012, Hana Savings Bank adds diversity to Hana Financial Group's services with a product line-up that meets the diverse needs and propensities of customers, and by differentiating itself through deposit/loan interest policies that stand apart. Furthermore, it stays true to its given role as a savings bank by offering wide-ranging financial services to the financially underprivileged.

## Hana TI



Hana TI is an IT arm of Hana Financial Group. Since its establishment in 1990, the company has been accumulating IT system expertise for a vast spectrum of financial fields, ranging from banking and securities to credit cards and insurance, in its efforts to secure key growth engines of the Group. The company changed its name from Hana I&S to Hana TI on the occasion of opening the Hana Financial Group Data Center in 2017, and thus paves a way to become an IT industry leader.

## KEB Hana Bank



KEB Hana Bank was established on September 1, 2015, through the integration between Korea Exchange Bank (KEB) and Hana Bank. KEB was originally founded in January 1967, while Hana Bank was established in July 1991 when its predecessor, Korea Investment and Finance Corporation (founded in June 1971) was reorganized as a bank and then merged with Seoul Bank (founded in December 1959). The newly integrated KEB Hana Bank looks beyond being the best in Korea and toward being a premier global bank in asset management, corporate banking, foreign exchange and overseas network.

## Hana Capital



Included into Hana Financial Group in 2005, Hana Capital is a financial company offering retail credit services such as leasing, installment plan and retail lines of credit. Drawing strength from Hana Financial Group's extensive know-how in numerous financial fields and brand competitiveness, the company is continuously developing new products that are outstanding and strong in customer convenience. In search of new growth drivers, Hana Capital is expanding into digital finance and overseas markets.

## Hana Asset Trust



Hana Asset Trust became a member of Hana Financial Group in March 2010, six years after its launch in 2004. Leveraging its close collaborative ties with other affiliates, the company employs advanced financial techniques and develops innovative new products that meet the needs of customers for comprehensive real estate services. Hana Asset Trust has earned customer trust with the help of its real estate experts, thereby emerging as Korea's leading company offering total real estate services.

## Hana Alternative Asset Management



Established in April 2006 as a specialist in asset management and investment advisory services, the company changed its name from Hana Daol Asset Management to Hana Asset Management in 2013. In 2016, it became a member of Hana Financial Group following the Group's purchase of the entire equity held by Hana Asset Trust. And in 2017 the company adopted its current name, Hana Alternative Asset Management, and has since been expanding global operations based on its industry-best expertise in alternative investment.

## Hana Financial Investment



Hana Financial Investment traces its origin to Korea Investment Corporation, a public corporation established in December 1968, re-launched in 1977 as Korea Investment Trust, and changed in September 2015 to the current name. It plays a pivotal role as an asset management arm of Hana Financial Group, while leading Korea's capital markets. Its many milestones include the establishment of Korea's first investment fund, ranking No. 1 in brand power at the investment trust category for the last six straight years, and creating an innovative IB culture. The company is on its way of becoming Asia's top investment bank, taking full advantage of Hana Financial Group's extensive global network.

## Hana Life



Having pioneered bancassurance in Korea in February 2003, Hana Life is focused on delivering optimal financial planning and follow-up services based on its sound insurance product portfolio. The company combines its wide-reaching domestic channels with advanced insurance technologies in making strides toward becoming an insurance company that is well trusted, progressive and reliable.

## Hana Investors Services



Hana Investors Services traces its origin to a 2003 spin-off from KEB as an administration company specializing in funds accounting and management. It became a member of Hana Financial Group when KEB was absorbed into the Group in 2012. Since its inception, the company has led the administration management market with a broad customer base consisting of institutional investors including asset managers, public and corporate pension services, insurers and bank trust funds.

## Finng



Finng is a joint venture formed in October 2016 between Hana Financial Group and SK Telecom, the Group holding a majority share of 51%. Combining the financial service know-how of Hana Financial Group with SK Telecom's mobile technology expertise, the company offers mobile-based financial services that are part and parcel of consumers' daily lives such as mobile wealth management and account-based services as well as recommendation on customized financial services.

# Corporate Governance

Sound corporate governance is fundamental to the gaining of stakeholders’ trust. Hana Financial Group’s commitment to all stakeholders is reflected in our management culture that embraces the higher standards of corporate governance we maintain.



## Composition of the BoD

Hana Financial Group constantly endeavors to render its business management more transparent, corporate governance more stable, operations of the Board of Directors (BoD) more efficient. We therefore operate eight committees within the Board of Directors: the BoD Steering Committee, Audit Committee, Risk Management Committee, Management Development and Compensation Committee, Group Executive Nomination Committee, Outside Director Nomination Committee, Auditor Nomination Committee and Group Chairman Nomination Committee.

The BoD delegates some of its authority to board committees within the limits allowed by relevant laws and regulations and the Articles of Incorporation. Through these committees, the BoD deliberates on issues such as improvement of the governance structure, efficiencies in BoD operations, accounting and business audits, management of various risks associated to its business operations, Group-wide adoption and execution of compensation policies, as well as nomination of Group CEO, outside directors and auditors. Major activities of the BoD and the committees are disclosed on a regular basis.

## Independence and Transparency of the BoD

As an important decision-making body of Hana Financial Group, the BoD comprises seven outside directors and three inside directors – the former constituting a majority to ensure the BoD’s abilities to keep management in check, as well as to pursue the highest level of independence and transparency.

The BoD also plays the role of a multi-talented advisor as it comprises industry experts in finance, business administration, law and accounting. In addition, it is authorized by internal regulations to consult third-party specialists if necessary.

Outside directors are selected among candidates nominated by the Outside Director Nomination Committee after a thorough scrutiny of their qualifications under relevant laws and regulations in the areas of independence, expertise, job fairness, ethical conduct and job integrity, in order to ensure fairness and independence in the composition of the BoD.

To maintain close communication with shareholders, investors, financial consumers and other stakeholders, the BoD publishes its activities on a monthly basis. Also maintained is the transparency of the activities through detail disclosure of remuneration schemes and the corporate governance in the run-up to every annual general meeting (AGM).



## BoD Evaluation Process and Standards

Hana Financial Group conducts an annual assessment of the BoD’s past year activities to identify room for improvement in the composition and operation of the Board, as well as its roles and responsibilities, in a transparent and efficient manner. Every January or February, the BoD’s performance of the previous year is evaluated through written questionnaires involving only outside directors to ensure the objectivity of the assessment process.

The key criteria of the assessment process consist of the BoD’s functions, roles, responsibilities, operation, evaluation system, composition and qualifications. The descriptions of line items in the questionnaire are detail enough to assess the criteria.

To maintain the objectivity of the assessment of outside directors’ performance, the assessment process consists of three evaluation types – by director themselves, peer and employees. All three types focus on the abilities and qualifications of individual directors, their responsibilities as outside directors on the BoD, contributions to the Board, mutual collaboration and the level of trust they receive from their peers.

## BOARD COMMITTEES

Committee	Composition	Purpose and Responsibilities
BoD Steering Committee	1 inside director, 4 outside directors	Deliberate and resolve on issues related to enhancing the corporate governance structure, improving the operation of the BoD and its committees, and other matters delegated by the BoD
Audit Committee	3 outside directors	Plan and conduct internal audits, including accounting and business audits and other incidental audits, evaluate audit results and follow-up measures, and recommend improvements
Risk Management Committee	4 outside directors	Establish, approve, and manage policies and plans for handling various risks associated to the Group’s business operation
Management Development and Compensation Committee	3 outside directors	Establish and deliberate on Group compensation policies and matters related to executives’ performance evaluation of the holding company and its subsidiaries
Group Executive Nomination Committee	1 inside director, 3 outside directors	Screen and nominate candidates for the position of inside directors of the holding company and of chief executive officers of subsidiaries when new appointments are required for various reasons including tenure termination
Outside Director Nomination Committee	4 outside directors	Establish guidelines for appointing outside directors, and screen and nominate qualified outside director candidates from various fields
Auditor Nomination Committee	7 outside directors	Select candidates for the Audit Committee and nominate them at the annual general meeting (AGM)
Group Chairman Nomination Committee	7 outside directors	Set criteria for candidates for Group chairmanship and nominate qualified candidates according to relevant regulations and bylaws

# Risk Management

Hana Financial Group is fully aware of the paramount importance of being proactive and systematic in the management of risks we face in daily operations. Accordingly, we are focused on maximizing our risk management capacity to effectively cope with a crisis of any magnitude and manage diverse risks inherent in our business activities. Risks associated with credit, market, liquidity and operations are managed through detection, measurement, monitoring, control and reporting in accordance with guidelines at the group level.

## Risk Management Status and Achievements in 2017

In 2017, Hana Financial Group improved our non-performing loan (NPL) ratio and delinquency ratio through a continued balancing of the high risk portfolio, while maintaining a high degree of asset soundness and capital adequacy through portfolio optimization and risk management system upgrades. In addition, efforts were made to institute a front office-centered risk management culture, and we also made significant improvements in crisis management ability by building an early-warning system designed to detect the first sign of an undue rise of industry risk.

**RISK GOVERNANCE** Hana Financial Group has established and operates an advanced control system that comprehensively and systemically manages all possible risks. Our Board of Directors (BoD) has set in place the environment and systems to manage risks in accordance with guidelines set for our business strategies, and delegates a portion of its risk management authority and responsibilities to the Risk Management Committee.

The Risk Management Committee is the highest decision-making body of the Group in terms of risk management. Its main functions are to establish, approve and manage risk policies and master risk management plans, in order to manage risks inherent in our operations at the group level. The Risk Management Execution Committee convenes monthly meetings to discuss risk agenda items of Group subsidiaries, including KEB Hana Bank. By doing so, the Committee maintains close communication with all subsidiaries through the interactive governance system.

**CREDIT RISK MANAGEMENT** Credit risk originates from the possibility of losses arising from the total or partial failure of borrowers or counterparties to meet their financial obligations. These risks are inherent in all conventional financial products such as loans and credit card debt as well as derivatives and other trades.

Hana Financial Group has set in place an in-house credit rating system and an independent risk management organization, as well as an early warning and other monitoring systems, in our efforts to ensure comprehensive management of credit risks. We also operate such risk management systems as credit rating and pricing models each differed by type of asset - retail or corporate - to measure the likelihood of counterparty defaults.

Meanwhile, we have fine-tuned credit limit management system at the group level, and thus setting different credit limits by type of borrowers, in order to deal with risk factors such as the growing number of marginal

businesses and escalating uncertainties in global financial markets due to a delay in economic recovery and increasing risks in some industries. In addition, by setting credit limits by industry based on industrial credit ratings as well as by country and financial institution, we have diversified our portfolio, thereby minimizing potential risks resulting from counterparty defaults.

**MARKET RISK MANAGEMENT** Market risk is the possibility of losses from marketable assets and liabilities under management due to fluctuations in interest rates, stock prices, foreign exchange rates and other market prices. The primary goal of market risk management therefore is to control potential losses in assets and debts arising from fluctuations in interest rates, stock prices and exchange rates within an acceptable range and thus secure both profitability and stability.

To preemptively manage market risks, Hana Financial Group has set limits on exposure, value at risk (VaR), loss and other various market risks by product, division and other detail unit. We measure and monitor the level of market risks on a daily basis and then report the results on a regular basis, so that the overall level of market risk is under control at all times.

Moreover, we closely track a number of early warning indicators and internal management indicators on a real time basis, in order to prepare for the possibility of another crisis following the recent volatility in financial markets. By doing so, we have set in place a system to detect signs of a crisis, and also have established stage-by-stage response procedures to effectively minimize any potential losses through preemptive countermeasure application.

**LIQUIDITY RISK MANAGEMENT** Liquidity risk is the risk of insolvency stemming from a shortage of funds due to a disparity between investment and funding periods or an unforeseen massive capital outflow, or the risk of paying opportunity costs arising from having to borrow funds or dispose of assets. Therefore, the key purpose of managing liquidity risks is to detect liquidity volatility factors in a timely manner, systematically manage funding obligations and investment maturities at an adequate liquidity level, and thus ensure a stable flow of revenue.

Hana Financial Group not only sets limits on major liquidity risk management indicators, but also has an early warning system to identify a potential liquidity risk issue arising in the financial market. In addition, potential liquidity issues are constantly monitored through application of various liquidity stress scenarios, statistical analysis and capital amount simulations. Contingency plans are also in place for various types of liquidity crisis.

**OPERATIONAL RISK MANAGEMENT** Operational risk is the risk of incurring losses resulting from inappropriate operation of human resources, internal processes or systems, or from an external circumstance. In general, operational risk is associated with overall business and marketing activities of a company. In other words, the operational risk

of incurring losses not only stems from an internal operational defect or failure but also lies in an unpredictable non-financial risk arising outside the company such as natural disasters or terrorist attack.

Hana Financial Group regularly measures the level of operational risks following changes in the business environment or in the level of internal control, with an aim to maintain and control operational risks at a manageable level at all times.

Each of Group subsidiaries calculates the level of operational risks facing its business operations using a methodology that is in compliance with the guidelines set forth by its respective industry authorities. The calculated levels are then reported to the Group's Risk Management Executive Committee and Risk Management Committee on a monthly and quarterly basis. Group subsidiaries which are not regulated by industry guidelines on operational risks also report the results of their monitoring of operational risk-related losses and IT system disruptions to the holding company on a regular basis.

**STRATEGY TO REDUCE THE WATCHLIST** Hana Financial Group annually updates the list of our major corporate borrowers or corporate customers that reach a certain number of credit transactions. In updating the watchlist, we use an internally developed credit rating model, based on which we evaluate the financial and non-financial information of member companies of a business group, including the possibility of facing a liquidity crisis and their crisis management capabilities.

To preemptively manage our exposures to business groups on the watchlist, we track key risk factors inherent in their business activities, changes in their credit ratings and the progress of their rehabilitation for those under court-ordered restructuring.

**PREEMPTIVE RISK MANAGEMENT** Hana Financial Group regularly updates our industry and sector watchlists to be prepared for a global economic slowdown and industry risks. In 2017, we developed an industry early-warning system and used it to monitor signs of risk factors arising in all industries on the list. To maintain independency and objectiveness in our industrial ratings scheme, Hana Institute of Finance regularly evaluates industrial ratings in consideration of industry-inherent risks and industry outlooks. The industrial ratings are also reflected in the selection of the industry watchlist, the management of exposure limits set by industry, as well as the credit rating of individual corporate borrowers.

As for shipbuilding, shipping, construction and other industries currently undergoing an industrial restructuring, Hana Financial Group has already put them on the watchlist as well as those industries expected to undergo restructuring in the near future.

**STRATEGY TO INCREASE COMMON EQUITY TIER 1 (CET 1) RATIO** CET 1 ratio represents the level of common equity against risk-weighted assets (RWA), and is often used as an indicator of capital efficiency as well as the

adequacy of regulated capital amounts recommended by the supervisory authorities.

Hana Financial Group has been focusing on improving our capital efficiencies since 2016 by reducing the size of assets with low return on RWA and by stepping up marketing efforts centering on assets with high return on RWA. As a result, we increased assets but reduced RWA in spite of an unfavorable market environment due to growing uncertainties in the domestic and global economic landscapes. Specifically, CET 1 ratio grew by 2.95%p, from 9.79% at the beginning of 2016 to 12.74% by the end of 2017.

Going forward, efforts to improve capital efficiency will continue in 2018. We will establish a portfolio strategy that concentrates on capital investment in assets with high return on RWA and manages capital adequacy and profitability side by side.

## Core Risk Management Tasks in 2018

Hana Financial Group pursues the industry's highest level of asset soundness. To achieve this, we will focus on strengthening our crisis management ability in preparation for any spike of uncertainty in global financial markets and economic downside risks. We also plan to bolster our weaknesses in certain sectors, while preemptively responding to the toughening of global financial regulations and other changes in the business environments at home and abroad.

We manage the growth of our loan assets up to a level where stable capital adequacy can be maintained. We also pursue an adequate degree of profitability based on risk tolerance level, and manage exposures by size, industry and product, in order to reduce credit concentration risks and balance our loan portfolio.

Asset soundness is managed through continued improvement of credit evaluation systems and loan screening process. In particular, high risk loans are managed through the identification of borrowers at potential risk based on a systematic credit risk assessment employing early-warning systems and regular or irregular auditing of borrowers' credit standing.

As a result of these efforts, Hana Financial Group enjoys superior asset soundness indexes and will continue to do so.



### KEY TASKS IN 2018

- **OPTIMIZE RISK MANAGEMENT**  
Form and manage the high-risk portfolio early; preemptively respond to regulation changes; and strengthen crisis management abilities
- **IMPROVE RISK MANAGEMENT PROCESSES**  
Automate manual work processes; and fine-tune the market risk management process
- **EFFICIENTLY MANAGE CAPITAL ADEQUACY**  
Continue to cut credit costs; strengthen RWA and return on RWA management; and overhaul the capital adequacy management system



# REVIEW OF OPERATIONS

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Best Private Bank in Korea 2017  
(by Euromoney, 10 times)

12million

Number of people with  
'Hana Members' membership in Korea

99.1 KRW trillion

Year-end balance of household loans,  
a KRW 4.0 trillion increase over the  
figure as of December 31, 2016

22%

Highest growth rate in number of  
mobile banking customers among  
commercial banks in Korea

No.1

HAI Robo became No. 1 in market  
share of AI-based financial services by  
recording KRW 400.0 billion in sales

\* As of 2017 year-end



## Retail Banking

Hana Financial Group is bringing together experiences and expertise of each subsidiary in retail banking toward one goal - customer satisfaction. With this devotion, we continue to drive change.

### Customer Base

The number of retail customers of KEB Hana Bank in 2017 totaled 19.34 million, a YoY increase of 690,000 or 3.7%, recording the highest growth rate among Korean commercial banks as in 2015 and 2016. The increase can be attributed to new customers-focused sales campaigns centered on housing subscription and installment-type products. The number of customers who contributed over KRW 100 million in sales increased 3.7% or 7,800 over the previous year, while those who contributed over KRW 10 million increased 5% or 75,000. These increases are the result of the reclassification of employees' roles into Gold Private Banker (PB), VIP PB, VIP Advisor (VA) and N Superstar in managing core customers with KRW 10 million and VIP customers with KRW 100 million in deposits; and of the popularization of asset management services made possible by the use of robo-advisors based on artificial intelligence (AI).

In 2018, we plan to move away from the traditional and unilateral marketing practice of focusing on active customers to a multi-lateral mode of segmenting customers into VIP, core customer, core market and digital customer. In particular, the focus of customer marketing will be shifted from customer contributions based on the addition of sales they generated to the method of defining customer value from diverse and multi-layered perspectives. Accordingly, we will also consider if customers have engaged in foreign exchange transactions or purchased long-term and other key products. In addition, efforts will continue to offer better quality services to core customers. Asset management services will continue to be made available to more customer segments through 'Hybrid PB' linking PBs, VAs and roboadvisors. In addition, a customer management culture will be instituted through N Superstars, a team of experts overseeing the retail customer management of branch offices. We will also continue to focus on marketing efforts to attract Hana Members, Finng and other users of our daily life financial platforms toward banking services. Through these and other planned actions, we will embrace diversifying financial services, while increasing our share of core markets.

### Household Loans

The domestic mortgage loan market in 2017 continued to grow at the rate as in 2016 on the backs of expectations that housing price will rise and of an increase in the number of newly subscribed apartments. However, household loans, including policy mortgage loans, at deposit-taking banks recorded KRW 55.8 trillion, a KRW 13.0 trillion decrease from 2016 mainly owing to a toughening government policy on real estate.

KRW Household Loans  
(Unit: KRW trillion)







KEB Hana Bank also focused on building a solid loan product lineup by rolling out innovative new products. The Bank developed new products through reassessing the existing ones in terms of life cycle stage and customer profession, and in response to the advent of Internet-only banks, it successfully launched ‘Hana Members Loan’, a one-stop non-face-to-face loan product, in collaboration with the Group affiliates. In addition, in its efforts to practice “inclusive finance”, the Bank introduced a product designed to help newly-weds start a stable married life which has been well received by the market.

The mortgage loan market in 2018 is expected to see slower growth due to the effects of the government’s policy on real estate and steps to reduce household debts. But as the demand for housing lease loans as well as the increase of apartment subscriptions and supply are expected to continue, KEB Hana Bank plans to maintain its growth momentum by increasing housing lease and group mortgage loans, thereby attracting new customers. In preparation for market rate increases triggered by the U.S., the Bank plans to disperse fixed interest rate risks by selling policy mortgages. In addition, it will improve its financial soundness by screening out unsound loan applications and strengthening the management of high burden loans in compliance with the new debt service ratio (DSR).

In developing products, KEB Hana Bank seeks to build a non-face-to-face channel that can effectively promote and sell its solid loan products and offer services that stand out among its competitors’. Moreover, the Bank, in its efforts to maintain the support for “inclusive finance”, will partner with government agencies and regional autonomous government bodies and thus develop products that help young adults lead their lives amid stable housing conditions.

Household Deposits

Low cost funding (LCF) grew to KRW 77.3 trillion as at 2017 year-end as core deposits increased by KRW 3.0 trillion YoY. Time deposits rose to KRW 105.1 trillion, up KRW 4.4 trillion, while installment deposits decreased KRW 325.0 billion compared with the figure in 2016 mainly due to long-term accounts reaching their maturities. The number of installment deposit holders, however, increased by 240,000 to 2 million as a result of a proactive management of accounts nearing their maturities and efforts aimed at attracting new customers.

The launch of diverse products also contributed to the growth of household deposits. Products designed for Hana Members generated 350,000 accounts by the end of 2017 in 10 months from its debut in February 2017. ‘Cchan Tech’, a product developed in response to a growing popularity in promoting reasonable consumption, succeeded in attracting a substantial number of customers who are interested in investment technique and money-saving. Also, new time and installment deposit products were introduced to commemorate KEB Hana Bank’s official sponsorship of the PyeongChang 2018 Olympic Winter Games and to enhance the Bank’s image.



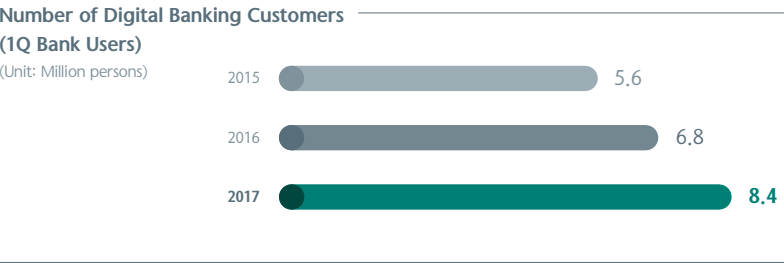
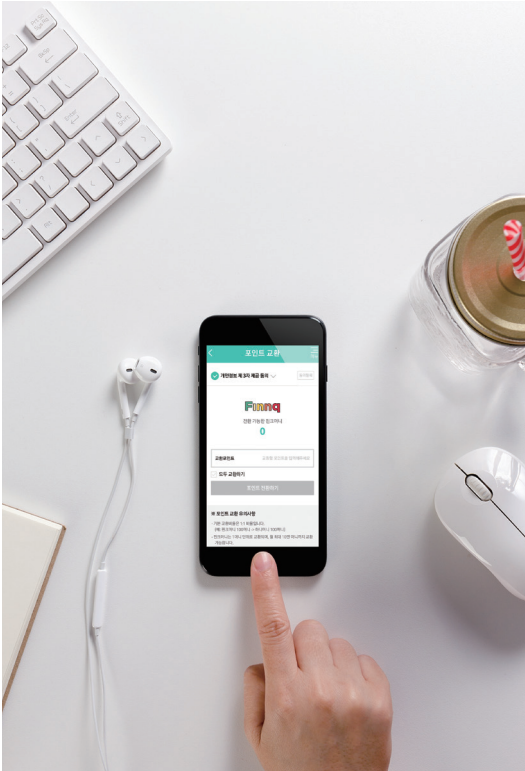
The deposit-taking market in 2018 is expected to see increasing demand for short-term deposit products in light of the rising interest rates and unstable conditions at home and abroad. Also expected is heated competition among commercial banks, including Internet-only banks, to attract new customers with a rush of new product releases. KEB Hana Bank therefore plans to focus its resources and energy on developing and marketing products with a focus on product value and channels.

The Bank will strive to attract active core customers by cross-selling products that offer optimum customer benefits at the very outset of customer signups, and it will also plan to develop products featuring characteristics of both demand and installment deposits in response to the growing popularity of short-term products. In addition, it will develop hybrid products optimized to different life cycles of customers, which will be sold through non-face-to-face channels and over the branch counter as well. As for sports marketing, diverse areas will be explored in search of partners and products ideal for niche marketing. In addition, the foundation will be further strengthened for growing LCFs by increasing the number of customers using automatic wage deposit, card payment and other settlement-type transfer accounts. Installment deposits will continue to be promoted as a tool for attracting new customers.

Digital Banking

At the end of 2017, the number of our mobile banking customers stood at 8.4 million, representing a YoY increase of 22%, the industry’s highest rate. Upgrades were made in the individual banking system, which had been delayed until the completion of the IT integration. In July, a new AI-based financial service brand ‘HAI’ was launched. As a follow-up to its 2016 introduction of the industry’s first robo-advisor ‘Cyber PB’, KEB Hana Bank has substantially upgraded its HAI Robo service by using the deep learning technique and adding non-face-to-face channels. In six months of its release, HAI Robo recorded KRW 400 billion in sales and thus secured the largest market share. At the end of 2017, HAI Robo’s membership stood at 28,000 and its accounts amounted to KRW 255 billion. The Bank also launched a short yet intense marketing campaign promoting non-face-to-face channel-only installment savings products during the exceptionally long ‘Chuseok’, also known as Korean Thanksgiving Day, holiday break in 2017 by being aware of the fact that mobile banking transactions are available even during the holiday period. An average of 3,000 accounts per day was signed up - more than eight times the average figure for regular work days.

In 2018, we plan to further upgrade our retail banking, robo-advisor, and retirement pension systems and adopt mobile bancassurance and marketing alert apps, all in an effort to establish a banking environment that is faster and easier for customers to use. Specifically, in the first half of the year, HAI Robo services will be expanded to retirement and individual pension operations and used for the simultaneous transaction of multiple accounts, thereby enhancing the convenience of portfolio investment by a notch. Also, taking a cue from the successful holiday marketing campaign last year, we will turn 2018 into the first year in which digital establishes itself as an independent sales channel.



### Private Banking

KEB Hana Bank garnered 4 coveted global private banking (PB) awards in 2017, solidifying its reputation as Korea’s leader in PB. Such honors can be attributed to steady growth of assets and profits; continued improvement of research abilities and products that stand apart, which have been used as customer management indexes; and outstanding services and marketing programs contributing to customer satisfaction. Going forward, the Bank plans to further sharpen its competitive edge in asset management by developing innovative Gold PB products and services, expanding channel



#### KEB Hana Bank’s Private Banking Sector Awards in 2017

- Best Private Bank in Korea 2017 (Euromoney, 10 times)
- World’s Best Private Bank in Digital Client Solutions (Global Finance, 2 times)
- Best Private Bank in Korea 2017 (The Banker/PWM, 5 times)
- Outstanding Wealth Management Service for the Affluent (Private Banker International, 6 times)



diversity, increasing the exclusive benefits of VIP PBs, manning all branches with VAs, and further expanding the use of PB asset management systems.

In addition, the Bank is completing its asset management structure by offering services segmented by target customer such as Gold PB, VIP PB, VA Advisor and HAI Robo. In particular, HAI Robo is a powerful tool that can raise the quality of asset management services because it enables the sale of investment products through diverse channels including non-face-to-face channels, and the rebalancing of products sold and other post-sale management services. HAI Robo is also expected to contribute to expanding the target range of asset management services.

In 2018, the Bank plans to focus on strengthening the competitiveness of its PB business, aiming to become No.1 in asset management through customer value innovation. To achieve this, the Bank will secure specialized channels in the Seoul metropolitan area and set up new PB channels in nearby growth areas, and open Gold Club and International PB centers in major regional cities, with an eye toward strengthening its asset management operations. Also planned is to enlarge its share of the VIP customer market through increase of the supply of specialized products developed for high net worth individuals (HNWI). Moreover, it will improve the quality of PB services available at all branches by upgrading the job competence of VIP Advisors and overhauling support systems.

Taking a step further, we will lead the growth at the Group level in addition to the growth of each affiliate by maximizing synergies among the Group affiliates. KEB Hana Bank will share its VIP customer base, channels and service competitiveness with Hana Financial Investment (HFI), while taking advantage of HFI’s research capability and diverse product lineup. By bringing together strengths from each affiliate, we will achieve the objective of ‘One-WM<sup>1)</sup>’ and further bolster our reputation as the industry leader of asset management.

### Investment Funds

As the domestic funds market continued to grow throughout the year in 2017, the investment fund market also saw balances growing in all sectors except money market funds (MMF) and fixed income types. Capital inflows increased, noticeably into funds that invest in domestic and overseas equities, in response to positive market conditions. In particular, the year-end balance of tax-exempted overseas equity funds amounted to KRW 497.0 trillion, an increase of KRW 28 trillion compared with the previous year; while equity and fund of fund types rose by KRW 4.2 trillion and 7.9 trillion, respectively, contributing a great deal to the market growth.

Amid such market conditions, KEB Hana Bank focused on product competitiveness and commission income in collaboration with HFI and UBS Hana Asset Management, thereby generating KRW 101.7 billion in fund commission income. In addition, taking full advantage of the strengths emerged through its recent integration, the Bank rolled out Dollar Investment Domestic Outstanding Fixed Income Fund, dollar MMF and dollar ELF, thus leading the dollar investment product market. Also, equity (hybrid) and fund of fund types rose 6%p to 35% in proportion as a result of its pursuit of an equity type-centered portfolio strategy and a focus on selling tax-exempted overseas equity funds, based on which the Bank secured a stable income basis.

<sup>1)</sup> WM: Wealth Management

In 2018, although wage increases in the US are translating into inflation expectations and higher market interest rates, thus negatively affecting the stock market, they will have an overall positive effect on the market if the increases also lead to higher consumption in the U.S. In that case, consumption-related businesses are expected to reap a bigger profit and the consumer goods sector is to lead the market. Based on these rational assumptions, KEB Hana Bank is recommending funds that invest in consumer businesses in the U.S. and other advanced economies while paying a close attention to countries whose economies are heavily dependent on consumer good exports to the U.S. In addition, as a US interim election is slated for November, a big uncertainty factor to the stock market, the Bank plans to aggressively increase the proportion of asset distribution-type funds as a precautionary measure.

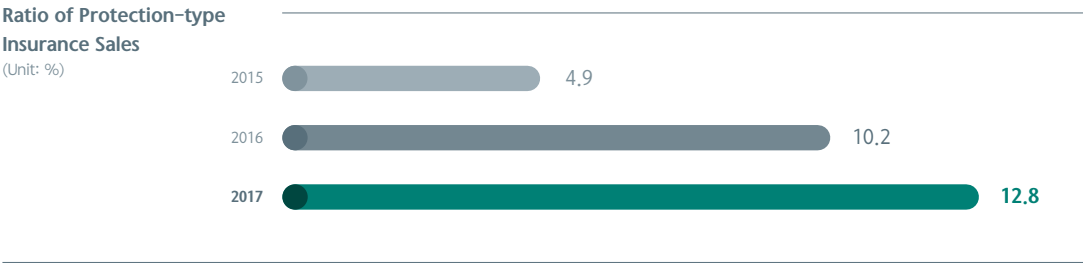
### Bancassurance

Savings-type insurance sales marked a substantial increase across the industry in the first quarter of 2017 as the amount of tax that can be exempted from gains on the insurance settlement of savings-type policies was reduced in April. KEB Hana Bank’s bancassurance business also had a great first quarter, posting KRW 20.4 billion in first premium of installment types, 66.7% of total for 2017; and KRW 277.1 billion in lump sum first premium, 58.5% of total. Bancassurance commission income amounted to KRW 54.1 billion in 2017.

However, the reduction of the tax exemption allowance dealt a blow to savings-type insurance sales, and as a response to this, the Bank focused on protection-type insurance sales instead. As a result, of commission incomes from installment-type insurance sales, those from protection-type insurance sales accounted for 12.8%, a 2.6%p increase from 2016. The increase is meaningful in light of the fact that protection-type insurance, compared with savings-types, is more profitable, more conducive to attracting long-term customers, and makes a better tool for employees to improve their asset management skills.



Savings-type insurance in 2018 is expected to witness slower growth as the standardized disclosed interest rate system is to undergo a major change and insurance companies are to strengthen their risk-based capital (RBC) management. Interest rate increases and other opportunity factors are also expected, but they will be temporary and limited in their effect. Based on these forecasts, KEB Hana Bank plans to expand variable insurance sales while maintaining its strategy that focuses on protection-type products. Accordingly, the Bank has been preparing processes for managing customers’ yield rates in collaboration with partner insurance companies since December 2017, and it has been improving sales competencies through training by the division. In addition, the Bank will channel more resources to institutional sales and increase premiums per policy in order to cope with the effect of the reduced tax exemption allowance on gains on insurance settlement for individual customers, as well as to improve profit.





11.4%

Highest growth rate in number of SME  
clients in the domestic financial industry73.0<sup>KRW</sup>  
trillionYear-end balance of SME loans,  
up KRW 6.6 trillion from 20168.6%p<sup>↑</sup>Increase of collateral coverage ratio for  
SME loans over the past three years

230,000

Number of SOHO loan customers,  
a 13.1% increase over the figure as of  
December 31, 2016

17 years

KEB Hana Bank was selected as the  
Korea's Best Trade Finance Provider for  
the 17th consecutive year

\* As of 2017 year-end



## Corporate Banking

Hana Financial Group achieved genuine growth in SME loans and other corporate banking areas in 2017, contributing to the overall progress of the Group and the market as a whole.

### SME Loans

In 2017, domestic banks saw their loan growth rate turn positive on the back of growing economic recovery expectations. KEB Hana Bank recorded KRW 73.0 trillion in small and medium-sized enterprises (SME) loans, KRW 6.6 trillion or 9.9% increase over the figure in 2016. The number of SME clients also increased to 279,710, an increase of 28,640 or 11.4% from the previous year, the highest rate in the domestic financial industry.

The Bank also achieved significant results from its efforts to adjust large corporate and SME loans in proportion and to balance the portfolio: the proportion of large corporate loans in the Korean Won decreased from 20.2% at the end of 2016 to 18.4% at the end of 2017, while that of SME loans increased 1.8%p from 79.8% to 81.6%. The Bank's share of the SME loan market also grew. The Bank's SME loan business centers largely on secured loans available only to its exclusive SME clients, and because of this, the collateral coverage ratio for SME loans has increased over the past three years - from 67.2% in 2015 to 71.8% in 2016 to 75.8% in 2017, which has led to the improvement of asset quality. Korean Won loans extended to SMEs possessive of FX trade accounts amounted to KRW 21.5 trillion, 30.3% of total KRW SME loans.

In 2018, despite the continuing growth of exports, economic uncertainties are expected to grow on the account of U.S. interest rate increases and a protectionism spreading worldwide. Moreover, in line with the Korean government emphasis of "productive finance", financial supports are being expanded to SMEs, venture firms and promising companies related to the Fourth Industrial Revolution, which in turn will bring fiercer competition among financial players in the field of SME loans.

In order to be prepared to take preemptive action, KEB Hana Bank has reorganized and upgraded its Technology Finance Department into the Small and Medium Venture Finance Department and thus focuses on invigorating the small and medium-sized venture investment and technology finance business. The Bank plans to supply KRW 13.0 trillion to technology finance and new growth companies in the next three years, and expand investment in venture firms by channeling over KRW 600.0 billion, including its own investment, into growth finance and new technology funds by 2020. Also planned are rollout of exclusive products that offer preferential loan limits and interest rates to startups and job-creating businesses as well as the expansion of consulting services for startups, in its efforts to lead the virtuous circle of job creation.

### KRW SME Loans (Unit: KRW trillion)





The Bank's SME goals for 2018 include increasing loans by KRW 4.5 trillion and the number of SME clients by 20,000. To achieve these, the Bank plans to pursue acquisition of new high-quality assets and increase of the exclusive SME client base as a core strategy, and based on the high-quality SME loans, it will build an optimum portfolio. KEB Hana Bank will do its utmost to maximize profits through preemptive risk management, and focus its marketing resources on attracting more clients by discovering new markets and future growth industries reflecting market trends, and also

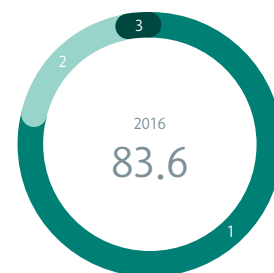
by developing customized products and services. Moreover, it will promote smart target marketing activities as a way to support front office operations. In addition, a collaboration system at the Group will be established with an aim to explore niche markets.

Also in 2018, in step with guarantee institutions expanding their guarantee supports, the Bank will work closely with the Korea Credit Guarantee Fund, Korea Technology Finance Corporation, and Korea Credit Guarantee Foundation; and step up marketing efforts to reach out to startups, companies in possession of competitive technologies, export and import-oriented companies, and small businesses. In particular, by arranging guarantee certificate-backed loans in collaboration with the credit guarantee foundation of each region, the Bank plans to expand the dummy sales of small businesses and shop owners of the regions; and thus attract long-term high credit score customers. Based on this, the Bank will expand cross-sales as well as the profit base. In addition, KEB Hana Bank will strengthen marketing efforts to Korea Chamber of Commerce and Industry, Korea Venture Business Association, and other committees and groups with SME members, as a way to expand its SME client base. Furthermore, by inducing SME clients into choosing KEB Hana Bank as their primary bank, the Bank will incorporate their employees as customers base and thus expand the retail banking base.

In the FX area, KEB Hana Bank will further bolster the competitive advantage it enjoys as a result of its integration, attract more small and medium-sized exporters, and push cross-selling, and thus create synergies. To achieve these, the Bank will roll out special foreign currency loan products within a USD 500 million limit in the first half of 2018. It will also expand export and import-related loans, including purchasing documents against acceptance (D/A) and letters of credit (L/C) as well as opening of L/C, and offer FX commission rate discounts up to USD 300 million.

#### Loans to Corporate

(Unit: KRW trillion)



1 SMEs	66.4 (79.4%)
2 Large Corporates	15.3 (18.2%)
3 Others	1.9 (2.3%)



1 SMEs	73.0 (82.0%)
2 Large Corporates	14.4 (16.1%)
3 Others	1.7 (1.9%)

#### KRW SOHO Loans

(Unit: KRW trillion)



#### SOHO Loans

KEB Hana Bank expanded its supports to small businesses in 2017 while providing diverse products in package, and thus made progress in terms of both quantitative and qualitative growth by widening respective customer base and increasing high quality assets. In 2017, KRW SOHO loans grew KRW 5.2 trillion or 15.6% YoY to stand at KRW 38.3 trillion, higher than the industry average. At the end of 2017, the number of SOHO loan customers reached the goal to record 230,000, 13.1% or 27,000 increase over the figure in 2016.

The Bank has compiled a list of SOHO entrepreneurs segmented by business type and region and is developing a marketing plan of offering a package of products and services tailored to each of the customer segments with an aim to attract potential preferred customers. In order to offer an optimized product and service package in a most effective manner, the Bank is developing products and exploring ways to coordinate joint marketing with the Group affiliates, while forging cooperative agreements and partnerships with a variety of trade associations and regional organizations outside the Group. In particular, it continues to expand such marketing activities as cooperative agreement with regional credit guarantee foundations, partnership with different trade associations, and specialized product development with franchises in its efforts to identify diverse financial needs of customers of different

regions and business types and to provide timely support. The Bank has also set in place a customer management system which offers diverse products developed to the different life cycles of businesses. Also, by restructuring its digital channels, it is offering competitive digital services and at the same time, stepping up marketing linking online and off-line channels.

In 2018, as the low-growth environment continues to weaken private consumption and the economy as a whole, associated risks are expected to grow. SOHO loans, in particular, seem unlikely to remain unaffected by interest rate rises and the toughening by government of regulations on household debt and real estate transactions because they are vulnerable to economic fluctuations. All these forecasts will lead to commercial banks intensifying the competition for SOHO loan customers with excellent credit quality.

Anticipating such forecasts, KEB Hana Bank will step up efforts to secure quality assets and thus fortify the profit base at an earliest possible time. Rather than making traditional LTV<sup>1)</sup>-based secured loans, the Bank will base its lending operations on sales, cash flow and other indicators of the ability to pay off loans as well as on a more detailed analysis of credit applicants, and thus avoid loan concentration in a certain industry and grow a balanced loan portfolio. At the same time, while making efforts to improve product and service competitiveness, the Bank will go beyond product-based marketing to pursue a different level of marketing activities based on the analysis of potential growth and risks segmented by business area and type. Moreover, it will focus on systematic customer management, and thus become a primary bank of preferred customers and minimize customer attrition with a goal of achieving quality growth.

<sup>1)</sup> LTV: Loan-to-Value



To better compete against Internet-only banks and fin-tech companies, the Bank will develop and introduce cutting-edge products and services based on analyses made using big data and fin-technology, and by taking full advantage of non-face-to-face channels, embrace market changes and innovation. Moreover, in support of Korean government efforts to put in place the virtuous circle of profit-led growth, the Bank will fulfill its social responsibilities and roles by expanding its support for productive finance of aiding job-creating companies and inclusive finance of aiding small businesses.

## Foreign Exchange

A healthy economic recovery, improving corporate earnings and a global economic turnaround all pointed to stable growth in 2017. However, North Korea’s nuclear tests, China’s protracted reprisal against Korea’s THAAD deployment, and other geopolitical risks turned up the degree of uncertainty. The foreign exchange (FX) market experienced an intensifying competition as the advent of Internet-only banks and the allowance of overseas remittance business and other easing of regulation encouraged the inflow of new market participants. As a result, pressures increased on commission income and gains on trading; and the market itself is going through a rapid change.

Despite such a challenging market environment, KEB Hana Bank maintained its growth momentum and further solidified its market position as the leader of FX. To review the Bank’s 2017 FX performance in comparison with the 2016’s, import/export trade rose 15.8% to USD 348.9 billion, FX and remittance increased 3.8% to USD 304.8 billion, the sum of gains on trading and commission incomes grew 2.54%, or KRW 11.9 billion, to KRW 479.7 billion, all attesting to the gradual expansion of the FX synergies of the integrated bank. Moreover, in recognition of its FX market dominance, high-quality products and services, and technological abilities, KEB Hana Bank was selected as the Korea’s Best Trade Finance Provider for the 17th consecutive year by Global Finance, a globally renowned financial magazine, thereby confirming its strong reputation as an FX specialist.

In 2018, the FX market is expected to remain at the current level of uncertainty as global liquidity decreases following the advanced economies’ normalization of their monetary policy, the U.S increases trade pressures, and protectionism grows worldwide. Also expected is intensifying competition between banking and other industries as a result of easing of regulations. KEB Hana Bank therefore plans to focus on front office-centered sales in an effort to upgrade its FX process substantially and to maintain its growth momentum in the fast-evolving market environment.

The Bank will reorganize its existing products and services, and new overseas remittance and FX services using the HAI Banking system will be rolled out, which will enable customers to remit money overseas and exchange foreign currencies using smartphones from anywhere and anytime. Channels for registering Hana Global Pay Card will be expanded to include non-face-to-face channels in order to better accommodate overseas travelers and customers who buys directly from overseas. In addition, Western Union’s automated overseas remittance channel will be expanded, 1Q Transfer upgrade will be carried out through the overseas branch network, remittance services will be introduced by Finng, and GPI service will be developed to replace current SWIFT-based remittance services, all of which will contribute to strengthen the channel completeness of the Bank. New products and services will be continually developed and existing ones will be upgraded for the purpose of attracting new customers and improving customer convenience as well. KEB Hana Bank will also improve its price competitiveness through use of the Bank’s global network to reduce cross-border money transfer charges, and specialized and systematic services will be offered worthy of the Bank’s reputation as a FX specialist through existing off-line channels.



KEB Hana Bank conducts over 70% of foreign currency settlements, and offers FX services in 42 different foreign currencies and collection services in 37 currencies throughout all its branches. Also, the Bank is the only commercial banking institution in Korea that has an Anti-Counterfeit Center and recently discovered the first known example of a new high-quality counterfeit United States one hundred-dollar bill – “supernote”. As such, it is recognized for its competitiveness on the basis of FX experience and expertise worthy of its reputation as Korea’s best FX specialist. In order to stay competitive and agile, the Bank will expand employee training and support for front office operations. Moreover, it will enhance not only customer satisfaction but also employee happiness by significantly improving the process and products related to FX business, and do its best to translate these leads into a better business performance.

Import/Export Trade  
(Unit: USD billion)





# Largest

Number of overseas network in the Korean financial industry

# First

Made the industry's first inroad into China's asset management market

# No. 1

Net income performance from global business among Korea's commercial banks

\* As of 2017 year-end



## Global Operations

Armed with an overseas network largest in the Korean financial industry, we will strengthen banking operations and accelerate our entry into non-banking sectors, with an eye toward becoming a global financial group.

### Overseas Business Performance

At the end of 2017, KEB Hana Bank's overseas network comprised 146 subsidiaries and offices across 24 countries. In 2017 alone, four more channels, including a sub-branch in Indonesia, were added which further solidified the Bank's No. 1 position among domestic commercial banks. At the year-end, the Bank's overseas network reported USD 26.8 billion in total assets and KRW 237.5 billion in net profit; inclusive of income of KRW 100.9 billion from its equity investments in Bank of Jilin, China Minsheng International Financial Leasing, Beijing Lancy Hana Assets Management and other overseas subsidiaries, total profits that the Bank generated overseas amounted to KRW 338.4 billion.

Hana Financial Group actively pursues new growth engines in the global market. In April 2017, Hana TI and Hana Capital established PT. Next TI in Indonesia as a stepping stone into the financial IT solutions market in Asia. Meanwhile, KEB Hana Card advanced into payment settlement market in Japan by establishing a subsidiary - Hana Card Payments. In 2016, KEB Hana Bank had formed a joint subsidiary, Beijing Lancy Hana Assets Management, with a local partner in China. The Bank also has been expanding equity investment in non-banking sectors, and completed share investment in a 25% stake of Beijing Lancy Hana Assets Management in March 2017, and thus made the first inroad into China's asset management market among commercial banks in Korea.

### Overseas Business Strategy

Hana Finance Group pursues the expansion of non-banking operations, channels, network links as well as localization, as core strategies with a goal of further strengthening our overseas operations. In expanding non-banking sector, in which we seek to develop new growth drivers, we are weighing inroads into consumer finance, small loans, lease and microfinance businesses in Asia and the greater China region, which are expected to maintain their robust growth. We plan to set up a solid presence in the markets of high growth potential and thus enhance the profit base of our non-banking sector by advancing into new businesses through equity participation, joint venture, M&A and other means. In addition, Hana Financial Group seeks to create inter-business synergies in the global market by generating an active collaboration among the overseas channels of KEB Hana Bank and the non-banking sector. A case in point is in Indonesia where PT Sinarmas Hana Finance, a consumer finance subsidiary of Hana Capital, and PT Bank KEB HANA Indonesia work in unison to explore ways to expand their synergies.

#### Profits Generated Overseas

(Unit: KRW billion)



\* Based on pre-tax income

\*\* Including equity investment (Bank of Jilin, CM International Financial Leasing, etc.)



As a part of efforts to expand channels and bolster network links, KEB Hana Bank is opening up subsidiary branches in Indonesia, China and Myanmar, regions of high growth potential. The Bank is also preparing to open up a branch in Gurgaon of India and planning on upgrading its Mexico office into a subsidiary as a bridge to the Central and South American markets. In addition to physical expansions, it plans to overcome its comparative disadvantage in regards to the extent of network channels and expand the local customer base by employing 1Q Transfer, Global Cash Management Service and other non-face-to-face channels. Taking a step further, it will expand synergies with the Group affiliates by regularly checking the management status of overseas networks and studying their growth strategies, in order to set up collaborative systems, and thus secure long-term market competitiveness.

In localization, we will reach our goal for customer localization by localizing workforce, products and services. Workforce localization will be pursued through selection and training of local talents for loan evaluation, risk management and other key functions as well as localization of the sales force. Also included in the plan is to strengthen the autonomous management of subsidiaries, for which the appointment of local managers will be expanded to key positions and the discretionary power of subsidiary heads also expanded. Initially, retail and sales operations will be expanded to serve more local customers and small and medium-sized enterprises (SMEs) in China, Indonesia and Canada; products developed that are differentiated by region; and then head office systems applied to the local environment and improved.

Our global strategy for 2018 will be laid out in two tracks – stable and new growth. As domestic financial institutions face two obstacles of market saturation and the limited growth potential of banking business in Korea, the development of new growth engines is needed from a fundamental and long-term perspective. As such, in the global financial market, Hana Financial Group plans to pursue stable growth in the banking sector while focusing on profits in the non-banking areas. By increasing the non-banking financial markets in which we engage, we will maximize synergies created through collaboration with existing bank networks. As for the network of footholds established for banking, we will relocate branches to better sales areas based on an accurate market analysis, and also open new branches, if necessary.



Furthermore, in step with the Fourth Industrial Revolution and other financial environment changes, we will continue our efforts aimed at establishing an Internet-only bank, investing in fin-tech businesses and other sources of future income. We will pursue the strategy of future finance localization through partnership or collaboration with local leaders in ICT, and develop new growth business by investing in local fin-tech firms. Hana Financial Group continue to grow in the global market and secure new growth engines through these efforts.

### Global Fin-tech Strategy

As digital becomes more ubiquitous in our lifestyles, financial institutions gradually lose their traditional points of customer contact. In response to this industry-wide trend, Hana Financial Group plans to develop “humanity-based services” which center on contacting with customers in person, and at the same time, establish a “participatory platform” through global open innovation. By enhancing efficiencies through work process improvement and automation of manual jobs, we will focus on human-centered new services. To develop such services, we will adopt the latest user interface (UI) and user experience (UX) that automatically adopts to different customer characteristics, strengthen AI-based products, chatbots and call-center services through HAI Banking, and allocate more resources to event-based marketing. In November 2017, a Global Loyalty Network (GNL) consortium, an integrated global digital asset platform based on block chain technology, was formed as part of our plan to evolve the Hana Members with 12 million members into a participatory platform. Based on this platform, we will offer a service that enables customers to access their financial assets using mobile devices in over 20 overseas markets.



With regard to the pursuit of global future finance, Hana Financial Group plans to expand the Global 1Q Bank, a global smartphone banking service, the Global Digital Lounge, a Facebook-linked mobile marketing solution tailored to overseas branches, and the 1Q Transfer, a fin-tech mobile remittance service, aiming at setting up a mobile-based digital financial hub. The Global 1Q Bank, which has been adopted by the Canada and China subsidiaries, will also be adopted by the Japan and Hong Kong subsidiaries in the first half, followed by Sydney and Panama branches in the second half of 2018. The Global Digital Lounge, launched in 17 countries in 2017, including the UK, France, India and Vietnam, will be opened in 11 more countries, including Mexico and Abu Dhabi, in the first half of 2018. As for the 1Q Transfer, which in 2017 grew to 80 in terms of number of countries to which it could transfer money, we plan to increase limits on remittance amounts in the first half of 2018 through partnership with non-banking overseas wire transfer companies.

#### 1Q Transfer Availability

(Unit: Number of countries)



\* Launched in February 2016



1.34million

New card membership reached 1.34 million,  
an increase of 37,000 over the previous year

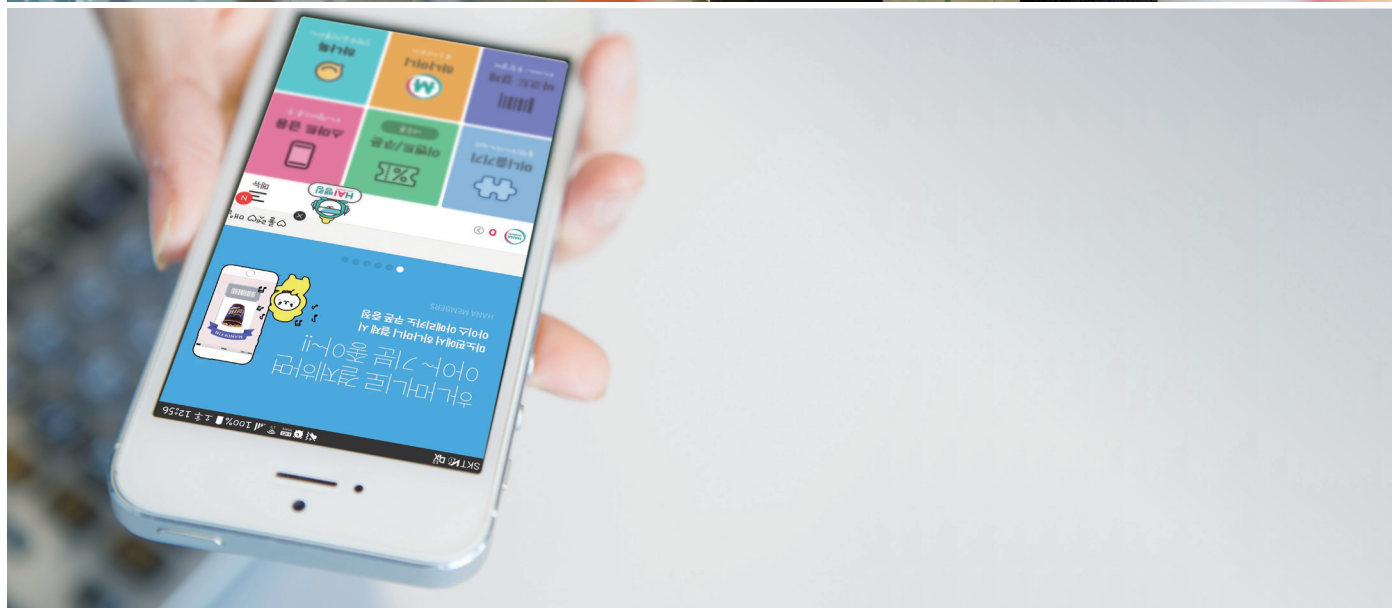
500,000

Active card users grew 500,000  
in 2017 to exceed 4 million

106.4 KRW  
billion

Net income of KEB Hana Card grew  
KRW 30.8 billion in 2017 to reach  
KRW 106.4 billion

\* As of 2017 year-end



## Credit Card

We will expand channels and develop innovative products based on the profit structure further bolstered by the post-merger integration, while pursuing qualitative growth by delivering differentiated services.

### 2017 Performance

In 2017, the biggest issue in the credit card market was shrinking profits triggered by the reduction of merchant fee rates. Following the reduction of commission rates for small office, home office (SOHO) and small and medium-sized member stores which began in February 2016, the range of the stores subjected to the reduction was expanded in August 2017. As a result, profits in card industry have been reduced, thus forcing credit card companies to scramble to minimize the resultant loss impact.

Despite such a challenging environment, KEB Hana Card achieved stable growth across all areas of membership, sales and income. In particular, thanks to the completion of integration of former Korea Exchange Bank Credit Service and Hana SK Card, the two different personnel systems were integrated in January 2017, laying a full-scale foundation for genuine growth. In the sales aspect, the integration set in motion innovative reforms across the whole spectrum of business processes and procedures, firmly establishing a virtuous circle of an increasing new membership, boosting the number of active members which in turn leads to more sales and profits.

To review details of the 2017 performance, the new membership reached 1.34 million, an increase of 370,000 from 2016, while the number of active card users grew 500,000 over the year to exceed 4 million. These increases translated into an increase of KRW 2.6 trillion in sales over 2016 to KRW 62.5 trillion. KEB Hana Card also improved efficiencies in membership sign-up activities through new channel development and other measures to fine-tune its portfolio. As a result, despite a 37% increase in the new membership, sign-up expenses decreased to 97% of the 2016 figure. Backed by the decreased sign-up expenses in addition to the increased sales, the company was able to offset the impact of the merchant fee rate cut on sales and to improve its 2017 net income by KRW 30.8 billion over 2016 to KRW 106.4 billion.

KEB Hana Card also made all preparations necessary for future growth. In particular, the advent of the Fourth Industrial Revolution has turned digital conversion into a major industry issue; and AI, IoT, block chain and other digital concepts fan the industry's interest in the possibility of fusion with payment settlement business. In response to these developments, the company adopted a 'Digital Transform (DT) Hana' strategy in July 2017, and based on this, it is in the process of promoting a company-wide digital culture. In addition, the company is focusing not only on customer convenience maximization but also cost minimization through digitalization of the whole value chain. Prior to this, the company had relocated its computer systems to the Hana Financial Group Data Center in April as a preparation for the fin-tech era. Furthermore, it has set up Hana Card Payments, a subsidiary specializing in purchasing outstanding card transactions in Japan, accelerating its inroads into the global market.

### 2018 Plans

Going forward, KEB Hana Card plans to further solidify the qualitative growth of its digital base and thus overcome the oncoming waves of business regulation. The 2018 business environment is expected to be somewhat hostile to credit card business. The company however will expand and strengthen its digital and mobile-based non-face-to-face channels with a goal of reducing business expenses and at the same time of being able to offer efficient customer management programs. Also, by developing more customers-focused services, the company aims to further improve customer satisfaction.





Grand Prize at  
the 2017 Korea  
Securities Awards  
(Seoul Economic Daily)

Alternative  
Investment Award  
at the 9th Korea  
IB Awards  
(Korea Economic Daily)

Best Real Estate  
Financial Leader at  
the 15th Korea  
IB Award  
(Money Today)

\* As of 2017 year-end



# IB & Asset Management

Hana Financial Group achieved both stable and profitable growth based on synergies which could double the competences of each subsidiary.

## Investment Banking

Competition in investment banking (IB) in 2017 further intensified among large securities firms with over KRW 3.0 trillion in capital as expected. In particular, as securities firms with over KRW 4.0 trillion in capital were allowed to use commercial paper(CP) as a low-cost funding vehicle, they made noticeable progress in sales backed by ample liquidity.

In response to such an intensifying challenge, KEB Hana Bank relocated its IB Unit to Yeouido, Korea's securities business hub, to more closely collaborate with Hana Financial Investment (HFI). The collaboration model that the Bank adopted centers on the use of the Bank's capital power in areas where large capital is needed, and of HFI's customer coverage and extensive product know-how in areas where the securities license is required. As a result, KEB Hana Bank and HFI generated sales of KRW 226.5 billion and KRW 94.5 billion, respectively, in the IB sector - a YoY increase of KRW 60.7 billion or 23%.

In 2018, Hana Financial Group plans to build up the IB collaboration model between our banking and investment arms, and taking a step further, we will expand the range of collaboration among subsidiaries to conduct IB-related package marketing. In addition, as a follow-up to the 2017 opening of the Bank's New York IB desk, we will open additional IB desks in Europe and other major IB hubs as a part of efforts to increase the proportion of global IB profits, attract and foster top-class IB talents, and develop new income sources.

## M&A

Despite foreign IB and accounting firms' growing shares of the merger and acquisition (M&A) market in 2017, HFI actively developed M&A deals while conducting marketing activities. As a result, the company completed six M&A advisory cases and nine acquisition financing arrangements, thereby building up the track record. At the end of 2017, HFI's domestic M&A market share stood at 6.5%.

The most meaningful M&A deals completed in 2017 is the case of consulting on the sale of Hyundai Cement. Despite the worsening situation of the construction industry, HFI successfully completed the deal by effectively highlighting the strengths of Hyundai Cement, expected synergies of acquisition, and other positive points. Also consulted by HFI are the sale of the wipers manufacturer CAP and the Korean construction pioneer SAMBU Construction, as well as the sale of minority shares of Aekyung Industry during its pre-IPO stage. The company also conducted M&A advisory services for the acquisition by China's An Bang Insurance of Allianz Life Insurance.





In addition to M&A, the company focused on developing industry parks, urban housing, officetel building, and other stable real estate deals. In the alternative investment area, in which it thrives, the company completed the Mezzanine deal involving the MGT Bio Mass Power Plant in the UK as well as a high speed train project in the UK, a gas combined thermal power plant, solar photovoltaics facilities in North America, and other high-margin deals.

The domestic M&A and initial public offering (IPO) markets in 2018 are expected to exceed 2017 in growth rate. In the M&A market, companies worth trillions of Korean Won are slated to go on the block such as ADT Caps, Daewoo Construction, CJ Healthcare as well as Coway, Kumho Tires and other large-scale acquisition cases. The IPO market will be busy handling Hyundai Oilbank, SK Lubricants, Kakao Games and other big name companies getting ready to go public on the strength of a booming equity securities market. Meanwhile, the real estate and alternative investment sectors are expected to be booming in the first half, but to relatively slow down in the second half. Though the demand fueled by the low interest rate trend may remain strong for the time being, interest rate rises, policy risk and other growing uncertainties and rising competition among securities firms are expected to pose significant business challenges in 2018.

HFI therefore plans to carefully select large-scale real estate development projects, expand the area spectrum of overseas alternative investment, and focus on profit enhancement through continuous development of infra-related big deals. Also, the company will focus on improving its deal sourcing through use of KEB Hana Bank's domestic and global networks, thereby strengthening competencies and performing its role as the Group's product supplier through development of synergies among the Group affiliates. To expand its share of the M&A finance market, the company will strengthen the coverage of global PEFs active in or new to Korea, secure the network of key strategic investors (SI) recently emerging as M&A players, and increase the success rate of winning big deals and re-winning acquisition finance contracts.

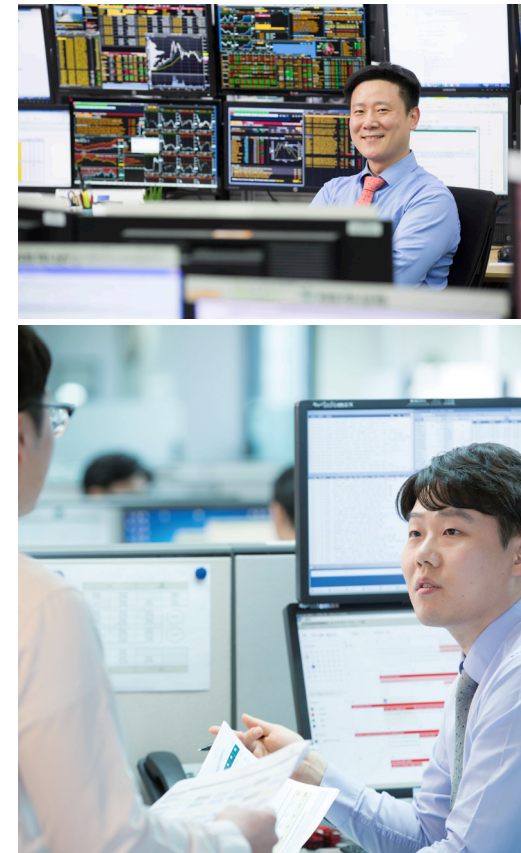
## Brokerage

The securities market in 2017 grew at a healthy rate on the backs of corporate profits improving on robust exports fueled by a global economic recovery and of the restoring appetite of foreign investors. The Korea Composite Stock Price Index (KOSPI) broke out of the 6 year-long boxed-in movement, to end the year at a 21.8% increase from 2016, while the Korean Securities Dealers Automated Quotations (KOSDAQ) also rose by 26.4% on the expectations of market-friendly policies supportive of small and medium-sized enterprises (SMEs) and venture firms and other sectors. The healthy growth of the market translated into a healthy increase in market sales, which amounted to KRW 490.5 trillion, up 13.5% from the previous year. However, total brokerage commission income decreased 3.3% YoY to KRW 3.7 trillion, as investments by individual investors decreased in proportion and free-commission events and other customer attraction activities cut into the income.

In 2017, HFI increased brokerage incomes through the rebalance of the customer portfolio based on recommendations by its research center, the increase of secured and credit-based loans, and the execution of the strategy of upselling commission with specialized services.

The stock market is expected to remain on the ascent in 2018. Although the rate at which corporates increase their incomes is forecasted to slow somewhat, considering that net corporate income within the KOSPI is expected to reach about KRW 158 trillion, the stock index is likely to continue to rise. Also, though expectations that the US Fed is likely to raise the base rate will continue to push volatility higher in global stock markets, the number of rate increases is predicted to be no more than three, reflecting the speed at which the US economy is recovering, and thus the volatility will be short-lived. As such, in the domestic stock market, foreign investors are expected to continue their bullish stance.

Based on these forecasts, the company plans to double its efforts to secure new brokerage incomes. Specifically, long/short trade will be expanded through share lending and borrowing, as well as unlisted share trade using Korea-Over the Counter (K-OTC) and other similar markets; and the global sales network will be broadened and sales infrastructure strengthened toward increasing overseas stock commission incomes.



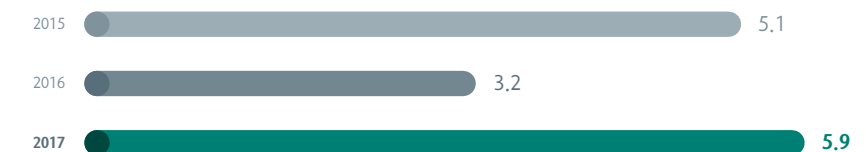
## Sales & Trading

In 2017, approximately KRW 65.0 trillion and KRW 16.0 trillion worth of equity-linked securities (ELS) and equity-linked bonds (ELB), respectively, were issued in the domestic derivatives-linked securities market, setting a new record. Although issuance had dropped to KRW 49.0 trillion in 2016 on the contraction of the global stock market following KRW 77.0 trillion worth of issuance in 2015, the record amount was issued on the strength of the stock market surge in 2017. In addition, redemption reached KRW 95.0 trillion, another record, as most of early redemption requests that had been postponed following the fall of the Hong Kong H index in 2015 were successfully met. On the account of over redemptions, the unredeemed balance of ELS/ELB decreased from KRW 69.0 trillion at the end of 2016 to KRW 55.0 trillion at the end of 2017. Derivatives-linked securities (DLS) and derivatives-linked bonds (DLB) were issued in the amount of KRW 18.0 trillion and KRW 12.0 trillion, respectively, reaching the annual issuance amount of KRW 30.0 trillion for the first time. Interest rates, FX rates, credit risk, exchange-traded fund (ETF), stock, and commodity prices are used as base assets backing derivatives-linked securities and bonds whose volume of issuance has been on a steady increase.

The ELS/ELB that HFI issued in 2017 amounted to about KRW 5.9 trillion, equivalent to a 7.3% market share, while DLS/DLB came to about KRW 3.8 trillion, a 12.4% market share, of which the combined represents about 8.7% or the seventh largest share of the domestic DLS market. In the first half of 2017, the company secured a 3-month exclusive right to its Callable Lizard ELS which boasts of its early redemption-easy structural stability from Korea Financial Investment Association. And in the second half, it focused on rolling out new products, including GBP-CMS DLS based on British currency exchange and interest rates. Of note, this industry-first product was named by the Bell, an online media specializing in capital markets, '2017 Product of the Year'.

In 2018, the coupon yield rate of ELS/ELB, which hovered at 5% in 2017, is expected to rise on the backs of the spike in global stock market volatility and base rate increases made at the beginning of 2018, while ELS is likely to firmly set up itself as a mid-risk and mid-return product. However, considering a decreasing investors' appetite for reinvestment in the face of rising volatility in the stock market and a growing interest in DLS/DLB, issuance performance is unlikely to exceed the one in 2017. Unlike ELS/ELB which are vulnerable to stock market volatility, DLS/DLB can use diverse assets and income schemes as base assets, a characteristic that becomes valuable in portfolio diversification and new product development, which buttresses expectations that the derivatives-linked markets will continue to grow for a foreseeable future. In fact, the markets are likely to see issuance volume increase on the advent of private equity-type products that experiment with a new structure or a diverse mixing of market-tested base assets and other base assets.

### Issuance of ELS/ELB (Unit: KRW trillion)



### Issuance of DLS/DLB (Unit: KRW trillion)





# 52.9<sup>KRW</sup> trillion

KRW 28.8 trillion in money trust and  
KRW 24.1 trillion in asset trust

# 48.8<sup>KRW</sup> billion

Asset under management

# 15.2%

YoY increase of the cumulative  
retirement pension contributions  
of KEB Hana Bank

# 184.6<sup>KRW</sup> billion

Total trust income, 41.5% increase  
over the previous year

\* As of 2017 year-end



## Trust & Pension

With a product strategy centered on reading market trends and meeting customer needs, we will further expand our leading position in the trust and retirement pension markets.

### Trust

The 2017 domestic trust market is marked by a healthy increase in equity-index linked trust (ELT) sales as a majority of sold ELTs was redeemed prior to their maturity and investment sentiment returned strong on rising global indexes buoyed primarily by a recovering US economy and falling oil prices. Likewise, KEB Hana Bank introduced diverse products which meet customer needs and operated its asset under management (AUM) in a stable manner. Its competitive products include dollar ELT, developed for customers investing in overseas assets, and exchange-traded notes (ETN) which is developed in anticipation of a spike in market volatility. As a result, trust sales in 2017 amounted to KRW 52.9 trillion (KRW 28.8 trillion in money trust and KRW 24.1 trillion in asset trust), and total trust income recorded KRW 184.6 billion. Moreover, as part of its social contribution, the Bank continued its non-profit trust programs aimed at supporting low-income families and other financially marginalized sectors.

In managing funds on consignment, as the domestic funds market saw a healthy growth, particularly in overseas investment, index and special asset funds, the Bank focused on attracting overseas and special asset funds, and as a result, recorded KRW 137.0 trillion in AUM and KRW 48.8 billion in fee income.

The stock market volatility in 2018 is expected to turn sensitive to US interest rate rises and a slowing Chinese economy; and consequently, mid-risk-and mid-return products are likely to maintain their popularity. Accordingly, the Bank will stay focused on selling ELT products with increased stability while diversifying the sources of income by attuning asset management to market situations. In addition, KEB Hana Bank will seek to expand its customer base as well as fulfill its responsibilities as a corporate citizen by introducing non-profit trust products such as funeral trust, disability trust and childcare support trust.

In asset management on consignment, investment schemes that accommodate changes in the market interest rate and index funds are expected to gain traction. To capitalize on such market trends, the Bank will step up efforts to attract customer investments in overseas investment, index funds, including KRX300, and alternative investment funds in pursuit of sustainable growth. To expand its custodian network, the Bank plans to set up overseas consignment hubs in collaboration with its overseas subsidiaries and branches, while strengthening its infrastructure and sales by conducting synergy marketing in partnership with the Group affiliates.

### Total Trust Income

(Unit: KRW billion)







### Retirement Pension

The 2017 retirement pension market grew 14.4%, compared with the previous year, to reach KRW 167.0 trillion. To review growth rates by type, individual retirement pension (IRP) grew most at 23.2%, mainly attributable to the extended scope of eligibility to join an IRP, followed by defined contribution (DC) plan at 20.5% and defined benefit (DB) plan at 11.3%.

At the end of 2017, the cumulative retirement pension contributions of KEB Hana Bank amounted to KRW 10.7 trillion, an increase of 15.2% from the previous year, which can be attributed to an increase in the DC customer base and represents about 0.8%p more than the market average. DC-type contributions grew 21% while the number of companies with DC-type plans rose 24.3%, both the highest in the industry.

In 2018, the retirement pension market is expected to grow at a lower rate to stand at approximately KRW 188.0 trillion or 13% increase over the previous year, for most large corporations have already adopted retirement pension plans. As rising minimum wages and the continuing low-growth trend highlight the importance of yield rate management, DC and IRP are likely to continue to draw attention.

In response to these market forecasts and to improve pension customer convenience, KEB Hana Bank is planning a complete overhaul of its retirement pension systems in April 2018. In addition, the Bank will help its customers directly manage their DC IRP assets and contribute to the stable enlargement of their retirement assets through robot-advised portfolios by upgrading Internet banking, mobile banking and other online channels.

**Breakdown of Retirement Pension Contribution**  
(Unit: KRW billion)

KEB Hana Bank		2016			2017	
		Change (Amount)	Change (%)		Change (Amount)	Change (%)
Total Contributions <sup>1)</sup>	9,300.8	979.6	11.8	10,713.0	1,412.2	15.2
DB	6,040.2	445.5	7.9	6,746.8	706.6	11.7
DC	2,176.0	392.6	22.0	2,634.3	458.3	21.1
Personal IRP	1,041.2	137.7	15.2	1,287.0	245.8	23.6

<sup>1)</sup> Including corporate IRP

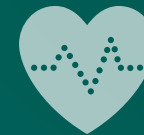
**Balance of Retirement Pension Contributions**  
(Unit: KRW trillion)





# CORPORATE SOCIAL RESPONSIBILITY

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• Promoting Sustainability

• Building a Culture of Humanity

• Embracing Corporate Social Responsibility

## 65 Ethical Management



• Promoting Ethics

• Respecting Human Rights

• Protecting Financial Consumers



# Sustainable Management

Sustainability is at the center of our decision wheel, and we are focused on integrating sustainability into our daily operations to be a responsible corporate citizen economically, socially and environmentally.

## Promoting Sustainability

Firmly believing that sustainability is the core element of competitiveness, Hana Financial Group endeavors to put into practice its mission of 'Growing Together, Sharing Happiness'.

In addition, as a global corporate citizen, we support the 10 principles of the UN Global Compact (UNGC), and we are also aware of the importance of responding to climate change, water shortage and other globally challenging issues. In particular, of the 17 Sustainable Development Goals (SDGs) set by the United Nations, we chose 'Quality Education', 'Affordable and Clean Energy' and 'Climate Action' as key goals to achieve, and accordingly conduct various activities, including 'Hana Happy Class' aimed at improving the education situations for children in Myanmar, Vietnam, Sri Lanka and other developing countries. Also, we not only support the 'Affordable and Clean Energy' goal but also contribute to clean energy research and infrastructure development by supporting World Gas Conference (WGC) 2021 which shares eco-friendly infrastructure and technologies that can enhance energy efficiencies. Moreover, Hana Financial Group was named an outstanding company combating climate change and thus selected for the 'Carbon Management Sector Honors' in the finance category for two consecutive years in recognition of our active participation in the Carbon Disclosure Project (CDP).

Besides these honors, Hana Financial Group has received various awards for sustainable management practices which have been well received at home and abroad. In particular, we have been included in the Dow Jones Sustainability Index (DJSI) Asia-Pacific' for the second year in a row thanks to our active participation in CDP, UN SDGs and other global initiatives as well as our efforts to reach global standards in the sustainability area.

We also garnered the grand prize in the corporate securities market category at the '2017 Korea IR Awards' - a coveted recognition of our contribution to the advancement of the common interests of corporations, shareholders and investors as well as the development of securities markets. Hana Financial Group's in-house newsletter earned the '2017 Asia-Pacific Stevie Awards', the only accolade in the Asia-Pacific region given to corporate publications for their business innovation.

At the '2017 CSR Film Festival', an award event for socially or environmentally conscious videos produced by corporations, non-profit organizations and social enterprises, we received the Health and Welfare Minister's Award in the social contribution category for a video about children suffering progeria.

### Supporting UN SDGs

#### Goal 4

Ensure inclusive and quality education for all and promote lifelong learning

Hana Happy Class



#### Goal 7

Ensure access to affordable, reliable, sustainable and modern energy for all

Supporting WGC 2021



#### Goal 13

Take urgent action to combat climate change and its impacts

Participating in CDP



For more information about UN SDGs  
<http://www.un.org/sustainabledevelopment/sustainable-development-goals>



### Awards for Sustainable Management in 2017



#### CDP Korea

Selected for the Carbon Management Sector Honors by CDP Korea (two consecutive years)



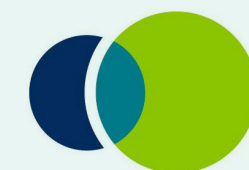
#### 2017 Korea IR Awards

Grand prize in the corporate securities market category at the 2017 Korea IR Awards



#### 2017 CSR Film Festival

Health and Welfare Minister's Award in the social contribution category at the 2017 CSR Film Festival



Dow Jones Sustainability Indexes

## DJSI Asia-Pacific

Included in the DJSI Asia-Pacific (two consecutive years)



# Ethical Management

Integrity is at the core of our business practices and this positioning reflects our commitment to running our business in a way that is ethical, responsible and conducive to the long-term value of stakeholders.

## Building a Culture of Humanity

Hana Financial Group pursues ‘Growing Together, Sharing Happiness’ through management for humanity, of which humans are at the center. The three key components of our humanity management are customers, employees and local communities. Employees must be happy to ensure customer happiness for only happy employees can make happy customers through the best financial services possible, which in turn leads to the happiness of employees, thereby establishing a virtuous circle of the organization and individuals growing together.

We, therefore, guarantee a work-life balance, provide an environment and opportunities for employees to become experts, and seek to minimize unnecessary work procedures, while nurturing a corporate culture that promotes employees to devote themselves to customer happiness. Hana Financial Group encourages our employees to take an active and voluntary part in planting such a corporate culture, as part of active efforts to establish regular communication channels between the front and back offices. We also modify the online Group portal as a platform of participatory ecosystem, and thus create an arena of discussion and innovation based on mobile technology. Taking a step further, we will do our best to enhance employees’ happiness and to make sure that it leads to customer happiness by continuing to reflect the voices of the frontline in process improvements and thereby building up the culture of getting work done smartly.

## Embracing Corporate Social Responsibility

Hana Financial Group prepares for the unification of Korea. In 2017, we operated a mentoring program designed to help North Korean defectors settle down in South Korea and thus become a productive member of society, and also hired two young adults from North Korea as regular employees of KEB Hana Bank. During the PyeongChang 2018 Olympic Winter Games, we sponsored ‘Hana Unification Expedition Team 2’ for a busking event in order to widen the bond of sympathy for unification among the Korean people. In addition, our employees volunteer for providing financial education programs to support the operations of ‘Hanawon’, a settlement support office for North Korean defectors.

The most important achievement among our social contribution activities in 2017 is to support “impact business” – a corporate social responsibility (CSR) activity of new method developed for social issues that are difficult to resolve with conventional welfare supports, thereby creating a positive impact on society. Hana Financial Group has been expanding our supports for social enterprises through impact investing, in order to make social impacts while generating financial investment profits, and in 2017, we were able to contribute addressing social issues as we made a visible achievement through impact investing. ‘Hana Power on Impact’, in particular, was operated for eight months, helping people with developmental disabilities find employment and lead an independent life as part of our efforts to promote social economy.

Hana Happy Class is representative of Hana Financial Group’s global CSR activities. The program has been helping improve the education environment of youths in developing countries since 2011, and in 2017 it was introduced to youths in undeveloped areas of Cambodia and Indonesia. In addition, we built ‘Hana Financial Group & Um Hong-gil<sup>1)</sup> Human School’ in Makalu of Nepal in cooperation with Um Hong-gil Human Foundation, and we supported the building of a girls’ dormitory in Tanzania. We will continue these and other activities, with a goal to offer a quality education opportunity to children of areas where decent education is not available.

Meanwhile, KEB Hana Bank supports the healthy growth of youths, for which the Bank received the ‘Financial Supervisory Service Governor Award in the corporate sponsored financial education category’ for three years in a row. The Bank also contributes to building a healthy multicultural society by operating ‘Hana Multicultural Center Darin’ and continues to support the socially marginalized by funding the operations of the Hana Financial Group Foundation created for global aid projects.

<sup>1)</sup> The world’s first mountaineer and explorer to climb 16 peaks higher than 8,000 meters the Himalayas

## Promoting Ethics

Hana Financial Group is fully aware of the importance of ethical management and accordingly has practiced ethical management as the core management principle. In 2014, we adopted a new Group vision that focuses on integrity as the foundation of five core values. In addition, a new code of ethics ‘Code One’ was adopted in 2016, which governs decisions and actions at Hana Financial Group. Code One consists of 25 ethical guidelines selected from the supplemented ethical guidelines of Group subsidiaries based on employees’ opinions.

In 2017, ‘Spreading Ethical Management’ was chosen as a key task, and ‘Core 7’ was enacted and enforced as an action plan. Comprising seven core principles of action that must be observed by all employees, Core 7 has been set in place as guiding principles of Code One by reflecting experiences accumulated from diverse systems that had been enforced as a part of ethical management over the years.

In addition, we chose “eradication of unfair work assignments” and “encouragement of whistleblowing” as two main tasks of ethical management, and made diverse efforts aimed at accomplishing them. At first, mandate letters were sent to all subsidiaries under the names of their respective CEO and compliance officer, emphasizing the importance of carrying out the tasks. The tasks were also selected as required courses during the annual Group-wide online training so as to make all employees at Hana Financial Group fully aware of the tasks. Moreover, educational programs

for the two main tasks were required to be provided not only at compliance officers trainings, departmental heads meetings and other major trainings or meetings, but also for department and branch monitoring as well as ‘Healthy Finance Check-up Day’ activities. Meanwhile, we are focusing on the following steps with an aim to accomplish the tasks.

First, as for eradication of unfair work assignments, all subsidiaries were requested to include an item covering the unfair practices in all evaluations by employees of higher-ranking officers. As a result, four subsidiaries – KEB Hana Bank, Hana Financial Investment (HFI), Hana Investors Services and Hana TI – either have included or plan to include the item through consultation between compliance and personnel departments. Other subsidiaries are in the process of considering the inclusion from a long-term perspective, and by sharing the outstanding cases of those that have adopted the item with those that have not, the Group plans to encourage the latter to include the item.

Second, regarding encouragement of whistleblowing, a company policy of all subsidiaries was enacted or amended, in order to substantially increase reward limits for whistleblowers. In May 2017, we added an additional channel for whistleblowing by developing a ‘Hana Financial Hub Whistleblowing’ system based on the ‘Hana Financial Hub’ mobile channel, with an aim to ensure anonymity and improve user convenience. Its special features include complete secrecy and total anonymity. To encourage our employees to provide information on discrepancies with more ease and confidence, we disseminated the information of the system through Group portal pop-ups, corporate ethics webtoons, quizzes on ethical management and other various channels.





Ethical management is a core business principle essential to the sustainability of corporations. For only the virtuous circle of creating a healthy business performance based on ethical management practices and thus earning positive responses can improve the financial health and business sustainability. Accordingly, we will strive to heighten our employees’ awareness of ethics and promote the culture of ethical management through diverse efforts aimed at making ‘Code One’ and ‘Core 7’ part and parcel of our daily operations.

Respecting Human Rights

In December 2017, Hana Financial Group adopted a ‘Declaration of Human Rights’ to meet international standards on human rights management while further strengthening our sustainable management. The declaration systematically defines the spirit of human rights management embedded in our mission of ‘Growing Together, Sharing Happiness’ and Code One, and it also reflects the ‘UN Guiding Principles on Business and Human Rights’ of United Nations Human Rights Council and the ‘Guidelines for Human Rights Management and Checklist’ of National Human Rights Commission of Korea. It was adopted through the operation of a “human rights declaration task force”, in which the ethical management officers of all subsidiaries participated for four months.

With the declaration as a starting point, in 2018, we plan to provide a human rights education to all of our employees, identify potential human rights issues within the Group, develop an evaluation report on improvements made to human rights management, and implement remedial steps for human rights violations, all in an effort to disseminate human rights management awareness throughout the Group. Going forward, we will enter the phases of conducting and instituting human rights management by continuously evaluating improvements to human rights management and providing partner companies with consultation support on human rights and ethics, in an effort to protect the human rights of all stakeholders and prevent human rights violations.



Integrity

The foundation of Hana Financial Group’s five core values – Passion, Openness, With customer, Excellence, Respect



Code One

A set of 25 new ethics guidelines proclaimed in 2016 which governs decisions and actions of all employees at Hana Financial Group



Core 7

The seven core principles of action enacted and enforced in 2017 for execution of Code One and promotion of ethical management



Two 2017 Tasks of Ethical Management

- Eradication of unfair work assignments
- Encouragement of whistleblowing



Declaration of Human Rights

Principles enacted in 2017 to protect human rights and promote human rights management within Hana Financial Group

Awards for Customer Satisfaction in 2017



**Outstanding Financial Education Program Award**  
(Financial Supervisory Service, two consecutive years)



**No.1 in Sales Service Satisfaction Survey in Banking Category**  
(KMAC, four consecutive years)



**Best Bank in Consumer Satisfaction**  
(Korea Consumer Agency)



**Grand Prize at the 6th Financial Consumer Protection Awards**  
(Financial Services Commissioner’s Award)



**No. 1 in KSQI**  
(Korea Management Association Consulting, two consecutive years)

Protecting Financial Consumers

Hana Financial Group focuses on raising the overall consumer protection level of the Group. We therefore convene a consumer protection meeting every quarter, share consumer protection-related outstanding cases of subsidiaries and discuss matters that need to be shared and cooperated on at the group level.

Seven subsidiaries, including KEB Hana Bank, HFI and Hana Card, have developed a consumer protection system for the management and analysis of statistical data related to voice of customers (VOC) as well as consumer complaints and protection, in an effort to increase efficiency in protecting financial consumers. They also listen to consumer opinions and complaints through their respective website, operate a consumer protection portal capable of keeping track of follow-ups on the complaints and thus minimize customer inconvenience, while also improving consumer convenience by offering financial information. Moreover, we have a day for a financial health check once a month throughout all subsidiaries in order to prevent incomplete sales and properly conduct consumer protection activities and thus continuously improve consumer rights protection.

In August 2016, KEB Hana Bank established a financial consulting counter for the elderly at 820 branches as a way to practice its respect for elderly or customers with disabilities; and in September 2017, the counter was upgraded to a ‘Happiness Together Financial Counter’ providing consulting services to elderly and disabled customers to deal with online scams. Other programs developed for the disabled include ‘Seeing ARS<sup>1)</sup>’ for the hearing impaired and ‘Talking OTP<sup>2)</sup>’, talking ATMs<sup>3)</sup> with Braille keypads and a Braille security card for the blind. KEB Hana Bank also runs a program that brings a financial education to the financially challenged to help them keep up with the progress of finance and become competent financial consumers in the future. Another program developed by the Bank for the marginalized is ‘Roaming Hana Happy Class’ that visits school children in remote areas. In recognition of these programs and efforts to promote equal education opportunity, KEB Hana Bank was awarded an ‘Outstanding Financial Education Program of the Year’ for two years in a row by the Financial Supervisory Service in 2017.

For its financial consumer protection efforts, KEB Hana Bank was named ‘Best Bank in Consumer Satisfaction’ by Korea Consumer Agency in 2017 and ranked first in the Korea Service Quality Index (KSQI) for two consecutive years as well as in Korea Management Association Consulting’s Sales Service Satisfaction Index in the banking category for four consecutive years. It also garnered the Grand Prize at the 6th Financial Consumer Protection Awards.

<sup>1)</sup> ARS: Automated Response System  
<sup>2)</sup> OTP: One-Time Password  
<sup>3)</sup> ATM: Automated Teller Machine



# FINANCIAL REVIEW

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## Management's Discussion and Analysis

### Hana Financial Group

#### I. OVERVIEW

In 2017, the Korean economy grew at a rate higher than the previous year on the backs of the execution of a supplementary budget, the government's income-focused growth policy, and a recovering global economy in the second half of the year that followed the resolution of political instabilities during the first half. In the financial market in particular, funds flowed into developing nations with the expectation of the real economy's recovery, leading to a continued depreciation of the US dollar. The steady recovery of global economy in the second half of the year triggered base rate hikes by the central banks of major countries, bringing about expectations on the tightening of monetary policy.

Hana Financial Group further refined its mission, 'Growing Together, Sharing Happiness', into 'Finance that Brings Happiness to Employees, Customers and Society as a Whole', and strived to fulfill its corporate social responsibilities throughout 2017. In June, Hana TI completed the construction of the Hana Financial Group Data Center in Cheongna International City to integrate and manage IT systems of 11 Group affiliates. KEB Hana Bank, in September, completed the construction of a new office building in Seoul, and adopted a cloud-based smart office environment in pursuit of horizontal corporate culture that embraces mutual respect.

The Group increased net interest margin (NIM) to 1.92%, which represents a YoY rise of 0.12%p, through management of deposit-loan pricing and increase of low-cost funds. And, as a result of the restraining of cost increases and strengthening of risk management, the Group improved consolidated net income by KRW 706.4 billion to KRW 2,036.8 billion. This led to a YoY improvement in profitability indicators, including return on equity (ROE) and return on assets (ROA). Cost to income ratio (C/I Ratio) also fell 8.51%p from the previous year to 53.15%.

The Group's total assets grew around 3.4% in 2017, the growth stemming from SME, SOHO and household loans, while large corporate loans being an exception. Total sales went up around 5.9% as deposits and beneficiary certificate sales increased 4.4% and 15.8%, YoY, respectively.

The Group's asset management also improved. At the end of 2017, non-performing loan (NPL) ratio stood at 0.78%, 0.14%p lower, and NPL coverage ratio at 87.36%, 4.97%p higher, compared with the previous year. Delinquency ratio also decreased to 0.39%, proving that Hana Financial Group has maintained its asset quality at a satisfactory level.

Also improved was capital management. The Group's BIS capital adequacy ratio was tallied at 14.97%, Tier 1 ratio at 13.29%, and CET 1 ratio at 12.74%, all above the regulatory guidelines set by the supervisory authorities.

Going forward, Hana Financial Group will continue to preemptively manage risks, restrain cost increases, expand internal and external collaboration, develop innovative growth drivers, strengthen the foundation for profit generation, and optimize the business portfolio, all with an eye toward enhancing shareholder value.



\* Excluding trust asset



Return on Equity (ROE)  
(Unit: %)



Table 1. Summarized Financial Information

	(Unit: KRW billion)			
	2017	2016	YoY	%
<b>Profitability</b>				
General Operating Income	7,599.8	6,612.3	987.5	14.9%
Operating Income	2,718.1	1,614.1	1,104.0	68.4%
Consolidated Net Income	2,036.8	1,330.5	706.4	53.1%
Return on Assets (ROA)	0.60%	0.42%	0.18%p	-
Return on Equity (ROE)	8.77%	5.92%	2.85%p	-
Earnings per Share (KRW)	6,817	4,421	2,396	54.2%
Cost to Income Ratio	53.15%	61.66%	-8.51%p	-
<b>Business Volume</b>				
Total Assets <sup>1)</sup>	360,089.3	348,177.5	11,911.9	3.4%
Total Sales	272,091.6	256,897.1	15,194.5	5.9%
Total Deposits <sup>1)</sup>	232,591.8	222,791.6	9,800.2	4.4%
Sale of Beneficiary Certificates	39,499.8	34,105.5	5,394.3	15.8%
<b>Asset Soundness</b>				
Substandard & Below (NPL) Ratio	0.78%	0.92%	-0.14%p	-
Substandard & Below (NPL) Coverage Ratio <sup>2)</sup>	87.36%	82.39%	4.97%p	-
Delinquency Ratio	0.39%	0.50%	-0.11%p	-
<b>BPS</b>				
Capital Adequacy <sup>3)</sup>	79,154	74,472	4,682	6.3%
BIS Capital Adequacy Ratio - Group	14.97%	14.33%	0.64%p	-
Tier 1 Ratio - Group	13.29%	12.31%	0.98%p	-
Common Equity Tier 1 Ratio - Group	12.74%	11.77%	0.97%p	-
BIS Capital Adequacy Ratio - KEB Hana Bank	15.98%	15.98%	0.00%p	-
Tier 1 Ratio - KEB Hana Bank	13.56%	13.31%	0.25%p	-
Common Equity Tier 1 Ratio - KEB Hana Bank	13.45%	13.20%	0.25%p	-
Net Capital Ratio - Hana Financial Investment	791.70%	813.29%	-21.59%p	-
Adjusted Equity Capital Ratio - KEB Hana Card	20.59%	22.10%	-1.50%p	-
Solvency Margin Ratio - Hana Life	178.32%	160.19%	18.12%p	-
Adjusted Equity Capital Ratio - Hana Capital	12.66%	12.99%	-0.34%p	-

Note 1) Total assets exclusive of trust assets

Note 2) NPL coverage ratio in accordance with the Regulation on Supervision of Banking Business revised on December 14, 2016

Note 3) Based on Basel III standards

## II. SUMMARY OF BUSINESS PERFORMANCE

Consolidated net income of Hana Financial Group in 2017 reached KRW 2,036.8 billion, up KRW 706.4 billion over the previous year. The net income growth is attributable to a rise in interest and fee incomes, well-managed cost control in provisioning, and efficient management of selling, general and administrative (SG&A) expenses.

Table 2-1. Comprehensive Income Statement (Consolidated)

	(Unit: KRW billion)			
	2017	2016	YoY	%
<b>General Operating Income</b>				
Net Interest Income	5,109.5	4,642.1	467.4	10.1%
Net Fee and Commissions Income	2,026.0	1,760.4	265.6	15.1%
Gains on Disposition & Valuation	1,017.9	690.6	327.3	47.4%
Other Operating Income	-553.6	-480.8	-72.8	-
<b>General &amp; Administrative Expenses</b>				
	4,039.1	4,076.9	-37.8	-0.9%
<b>Pre-Provisioning Operating Profit (PPOP)</b>				
	3,560.7	2,535.4	1,025.3	40.4%
<b>Provision</b>				
	842.6	921.3	-78.7	-8.5%
<b>Operating Income</b>				
	2,718.1	1,614.1	1,104.0	68.4%
<b>Non-Operating Income</b>				
	80.5	205.9	-125.4	-60.9%
<b>Net Income before Income Tax</b>				
	2,798.7	1,820.0	978.7	53.8%
<b>Income Tax Expense</b>				
	682.0	420.3	261.8	62.3%
<b>Net Income</b>				
	2,116.6	1,399.7	716.9	51.2%
<b>Attributed to Non-Controlling Interests</b>				
	79.8	69.3	10.5	15.2%
<b>Net Income Attributable to Controlling Interests</b>				
	2,036.8	1,330.5	706.4	53.1%

Net Income Attributable  
to Controlling Interests  
(Unit: KRW billion)



General operating income grew by KRW 987.5 billion to KRW 7,599.8 billion, thanks to an increase in interest and fee incomes as well as gains on disposition and valuation. The increase of interest income, in turn, was made possible by KEB Hana Bank's continued focus on deposit-loan pricing management and by improving performance of the Group's non-banking subsidiaries, including Hana Card, Hana Financial Investment (HFI) and overseas subsidiaries, such as one in China. The competitiveness of KEB Hana Card recovered after the integration, resulting in higher credit card fees compared with the previous year. Also, favorable stock market conditions at home and abroad led to a rise in asset management fees, including securities brokerage and trust fees.

Details on fee and commission income, gains on disposition and valuation, and other operating income are provided in Table 3. Non-Interest Income.

Other operating income dropped in 2017 due to lower dividend incomes and higher expenses related to deposit insurance fees.

The Group's general and administrative expenses also fell to KRW 4,039.1 billion, helped by a reduction in retirement benefits owing to base effects from the early retirement program (ERP) in 2016 as well as the Group-wide efforts to restrain cost increases.

Provision amounted to KRW 842.6 billion, a YoY decrease of KRW 78.7 billion. While loan loss provision increased by KRW 29.4 billion to KRW 822.5 billion, as a result of a one-off provisioning related to DSME, unused and other provisions decreased, and normalized level of provisioning maintained a downward trend throughout the year.

As a result, Hana Financial Group's operating income rose KRW 1,104.0 billion YoY to KRW 2,718.1 billion.



**Table 2-2. Comprehensive Income Statement by Subsidiaries (Separated)**

(Unit: KRW billion)

	KEB Hana Bank	Hana Financial Investment	KEB Hana Card <sup>1)</sup>	Hana Capital	Hana Asset Trust	Hana Alternative Asset Management	Hana Life	Hana Savings	Hana TI	Overseas Affiliates	China	Indonesia
<b>General Operating Income</b>	5,952.1	490.0	676.4	242.2	66.6	19.6	48.2	50.3	8.4	370.8	139.7	140.8
Net Interest Income	4,457.5	173.1	-107.1	219.7	7.9	0.1	76.0	39.5	-6.8	318.3	133.6	113.3
Net Fee and Commission Income	778.1	289.7	706.0	34.5	58.5	19.0	86.7	2.2	0.0	37.9	12.1	11.7
Gains on Disposition & Valuation	1,117.8	-10.1	34.2	0.0	-0.2	0.0	10.3	0.4	0.0	18.4	-5.9	19.7
Other Operating Income	-401.2	37.2	43.3	-12.1	0.4	0.5	-124.7	8.1	15.2	-3.7	0.0	-3.8
<b>General &amp; Administrative Expenses</b>	2,885.3	335.5	324.3	59.8	22.8	11.2	33.1	25.8	6.3	201.7	87.0	56.8
<b>Pre-Provisioning Operating Profit (PPOP)</b>	3,066.8	154.5	352.1	182.3	43.8	8.5	15.2	24.5	2.1	169.1	52.7	84.1
Provision	526.8	-1.0	214.9	76.1	1.0	2.0	-0.1	3.6	0.0	3.4	0.8	4.0
<b>Operating Income</b>	2,540.0	155.5	137.2	106.3	42.9	6.5	15.3	21.0	2.1	165.7	51.9	80.0
<b>Non-Operating Income</b>	-8.2	2.6	3.7	7.1	-1.3	-0.1	2.0	0.4	-0.1	1.5	-1.7	2.7
<b>Net Income before Income Tax</b>	2,531.8	158.1	140.9	113.4	41.6	6.4	17.3	21.4	2.1	167.2	50.3	82.7
<b>Income Tax Expense</b>	577.1	35.5	34.6	23.0	9.7	1.3	2.8	3.8	0.5	46.8	12.9	19.3
<b>Net Income</b>	1,954.7	122.6	106.4	90.4	31.9	5.1	14.4	17.6	1.6	120.4	37.3	63.4

Note 1) Consolidated

To review income performances by subsidiary, KEB Hana Bank recorded a net income of KRW 1,954.7 billion, KRW 724.6 billion more than the previous year. Interest income rose as interest margins improved and interest-earning assets grew. Fee income increased across the board as well, including asset management fees which increased as a result of robust beneficiary certificate and equity-linked trust (ELT) sales. In addition, gains on disposition and valuation expanded on the growth of foreign exchange translation gains, which is due to falling exchange rates, and an increase in the sale of marketable securities, such as those of SK Hynix. As a result, general operating income grew in 2017.

General and administrative expenses of KEB Hana Bank decreased KRW 76.8 billion to KRW 2,885.3 billion, despite a bonus payout made in connection with the growth in net income for 2017. This is attributable to the Group-wide efforts aimed at restraining cost increases and base effects from the previous year's ERP. Despite the issues related to Kumho Tire and Daewoo Shipbuilding & Marine Engineering, provision fell KRW 100.2 billion to KRW 526.8 billion, the direct result of active risk management efforts conducted throughout the year. As a result, general operating income and net income both grew YoY.

HFI recorded a net income of KRW 122.6 billion, a YoY rise of approximately 60%. General operating income increased over the previous year as the Group's One IB strategy contributed to a higher M&A advisory fee and commission income, while proactive responses to the stock market resulted in an increase in gains on disposition and valuation.

Despite unfavorable changes in the regulatory environment, such as the cutting of merchant fees, KEB Hana Card posted a net income of KRW 106.4 billion, a YoY increase of KRW 30.8 billion, which is the combined result of higher credit card fees, lower interest expenses made possible by the refinancing of debentures, and higher gains from the sales of loans. Total revenue reached KRW 62.5 trillion, up KRW 2.5 trillion over the previous year. The active users of KEB Hana Card grew 0.5 million in 2017 to 4 million, resulting in more income. Based on this virtuous circle, KEB Hana Card has achieved continued growth.

Despite a rise in provision driven by assets growth, Hana Capital's net income increased KRW 9.8 billion to stand at KRW 90.4 billion as a result of higher interest and lease fee incomes.

Hana Life recorded KRW 14.4 billion in net income, KRW 2.7 billion less compared with the previous year, which can be attributed to its modification of sales portfolio focusing more on protection-type insurance products at the expense of insurance-related incomes.

Hana Savings Bank generated a net income of KRW 17.6 billion, a YoY rise of KRW 2.2 billion, thanks to an increase in interest income due to improved NIM and gains from bad debt recovery.

Hana Asset Trust's net income went down by 29.5 billion to record KRW 31.9 billion, owing to base effects from the income (approximately KRW 40.1 billion) it had gained from the 2016 sale of its share in Hana Asset Management, which was then its subsidiary. Excluding this factor, the company's net income in 2017 would be KRW 10.6 billion more than 2016.

**Table 3. Non-Interest Income (Consolidated)**

(Unit: KRW billion)

	2017	2016	YoY	%
<b>Net Fee &amp; Commission Income</b>	<b>2,026.0</b>	1,760.4	265.6	15.1%
Credit Card	<b>806.3</b>	730.1	76.1	10.4%
Loan and FX-related	<b>452.9</b>	438.8	14.1	3.2%
Asset Management	<b>593.2</b>	468.7	124.4	26.5%
Beneficiary Certificates	<b>135.4</b>	116.4	19.0	16.3%
Brokerage	<b>125.9</b>	120.9	5.0	4.1%
Trust Fees	<b>230.9</b>	157.7	73.2	46.4%
Bancassurance	<b>41.6</b>	38.6	3.0	7.8%
M&A Advisory	<b>92.0</b>	49.7	42.4	85.3%
Others	<b>81.6</b>	73.1	8.5	11.7%
<b>Gains on Disposition &amp; Valuation</b>	<b>1,017.9</b>	690.6	327.3	47.4%
<b>Other Operating Income</b>	<b>-553.6</b>	-480.8	-72.8	-
Dividend Income	<b>95.2</b>	119.9	-24.7	-20.6%
Contribution to the Credit Guaranteed Fund	<b>-265.4</b>	-278.1	12.7	-
Deposit Insurance Fee	<b>-318.7</b>	-304.8	-14.0	-
Others	<b>-64.6</b>	-17.8	-46.8	-
<b>Total</b>	<b>2,490.3</b>	1,970.2	520.1	26.4%

Hana Financial Group's non-interest income rose around 26.4% YoY to KRW 2,490.3 billion. The biggest uplift originated from gains on disposition and valuation while fee and commission income contributed to the increase as well.

To review the 2017 non-interest income performance by sector in comparison with the figures in 2016, fee and commission income rose across the board – credit card, loan and FX-related, asset management and M&A advisory. Credit card fee income increased on the back of higher transaction volume supported by growth in card membership. In addition, improvements in exports and imports bolstered by a global economic recovery spurred the rise in foreign exchange fee income. Securities brokerage fee and trust fee incomes went up based on increased securities transactions as well as robust ELT product sales in response to an invigorated stock market. Finally, the Group's One IB strategy led to a rise in M&A advisory fee income.

**Net Fee & Commission Income**  
(Unit: KRW billion)





Cost to Income Ratio  
(Unit: %)



The Group generated gains on disposition and valuation of KRW 1,017.9 billion, up KRW 327.3 billion from the previous year, largely due to disposition of SK Hynix shares and FX translation gains owing to a strengthened Korean Won.

Other operating income mainly comprises business-related expense accounts such as deposit insurance fee and contributions to the Credit Guarantee Fund, as well as income accounts such as stock dividends and other income. Dividend income fell KRW 24.7 billion to KRW 95.2 billion, while contributions to the Credit Guarantee Fund and deposit insurance fee stood at KRW 265.4 billion and KRW 318.7 billion, respectively.

Table 4. General and Administrative Expenses (Consolidated)

	2017	2016	YoY	%
<b>General &amp; Administrative Expenses</b>	<b>4,039.1</b>	4,076.9	-37.8	-0.9%
Salaries and Employment Benefits	<b>2,020.3</b>	1,864.5	155.8	8.4%
Severance and Retirement Benefits	<b>295.3</b>	453.2	-157.8	-34.8%
Administrative Expenses	<b>1,149.9</b>	1,189.0	-39.1	-3.3%
Depreciation and Amortization	<b>450.3</b>	450.5	-0.2	-0.1%
Taxes and Dues	<b>123.2</b>	119.7	3.5	2.9%
<b>Cost to Income Ratio</b>	<b>53.15%</b>	61.66%	-8.51%p	-

In 2017, Hana Financial Group's general and administrative expenses decreased 0.9% to KRW 4,039.1 billion despite an increase in salaries and employment benefits in connection with the year's income growth. The drop is due mainly to base effects from the previous year's ERP and the Group-wide efforts to reduce administrative expenses.

To review the items in detail, salaries and employee benefits went up KRW 155.8 billion to KRW 2,020.3 billion on increased bonus payouts and other factors. Severance and retirement benefits fell KRW 157.8 billion to KRW 295.3 billion owing to base effects from the previous year's ERP. Administrative expenses dropped 3.3% to KRW 1,149.9 billion, the results of improved cost efficiencies made by the cost control measures implemented throughout year. C/I Ratio of 53.15% at the end of 2017 represents a YoY decline of 8.51%p, reflecting the Group's endeavors to control general and administrative expenses.

Hana Financial Group will continue its efforts of managing general and administrative expenses by focusing on cost efficiencies.

Total Liabilities & Shareholders' Equity  
(Unit: KRW billion)



### III. SUMMARIZED GROUP FINANCIAL POSITION

Table 5. Condensed Balance Sheets (Consolidated)

	2017	2016	YoY	%
<b>Interest Earning Assets</b>	<b>311,199.5</b>	295,274.4	15,925.1	5.4%
Due from Banks	<b>8,794.9</b>	11,289.4	-2,494.5	-22.1%
Securities	<b>63,461.4</b>	55,377.9	8,083.4	14.6%
Loans	<b>238,943.2</b>	228,607.0	10,336.2	4.5%
<b>Other Revenue Earning Assets</b>	<b>8,095.3</b>	6,607.5	1,487.8	22.5%
<b>Non-Revenue Earning Assets</b>	<b>40,794.6</b>	46,295.6	-5,501.1	-11.9%
<b>Total Assets</b>	<b>360,089.3</b>	348,177.5	11,911.9	3.4%
<b>Interest Bearing Liabilities</b>	<b>304,110.7</b>	292,444.0	11,666.7	4.0%
Deposits	<b>232,591.8</b>	222,791.6	9,800.2	4.4%
Borrowings	<b>18,791.9</b>	20,031.6	-1,239.7	-6.2%
Debentures	<b>36,444.5</b>	32,305.8	4,138.7	12.8%
Policy Reserve	<b>3,198.5</b>	2,858.9	339.6	11.9%
Borrowings from Trust Accounts	<b>4,690.4</b>	5,127.8	-437.4	-8.5%
<b>Non-Interest Bearing Liabilities</b>	<b>31,150.7</b>	32,343.5	-1,192.8	-3.7%
<b>Total Liabilities</b>	<b>335,261.4</b>	324,787.5	10,474.0	3.2%
<b>Shareholders' Equity</b>	<b>24,827.9</b>	23,390.0	1,437.9	6.1%
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>360,089.3</b>	348,177.5	11,911.9	3.4%

In 2017, Hana Financial Group generated assets of KRW 360,089.3 billion, thus surpassing the prior-year figure by 3.4%, with major subsidiaries maintaining their growth momentum. The Group is pursuing both quantitative expansion and qualitative improvement through management of the asset portfolio and associated risks. As a result, NPL ratio declined 0.14%p YoY to 0.78%, while delinquency ratio dropped 0.11%p to 0.39%, and other asset quality indicators also remained at a satisfactory level.

To review asset growth by area, loans, which accounts for the highest share of interest-earning assets, rose 4.5% YoY to KRW 238,943.2 billion. KRW loans went up by 6.0% to KRW 194,242.4 billion, mainly in SOHO and household loans. Foreign-currency loans stood at KRW 19,878.9 billion, 9.1% below the 2016 figure.

Total liabilities rose 3.2% to KRW 335,261.4 billion. Deposits totaled KRW 232,591.8 billion, 4.4% increase from the previous year, while borrowings stood at KRW 18,791.9 billion, 6.2% lower than the 2016 figure. In particular, the Bank's deposits grew 4.5% to KRW 218,904.2 billion, of which core deposits rose 6.4% to KRW 49,655.3 billion. The healthy growth of core deposits is expected to contribute to funding cost reduction and NIM improvement.

Shareholders' equity totaled KRW 24,827.9 billion, 6.1% more than 2016, thanks to higher retained earnings which have resulted from a healthy consolidated net income of KRW 2,036.8 billion.



Substandard & Below  
(NPL) Coverage Ratio  
(Unit: %)



## IV. ASSET QUALITY

Table 6. Asset Quality and Loan Loss Provision

(Unit: KRW billion)

	2017	2016	YoY	%
<b>Total Credit</b>	<b>245,893.2</b>	236,700.3	9,192.8	3.9%
Normal	241,467.9	231,716.1	9,751.8	4.2%
Precautionary	2,512.3	2,813.7	-301.4	-10.7%
Substandard	881.9	1,100.5	-218.6	-19.9%
Doubtful	714.2	573.6	140.6	24.5%
Estimated Loss	316.8	496.4	-179.6	-36.2%
<b>Precautionary &amp; Below</b>				
Amount	4,425.2	4,984.2	-558.9	-11.2%
Ratio	1.80%	2.11%	-0.31%p	-
<b>Substandard &amp; Below (NPL)</b>				
Amount	1,912.9	2,170.4	-257.5	-11.9%
Ratio	0.78%	0.92%	-0.14%p	-
<b>Loan Loss Allowance</b>	<b>3,473.8</b>	3,524.2	-50.4	-1.4%
Loan Loss Reserve	1,671.1	1,788.3	-117.2	-6.6%
Credit Loss Reserve	1,802.7	1,736.0	66.8	3.8%
<b>Substandard &amp; Below (NPL) Coverage Ratio <sup>1)</sup></b>	<b>87.36%</b>	82.39%	4.97%p	-

Note 1) NPL coverage ratio in accordance with the Regulation on Supervision of Banking Business revised on December 14, 2016

Total credit increased 3.9% YoY to record KRW 245,893.2 billion at the end of 2017, of which NPLs totaled KRW 1,912.9 billion. Precautionary and below loan ratio came to 1.80% while NPL ratio also decreased to 0.78%, reflecting the improvements made in asset quality. Despite an increase in assets, NPL coverage ratio reached 87.36%, 4.97%p increase YoY, mainly owing to the NPL reduction. The Group is covering all the bases for preemptive risk management by preparing for the possibility of additional losses.

KEB Hana Bank, the Group's major subsidiary, is continually improving its loan portfolio by reducing large corporate loans in proportion to total. In 2017, the Bank reduced large corporate loans (based on total credits) by KRW 2.6 trillion, decreasing the proportion by 1.8%p from 20.2% to 18.4%. The main targets of loan reduction efforts are subsidiaries/companies that account for a high percentage of the Bank's total loans as well as those on the watchlist, in high-risk industries, or with low credit ratings.

Companies with substantial credit exposures with KEB Hana Bank are reviewed for inclusion in the watchlist every year, considering both financial and non-financial factors, such as the likelihood of having a liquidity crisis and the ability to respond to such a crisis. To preemptively manage its exposure to borrowers on the watchlist, KEB Hana Bank is stepping up monitoring for early signs of a major risk factor, a credit rating change, or a restructuring problem.

In an effort to preemptively respond to a global economic downturn or unexpected industry risk, the Group selects and keeps a close watch on high-risk industries. For industries that have recently become high-risk industries, (namely shipbuilding, construction, shipping, real estate development and supply, automotive parts manufacturing, etc.) the Group continually monitors and manages its exposure within strict guidelines set forth for the credit management. In taking preemptive measures on companies with large loans, the sales, credit review, and risk divisions combine their efforts to thoroughly ascertain and analyze the respective companies' business status and risk factors.

## V. CAPITAL ADEQUACY

Table 7. BIS Capital and Ratio

(Unit: KRW billion)

	2017	2016	YoY	%
<b>Common Equity Tier 1 Capital</b>	<b>21,707.9</b>	20,436.8	1,271.0	6.2%
<b>Additional Tier 1 Capital</b>	<b>936.4</b>	940.1	-3.6	-0.4%
<b>Tier 2 Capital</b>	<b>2,847.6</b>	3,505.4	-657.7	-18.8%
<b>Total BIS Capital</b>	<b>25,491.9</b>	24,882.3	609.7	2.5%
<b>Risk Weighted Assets</b>	<b>170,331.7</b>	173,654.0	-3,322.3	-1.9%
<b>BIS Capital Adequacy Ratio <sup>1)</sup></b>	<b>14.97%</b>	14.33%	0.64%p	-
Tier 1 Ratio	13.29%	12.31%	0.98%p	-
Common Equity Tier 1 Ratio	12.74%	11.77%	0.98%p	-

Note 1) Based on Basel III standards

At the end of 2017, the Group's total BIS capital stood at KRW 25,491.9 billion, 2.5% or KRW 609.7 billion increase from the previous year. In contrast, risk-weighted assets(RWAs) decreased KRW 3,322.3 billion or 1.9% to KRW 170,331.7 billion. As a result, common equity tier 1 (CET 1) ratio rose 0.98%p YoY to 12.74%.

Additional Tier 1 capital decreased KRW 3.6 billion, and Tier 2 capital declined KRW 657.7 billion, YoY. The decrease of Tier 2 capital was attributed to the reduction of our existing holding of subordinate bonds that had been issued prior to the Basel III application and recognized as Tier 2 capital.

Efforts were made at improving asset quality through active risk management and portfolio adjustment which combined to lead to a YoY decrease of 1.9% in RWAs.

Common Equity  
Tier 1 Ratio  
(Unit: %)



I. OVERVIEW

In 2017, unfavorable business conditions persisted at home and abroad, shaped mainly by issues surrounding diplomatic conflict with China due to the deployment of Terminal High Altitude Area Defense (THAAD) system and North Korea’s missile tests. On top of these, the US Federal Reserve and the Bank of Korea both raised their respective base rates, adding to concerns over household debts and marginal firms. Moreover, the financial industry experienced a seismic change across the board, triggered by the advent of fin-tech and digital banks.

Even amid such difficulties, KEB Hana Bank achieved the best performance since integration-related synergies took effect. And the organizational culture was made flexible, creative and unique by the adoption of ‘Change and Innovation that Transforms Fundamentals’. As a result, the customer base further expanded and income rose considerably.

Going forward, KEB Hana Bank will continue to fully establish a customer-centered sales culture for ‘Customer Satisfaction, Our One and Only Goal’. The Bank will also gain more trust from customers by engaging in honest and healthy business practices, and continue to pursue innovation with an unfading sense of crisis, and thus grow into a leading bank in Korea.

II. SUMMARY OF BUSINESS PERFORMANCE

Table 1. Comprehensive Income Statement (Separated)

	2017	2016	YoY	%
General Operating Income	5,952.1	5,007.1	945.0	18.9%
Net Interest Income	4,457.5	3,998.5	459.0	11.5%
Net Fee and Commission Income	778.1	703.5	74.5	10.6%
Gains on Disposition & Valuation	1,117.8	703.8	414.0	58.8%
Other Operating Income	-401.2	-398.7	-2.5	-
General & Administrative Expenses	2,885.3	2,962.1	-76.8	-2.6%
Pre-Provisioning Operating Profit (PPOP)	3,066.8	2,045.0	1,021.8	50.0%
Credit Loss Provision	526.8	627.0	-100.2	-16.0%
Operating Income	2,540.0	1,418.0	1,122.0	79.1%
Non-Operating Income	-8.2	135.4	-143.6	-
Net Income before Income Tax	2,531.8	1,553.4	978.4	63.0%
Income Tax Expense	577.1	323.4	253.7	78.5%
Net Income	1,954.7	1,230.0	724.6	58.9%
Cost to Income Ratio	48.48%	59.16%	-10.68%p	-

KEB Hana Bank recorded a net income of KRW 1,954.7 billion, a YoY rise of KRW 724.6 billion or 58.9%. This is attributable to the stable growth in all income areas - including net interest incomes, fee incomes, and gains on disposition and valuation - and to a substantial decrease in such key expenses items as general and

administrative expenses and credit loss provision. General operating income rose KRW 945.0 billion over the previous year, while general and administrative expenses and credit loss provision fell KRW 76.8 billion and KRW 100.2 billion, respectively, resulting in an YoY increase in operating income of KRW 1,122.0 billion.

Net interest income grew 11.5% YoY to KRW 4,457.5 billion. NIM went up 0.10%p, an outcome of a base rate hike made during the year and a continued increase of market interest rates. Interest-earning assets rose KRW 14.9 trillion mainly on the expansion of customer base, thus generating a YoY rise of KRW 459.0 billion in interest income.

Fee and commission income grew by 10.6% YoY to KRW 778.1 billion. Active product marketing and robust stock market performances at home and abroad contributed to an increase in sales of trusts, funds and other asset management products. In addition, on the back of foreign exchange-related synergies coming into effect, fee and commission income surpassed the prior-year figure by KRW 74.5 billion.

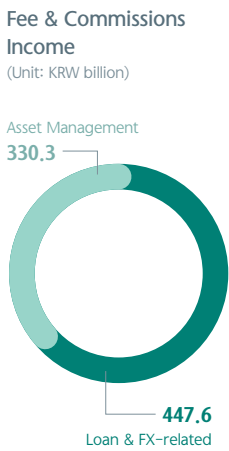
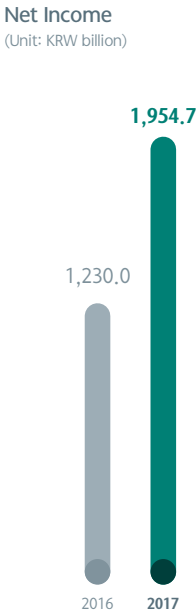
Gains on disposition and valuation amounted to KRW 1,117.8 billion, which represents a 58.8% increase over 2016. In addition to non-monetary gains made on strengthened Korean Won, the jump can be attributed to the sale of the shares of SK Hynix, Hyundai Cement and other companies that had been acquired by the Bank in a debt-to-equity swap.

General and administrative expenses came to KRW 2,885.3 billion, 2.6% decrease from the previous year. Despite costs involving the relocation of the IT center and other one-off factors, the reduction in expenses was made possible by the cost reduction effect of the ERP offered in 2016, the synergies generated from the integration, and the cost-cutting measures implemented bank-wide.

Credit loss provision decreased KRW 100.2 billion YoY to KRW 526.8 billion, thanks to the active risk management practices focused on enhancing asset soundness. Non-operating income fell by KRW 143.6 billion in 2017 as a result of a drop in gains from selling tangible assets and one-off losses related to unclaimed checks for contribution to the Korea Inclusive Finance Agency.

Table 2. Non-Interest Income (Separated)

	2017	2016	YoY	%
Fee & Commissions Income	778.1	703.5	74.5	10.6%
Credit Card	0.2	0.2	0.1	35.8%
Loan & FX-related	447.6	443.9	3.7	0.8%
Fees in Acceptances and Guarantees	60.8	67.8	-7.0	-10.3%
Fees Related to Loans	231.2	227.3	3.8	1.7%
Fees in Foreign Currencies	155.6	148.7	6.9	4.6%
Asset Management	330.3	259.5	70.7	27.3%
Sales of Beneficiary Certificate	101.7	85.2	16.5	19.4%
Bancassurance	54.1	50.9	3.2	6.3%
Trust Fees	174.4	123.4	51.0	41.3%
Gains on Disposition & Valuation	1,117.8	703.8	414.0	58.8%
Other Operating Income	-401.2	-398.7	-2.5	-
Dividend Income	61.8	63.4	-1.6	-2.6%
Deposit Insurance Fee	-303.1	-291.1	-11.9	-
Contribution to the Credit Guarantee Fund	-265.3	-278.1	12.9	-
Others	105.3	107.1	-1.8	-1.7%





KEB Hana Bank generated KRW 1,494.6 billion in non-interest income, representing a YoY increase of KRW 486.0 billion.

Fee and commission income rose KRW 74.5 billion or 10.6% to KRW 778.1 billion, while gains on disposition and valuation increased KRW 414.0 billion or 58.8% to KRW 1,117.8 billion. Other operating income went down KRW 2.5 billion from the prior-year figure to stand at KRW 401.2 billion in losses.

To review fee and commission income in detail, sales of asset management products increased on the back of continued efforts to expand customer base, as well as the robust performance of stock markets at home and abroad, based on which the Bank achieved KRW 16.5 billion or 19.4% growth in beneficiary certificate fees, KRW 51.0 billion or 41.3% in trust fees, and KRW 3.2 billion or 6.3% in bancassurance fees. Other fee and commission items also performed better than 2016, including foreign exchange fee which exceeded the prior-year figure by KRW 6.9 billion or 4.6%.

Gains on disposition and valuation grew sharply and surpassed the prior-year figure by KRW 414.0 billion. This is mainly attributable to an increase of KRW 82.8 billion in disposition and valuation of marketable securities, despite a decline in income from investments due to rising interest rate. Decrease in exchange rates helped generate KRW 273.2 billion in gains on FX-translation, and foreign exchange transaction gains at the branches rose KRW 5.0 billion YoY. The sale of shares generated from debt-to-equity swap, including those of SK Hynix and Hyundai Cement, also contributed to the increase of gains on disposition and valuation.

Table 3. General and Administrative Expenses (Separated)

(Unit: KRW billion)

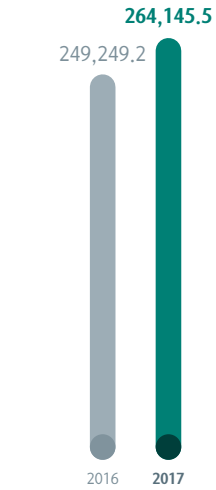
	2017	2016	YoY	%
<b>General &amp; Administrative Expenses</b>	<b>2,885.3</b>	2,962.1	-76.8	-2.6%
Salaries and Employee Benefits	<b>1,535.3</b>	1,431.1	104.2	7.3%
Severance and Retirement Benefits	<b>265.6</b>	425.4	-159.8	-37.6%
Administrative Expenses	<b>805.0</b>	833.4	-28.4	-3.4%
Depreciation and Amortization	<b>187.8</b>	183.6	4.3	2.3%
Taxes and Dues	<b>91.6</b>	88.7	2.9	3.3%
<b>Cost to Income Ratio</b>	<b>48.48%</b>	59.16%	-10.68%p	-

The Bank's general and administrative expenses fell by KRW 76.8 billion YoY to KRW 2,885.3 billion.

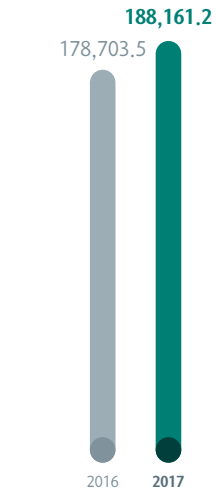
Salaries and employee benefits went up KRW 104.2 billion or 7.3% on the systemization of the employee profit sharing (PS) system despite the cost reduction effect of the ERP carried out at the end of 2016. Severance and retirement benefits fell KRW 159.8 billion or 37.6%, mainly attributable to base effects from large-scale ERP in 2016 (742 persons, costing KRW 231.2 billion) which overshadowed the one in 2017 (207 persons, KRW 96.9 billion).

Administrative expenses went down KRW 28.4 billion or 3.4% as a result of continued branch mergers and synergy creation as well as bank-wide cost-reduction efforts. Depreciation and amortization expenses went up KRW 4.3 billion YoY, while taxes and dues rose KRW 2.9 billion.

Interest Earning Assets  
(Unit: KRW billion)



KRW Loans  
(Unit: KRW billion)



### III. SUMMARIZED FINANCIAL POSITION

Table 4. Condensed Balance Sheets (Separated)

(Unit: KRW billion)

	2017	2016	YoY	%
<b>Interest Earning Assets</b>	<b>264,145.5</b>	249,249.2	14,896.4	6.0%
Due from Banks	<b>4,217.4</b>	6,803.6	-2,586.2	-38.0%
Fixed Income Securities	<b>45,271.6</b>	36,764.8	8,506.9	23.1%
Loans	<b>214,656.5</b>	205,680.8	8,975.7	4.4%
<b>Other Revenue Earning Assets</b>	<b>7,899.3</b>	6,924.0	975.3	14.1%
Stocks and Others	<b>7,899.3</b>	6,924.0	975.3	14.1%
<b>Non-Revenue Earning Assets</b>	<b>35,214.7</b>	40,990.1	-5,775.4	-14.1%
<b>Total Assets</b>	<b>307,259.5</b>	297,163.3	10,096.2	3.4%
<b>Interest Bearing Liabilities</b>	<b>258,691.7</b>	247,869.0	10,822.7	4.4%
Deposits	<b>218,904.2</b>	209,548.3	9,356.0	4.5%
Borrowings	<b>13,047.0</b>	13,968.4	-921.5	-6.6%
Debentures	<b>21,995.1</b>	19,144.4	2,850.7	14.9%
Borrowings from Trust Accounts	<b>4,745.4</b>	5,207.9	-462.5	-8.9%
<b>Non-Interest Bearing Liabilities</b>	<b>25,617.0</b>	27,463.7	-1,846.7	-6.7%
<b>Total Liabilities</b>	<b>284,308.6</b>	275,332.7	8,976.0	3.3%
<b>Shareholders' Equity</b>	<b>22,950.9</b>	21,830.7	1,120.2	5.1%
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>307,259.5</b>	297,163.3	10,096.2	3.4%

Total assets of KEB Hana Bank grew KRW 10,096.2 billion over the previous year to KRW 307,259.5 billion. While interest-earning assets such as loans and fixed income securities as well as other income revenue-earning assets increased, non-revenue income earning assets such as those deposited at the Bank of Korea decreased.

Interest-earning assets totaled KRW 264,145.5 billion, YoY increase of KRW 14,896.4 billion. Loans rose a total of KRW 9,457.7 billion, whose figure comprises KRW 5,441.4 billion in corporate - mainly SME - loans and KRW 4,016.3 billion in household loans. Fixed income securities rose KRW 8,506.9 billion to KRW 45,271.6 billion.

Interest-bearing liabilities also rose by KRW 10,822.7 billion, of which deposits accounted for KRW 9,356.0 billion.

Shareholders' equity went up KRW 1,120.2 billion YoY on the back of the net income of KRW 1,954.7 billion with KRW 972.6 billion paid in dividend.

Table 5. KRW Loans & Deposits

(Unit: KRW billion)

	2017	2016	YoY	%
<b>KRW Loans</b>	<b>188,161.2</b>	178,703.5	9,457.7	5.3%
Loans to Corporate	<b>89,077.2</b>	83,635.8	5,441.4	6.5%
SME	<b>73,042.6</b>	66,448.6	6,594.0	9.9%
SOHO	<b>38,255.3</b>	33,096.5	5,158.9	15.6%
Large Corporate	<b>14,361.2</b>	15,258.4	-897.2	-5.9%
Others	<b>1,673.5</b>	1,928.8	-255.4	-13.2%
Loans to Households	<b>99,083.9</b>	95,067.6	4,016.3	4.2%

KRW SOHO Loans  
(Unit: KRW billion)



	2017	2016	YoY	%
<b>KRW Deposits <sup>1)</sup></b>	<b>194,108.4</b>	184,864.4	9,243.9	5.0%
Low Cost Funding	77,349.5	73,556.9	3,792.6	5.2%
Core Deposits	49,655.3	46,685.6	2,969.8	6.4%
Money Market Deposit Account (MMDA)	27,694.2	26,871.4	822.8	3.1%
Time Deposits	105,103.0	100,752.4	4,350.5	4.3%
Installment Deposits	8,217.1	8,542.3	-325.3	-3.8%
Core Deposits & Others	3,438.8	2,012.7	1,426.1	70.9%

Note 1) Excluding foreign currency and trust deposits

KRW loans totaled KRW 188,161.2 billion, an increase of KRW 9,457.7 billion from the previous year. Corporate loans grew KRW 5,441.4 billion, reflecting a KRW 6,594.0 billion increase in SOHO and SME loans, despite a KRW 897.2 billion decrease in large corporate loans following loan portfolio adjustments. Household loans went up KRW 4,016.3 billion YoY, led mainly by mortgage.

KRW deposits rose KRW 9,243.9 billion to KRW 194,108.4 billion. Low cost funding went up KRW 3,792.6 billion, of which core deposits amounted to KRW 2,969.8 billion. Time deposits also rose by KRW 4,350.5 billion on the base rate hike in 2017.

#### IV. ASSET QUALITY

Table 6. Asset Quality and Loan Loss Provision

	2017	2016	YoY	%
<b>Total Credit</b>	<b>217,256.7</b>	210,760.4	6,496.3	3.1%
Normal	214,027.9	207,110.8	6,917.1	3.3%
Precautionary	1,646.0	1,883.3	-237.3	-12.6%
Substandard	798.7	988.0	-189.3	-19.2%
Doubtful	599.8	434.9	164.9	37.9%
Estimated Loss	184.3	343.4	-159.1	-46.3%
<b>Precautionary &amp; Below</b>				
Amount	3,228.9	3,649.7	-420.8	-11.5%
Ratio	1.49%	1.73%	-0.25%p	-
<b>Substandard &amp; Below (NPL)</b>				
Amount	1,582.8	1,766.4	-183.5	-10.4%
Ratio	0.73%	0.84%	-0.11%p	-
<b>Credit Loss Reserves</b>	<b>1,201.7</b>	1,285.4	-83.7	-6.5%
<b>Substandard &amp; Below (NPL) Coverage Ratio <sup>1)</sup></b>	<b>75.92%</b>	72.77%	3.15%p	-

Note 1) Excluding loan loss reserves

NPL Ratio  
(Unit: %)



Common Equity  
Tier 1 Ratio  
(Unit: %)



At the end of 2017, total credit stood at KRW 217,256.7 billion, up KRW 6,496.3 billion from the previous year. The increase can be attributed mainly to a 3.3% rise in normal loans. Precautionary & below loans and NPLs fell KRW 420.8 billion and KRW 183.5 billion, respectively.

Precautionary & below loan and NPL ratios improved 0.25%p and 0.11%p to 1.49% and 0.73%, respectively, reflecting the continued efforts made of managing problem loans and risks. NPL coverage ratio also improved to 75.92%.

#### V. CAPITAL QUALITY

Table 7. BIS Capital and Ratio

	2017	2016	YoY	%
<b>Tier 1 Capital</b>	<b>21,574.6</b>	20,915.0	659.6	3.2%
Common Equity Tier 1 Capital	21,389.3	20,729.6	659.7	3.2%
Additional Tier 1 Capital	185.3	185.4	-0.1	-0.1%
<b>Tier 2 Capital</b>	<b>3,841.5</b>	4,180.5	-339.0	-8.1%
Loan Loss Reserve	125.0	153.7	-28.7	18.7%
Subordinated Bonds	3,698.2	4,008.0	-309.8	-7.7%
Others	18.2	18.7	-0.6	-3.0%
<b>Total BIS Capital</b>	<b>25,416.1</b>	25,095.5	320.5	1.3%
<b>Risk Weighted Assets</b>	<b>159,062.8</b>	157,080.5	1,982.3	1.3%
<b>BIS Capital Adequacy Ratio <sup>1)</sup></b>				
Common Equity Tier 1 Ratio	13.45%	13.20%	0.25%p	
Tier 1 Ratio	13.56%	13.31%	0.25%p	
Tier 2 Ratio	15.98%	15.98%	0.00%p	

Note 1) Based on Basel III standards

KEB Hana Bank continued efforts to expand its capital base, such as issuing KRW 200.0 billion worth of subordinated bonds and expanding internal reserves by improving income performances.

At the end of 2017, the Bank's BIS capital adequacy ratio stood at 15.98%, around 3.5% above the regulatory minimum guideline (12.5%) which fully reflects the capital buffer (+4.5%).

KEB Hana Bank will manage its capital at an adequate level by improving income performance and thus raising internal reserves, and continue to retain a sound capital adequacy through management of RWAs.



Hana Financial Investment

I. OVERVIEW

In 2017, the securities market environment was more favorable than the previous year for performance improvement owing to several key factors: a record high KOSPI index fueled by a global economic recovery; rise of semiconductor related stocks including Samsung Electronics and SK Hynix due to increasing demand and prices; a sharp rise in indices, including the KRX300, on growing expectations for government policies favorable to KOSDAQ in the second half of the year; and the meteoric rise of bio shares on expectations for successful clinical trials and subsequent licensing-out of new drugs.

Thanks to such favorable market situations, including the bullish KOSDAQ market as well as increasing returns on IB and PI, and despite prevalent external risks, including the Daewoo Shipbuilding & Marine Engineering issue in the first half, and a base rate hike and an appreciating Korean Won in the second half of the year, HFI generated general operating income of KRW 490.0 billion, 23.2% increase from the previous year. Net income surpassed the prior-year figure by KRW 46.1 billion to record KRW 122.6 billion, which resulted in an ROE of 6.3%.

In its retail operations, HFI posted a net operating income of KRW 225.4 billion on the backs of a stable revenue structure composed of financial products and interest incomes and of strengthened asset management strategies. In the IB sector, the company recorded a net income of KRW 94.2 billion, up 78% over the previous year, by expanding its global revenue base, including the establishment of the One IB Collaboration system, and engaging in bigger real estate and overseas transaction deals. The sales and trading (S&T) sector posted a net operating income of KRW 108.5 billion, made possible by the continued supply of market-leading products, including Callable equity-linked securities (ELS) to which HFI acquired exclusive rights, by the increasing of PI returns, and by the management of fixed income securities in response to growing signs of interest rate hike. The wholesale sector posted a net operating income of KRW 30.2 billion, KRW 1.7 billion lower than 2016, reflecting a drop in financial product fee income, which overshadowed a slight YoY increase made in securities fee income.

Table 1. Summarized Financial Information (Separated)

	2017	2016	YoY	%
<b>Business Volume</b>				
Total Assets	18,729.7	18,790.2	-60.4	-0.3%
Shareholders' Equity	1,992.1	1,922.7	69.5	3.6%
<b>Profitability</b>				
General Operating Income	490.0	397.7	92.3	23.2%
Operating Income	155.5	94.5	61.0	64.5%
Net Income	122.6	76.5	46.1	60.2%
Return on Assets (ROA)	0.65%	0.41%	0.25%p	-
Return on Equity (ROE)	6.33%	4.14%	2.19%p	-
Cost to Income Ratio	68.47%	76.52%	-8.05%p	-
<b>Capital Adequacy</b>				
Net Capital Ratio	791.70%	813.29%	-21.59%p	-

Net Income  
(Unit: KRW billion)



II. SUMMARY OF BUSINESS PERFORMANCE

Table 2. Comprehensive Income Statement (Separated)

	2017	2016	YoY	%
<b>General Operating Income</b>				
Net Interest Income	173.1	194.7	-21.6	-11.1%
Net Fees and Commissions Income	289.7	237.1	52.7	22.2%
Gains on Disposition & Valuation	-10.1	-101.0	90.9	-
Other Operating Income	37.2	66.9	-29.6	-44.3%
<b>General &amp; Administrative Expenses</b>	<b>335.5</b>	304.3	31.2	10.3%
<b>Pre-Provisioning Operating Profit (PPOP)</b>	<b>154.5</b>	93.4	61.1	65.5%
<b>Credit Loss Provision</b>	<b>-1.0</b>	-1.2	0.1	-
<b>Operating Income</b>	<b>155.5</b>	94.5	61.0	64.5%
<b>Non-Operating Income</b>	<b>2.6</b>	1.8	0.8	42.6%
<b>Income before Income Tax</b>	<b>158.1</b>	96.3	61.8	64.1%
<b>Income Tax Expense</b>	<b>35.5</b>	19.8	15.7	79.3%
<b>Net Income</b>	<b>122.6</b>	76.5	46.1	60.2%

HFI's net income grew KRW 46.1 billion YoY to KRW 122.6 billion, a reflection of the higher fee and commission incomes and greater returns on PI, compared with the previous year.

General operating income rose 23.2% to KRW 490.0 billion – Net fees and commissions income went up KRW 52.7 billion to KRW 289.7 billion on the balanced growth of securities brokerage, asset management and IB fees.

Non-fees and commissions income grew KRW 39.7 billion to KRW 200.2 billion on the overall improvement of management performance, including higher returns on PI and lower losses from the hedging of ELS.

General and administrative expenses came to KRW 335.5 billion, a YoY increase of KRW 31.2 billion. The increase in the expenses can be attributed to the bonus payouts made in connection with the business performance improvement over the previous year as well as to a rise in depreciation and amortization expenses of the next-generation IT system.

Credit loss provision scored a reversal of KRW 1.0 billion, and non-operating income stood at KRW 2.6 billion, representing a YoY increase of KRW 0.8 billion.

As a result, net income substantially increased by KRW 46.1 billion or 60.2%, to KRW 122.6 billion.

**Cost to Income Ratio**  
(Unit: %)



**Table 3. Fee & Commissions Income (Separated)**

(Unit: KRW billion)

	2017	2016	YoY	%
<b>Fee &amp; Commissions Income</b>	<b>289.7</b>	237.1	52.7	22.2%
Brokerage Commissions	<b>125.9</b>	120.9	5.0	4.1%
Management Fee on Wrap Account and Asset Management	<b>85.9</b>	65.3	20.5	31.4%
Underwriting Commissions	<b>41.1</b>	22.9	18.2	79.7%
Commissions on Mergers & Acquisitions	<b>51.4</b>	26.8	24.6	91.8%
Others	<b>-14.5</b>	1.2	-15.7	-

Fee and commissions income in 2017 grew 22.2% to KRW 289.7 billion, attributable to a YoY increase in the amount of securities traded, the strengthening of asset management strategies, including increased sales of domestic and overseas fixed income securities and alternative investment funds, and a rise in the amount of real estate and overseas deals conducted.

Brokerage commissions stood at KRW 125.9 billion, which represents a YoY increase of 4.1%, mainly owing to a rise in stock prices fueled by a global economic recovery, the efforts of enhancing rates of return through customer portfolios rebalancing, the implementation of a commission up-selling strategy through provision of specialized services, and the increase of the market share in institutional trading. Management fee on wrap accounts and asset management totaled KRW 85.9 billion, up 31.4% over the previous year. The increase was bolstered by the strengthening of supply and sales of various domestic and overseas fixed income securities, the expanding investment products sales, including funds that charge upfront fees and high-yield trusts, and the launching of customized wrap products.

IB commissions rose 86.3% YoY to KRW 92.5 billion, thanks to a rise in gains on real estate and overseas alternative investments, and the IB synergy effects generated with KEB Hana Bank. HFI created incomes by successfully closing a string of high-return deals, including general industrial park and urban housing development projects, Mezzanine deal on building an MGT biomass power plant in the UK, and a gas-fired combined cycle power plant in North America. Also, through execution of the One IB strategy and collaboration with the IB division of KEB Hana Bank, HFI produced such tangible results as the arranging of new stock issuances of large companies, initial public offerings (IPOs) and big deals.

**Table 4. General and Administrative Expenses (Separated)**

(Unit: KRW billion)

	2017	2016	YoY	%
<b>General &amp; Administrative Expenses</b>	<b>335.5</b>	304.3	31.2	10.3%
Salaries and Employee Benefits	<b>195.0</b>	179.0	16.0	8.9%
Severance and Retirement Benefits	<b>12.0</b>	9.5	2.5	26.7%
Administrative Expenses	<b>93.1</b>	92.7	0.4	0.5%
Depreciation and Amortization	<b>24.3</b>	12.8	11.4	89.4%
Taxes and Dues	<b>11.1</b>	10.3	0.8	7.8%
<b>Cost to Income Ratio</b>	<b>68.47%</b>	76.52%	-8.05%p	-

In 2017, general and administrative expenses went up KRW 31.2 billion YoY to KRW 335.5 billion. Salaries and employee benefits increased due to the rise in profits led by the growth of general operating income, and depreciation expenses also went up owing to the introduction of the next-generation IT system. However, on the back of the maximization of incomes and efficient allocation of expenses realized through cost reduction, cost to income (C/I) ratio fell 8.05%p over the previous year.

To review general and administrative expenses items in detail, salaries and employee benefits went up KRW 16.0 billion to KRW 195.0 billion due mostly to the increase in performance-linked bonus payments. Reserves for severance and retirement benefits grew by a one-off rise in lump sum severance pays as a result of the adoption of the wage peak system.

Administrative expenses totaled KRW 93.1 billion, up KRW 0.4 billion as a result of the relocation to the Hana Financial Group Data Center, despite continued branch integrations (9 branches) and cost reductions. Depreciation and amortization expenses amounted to KRW 24.3 billion, an increase of KRW 11.4 billion from the previous year, which can be attributable to the establishment of a next-generation IT system opened in November 2016, and the construction of Hana Financial Group Data Center. Taxes and dues went up KRW 800 million to KRW 11.1 billion on a rise in education tax resulting from performance improvements.

### III. KEY FIGURES

**Table 5. Asset Under Management (AUM) Breakdown**

(Unit: KRW billion)

	2017	2016	YoY	%
<b>Customer Assets of HFI (AUM)</b>	<b>78,024.2</b>	68,382.1	9,642	14.1%
Beneficiary Certificates	<b>18,753.9</b>	16,388.5	2,365	14.4%
Equity (Hybrid) Type	<b>3,488.3</b>	3,570.3	-82	-2.3%
Fixed Income (Hybrid) Type	<b>4,015.0</b>	3,409.7	605	17.8%
Money Market Fund	<b>3,711.5</b>	3,855.6	-144	-3.7%
Others	<b>7,539.2</b>	5,552.9	1,986	35.8%
Financial Products	<b>30,365.2</b>	31,370.6	-1,005	-3.2%
Trust	<b>12,837.9</b>	13,050.9	-213	-1.6%
Repurchase Agreement (RP)	<b>2,854.4</b>	3,260.4	-406	-12.5%
Fixed Income/Certificate of Deposit/Commercial Paper	<b>12,106.9</b>	11,963.1	144	1.2%
Others	<b>2,566.0</b>	3,096.2	-530	-17.1%
Entrusted Assets	<b>28,905.1</b>	20,623.0	8,282	40.2%
<b>Market</b>	<b>497,191.4</b>	469,311.7	27,880	5.9%
Market Share	<b>3.77%</b>	3.49%	+0.28%p	-

The domestic stock market saw an increasing flow of funds into equity-type and depositary assets as investors' interest in investment assets grew in response to favorable global economic conditions and the protraction of the low interest rate environment. Against this backdrop, HFI strengthened marketing activities focusing on increasing assets growth, and assets under management grew by KRW 9.6 trillion to KRW 78.0 trillion.

Beneficiary certificates rose KRW 2.4 trillion to KRW 18.8 trillion. KOSPI reached record highs on rising large-cap IT share prices and foreign investors' strong appetite, fueling the rapid flow of funds into equity-type and alternative investment products. Financial products fell KRW 1.0 trillion YoY to KRW 30.4 trillion, reflecting the shift of repurchase agreement (RP) & money market wrap (MMW) and other standby funds toward depositary assets for securities as well as large corporations' year-end withdrawal of funds for liquidity.



Entrusted assets rose KRW 8.3 trillion to KRW 28.9 trillion due to several factors: KOSPI reaching record highs on a global economic recovery; increasing semiconductor demand and prices as well as the resultant price rise of relevant stocks, including those of Samsung Electronics and SK Hynix; a sharp rise in key indices owing to growing expectations for a KOSDAQ-friendly government policy in the second half of the year; and bio shares flying high on thriving expectations for success in clinical trials and subsequent licensing-out of new drugs.

HFI will focus all its resources and energy on rebalancing customer asset portfolios and realizing a stable return on investment through steady supply of diverse investment products and diversification of investment vehicles.

Table 6. Acquisition and Issuance

	2017	2016	YoY	%
Initial Public Offering & Capital Increase (Lead-managed)	77.5	171.2	-93.7	-54.7%
Debenture Issued	1,387.0	1,375.0	12.0	0.9%
Equity-Linked Securities/Derivatives-Linked Securities Issued (Equity-Linked Bonds/ Derivatives-Linked Bonds Include)	9,642.9	6,824.2	2,818.7	41.3%

HFI successfully underwrote 9 equity capital market (ECM) deals, thus improving on its track record. HFI expanded its ECM business, which had been focusing primarily on IPOs up to 2016, to arrange the paid-in capital increases of Dae Chang Steel, Hyundai Construction Equipment and Harim. The company underwrote KRW 1.4 trillion worth of corporate bond issued in 2017, 12% more than 2016, and thus secured its position as one of the top 10 in the league table.

Also issued last year were over the counter (OTC) products worth a total of KRW 9.6 trillion, including KRW 5.9 trillion and KRW 3.8 trillion worth of ELS and derivatives-linked securities (DLS), respectively, and the volume of issuance has put the company in the 7th place in the market. In the sales and trading area, HFI secured from the Korea Financial Investment Association a 3-month exclusive right to its Callable Lizard ELS in the first half of 2017, which boasted the stability of its structure to sustain early redemptions. In the second half of the year, the company focused on launching such distinctive new products as the industry's first British Pound/interest rate swap DLS using constant maturity swap (CMS) interest rates.

Going beyond relying on one hit product, HFI will seize upon various opportunities the market offers and continually expand its pool of OTC products from which high-net-worth individuals can choose.

Table 7. Brokerage Contracts

	2017	2016	YoY	%
Brokerage Contracts	148,507.5	134,136.3	14,371	10.7%
Off	48,266.7	33,414.3	14,852	44.4%
On	100,240.8	100,722.1	-481	-0.5%
Market	4,905,158.3	4,323,043.1	582,115	11.9%
Market Share	3.03%	3.10%	-0.07%	

The stock market grew substantially in 2017, to KRW 10.1 trillion, with average daily trading transactions exceeding those of 2016 by 14.9%, and thus a positive market environment was established.

Likewise, the brokerage contracts grew to KRW 148.5 trillion, a YoY increase of 10.7%, and improved its market share to 3.03%. Going forward, HFI will continue to make utmost efforts to enhance its market share by providing specialized services, and improve rates of return through customer portfolio rebalancing.

IV. ASSET QUALITY

Table 8. Asset Quality and Loan Loss Provision

	2017	2016	YoY	%
Total Credit	2,841.0	2,039.4	801.6	39.3%
Normal	2,808.3	2,000.4	807.9	40.4%
Precautionary	0.5	0.5	0.0	0.0%
Substandard	3.2	3.5	-0.3	-7.5%
Doubtful	3.7	9.1	-5.4	-59.9%
Estimated Loss	25.3	25.9	-0.6	-2.3%
Precautionary & Below				
Amount	32.7	39.0	-6.3	-16.2%
Ratio	1.15%	1.91%	-0.76%p	-
Substandard & Below (NPL)				
Amount	32.2	38.5	-6.3	-16.4%
Ratio	1.13%	1.89%	-0.75%p	-
Loan Loss Reserve	29.0	35.0	-6.0	-17.2%
Normal	-	-	-	-
Precautionary	-	-	-	-
Substandard	-	-	-	-
Doubtful	3.6	9.1	-5.4	-60.1%
Estimated Loss	25.3	25.9	-0.6	-2.3%
Precautionary & Below				
Loan Loss Reserve	29.0	35.0	-6.0	-17.2%
Coverage Ratio	88.59%	89.73%	-1.15%p	-
Substandard & Below (NPL)				
Loan Loss Reserve	29.0	35.0	-6.0	-17.2%
Coverage Ratio	89.95%	90.89%	-0.94%p	-

NPL Ratio  
(Unit: %)



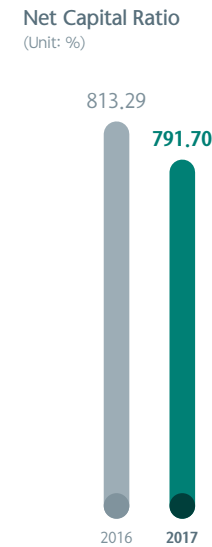
NPL Coverage Ratio  
(Unit: %)



Total credit went up KRW 801.6 billion from KRW 2,039.4 billion in 2016 to KRW 2,841.0 billion in 2017. The increase can be attributed to a rise in debt guarantee (around KRW 287.6 billion), in accounts receivables related to stock trading and other receivables (around KRW 161.4 billion), and in credit granting (around KRW 471.4 billion), as well as to a decrease in corporate loans (around KRW 117.6 billion) and advances (around KRW 1.2 billion).

NPL ratio improved 0.75%p over the previous year, while loan loss reserve decreased KRW 6.0 billion, due to the write-off of approximately KRW 5.0 billion of TNPI-related receivables.

NPL coverage ratio went down 0.94%p YoY to 89.95%. At the end of 2017, loan loss reserves were set at a level deemed appropriate enough to recover individual assets without undue losses.



V. CAPITAL ADEQUACY

Table 9. Net Capital Ratio

(Unit: KRW billion)				
	2017	2016	YoY	%
Net Capital	1,635.2	1,612.4	22.8	1.4%
(+) Shareholders' Equity on Balance Sheet	1,996.7	1,928.7	68.0	3.5%
(+) Allowances for Currency Assets	11.2	3.9	7.3	188.2%
(+) Subordinated Debentures	0.0	20.0	-20.0	-100.0%
(-) Fixed Assets	60.8	58.4	2.4	4.1%
(-) Prepaid Expenses	3.4	3.7	-0.3	-7.8%
(-) Unsecured Loans (over 3 Months)	136.0	99.4	36.6	36.8%
(-) Others	172.5	178.6	-6.1	-3.4%
Gross Risk Amount	571.2	519.4	51.8	10.0%
Market Risk	346.8	338.5	8.3	2.4%
Counter Party Risk	148.0	113.8	34.2	30.1%
Credit Concentration Risk	15.7	8.4	7.3	87.1%
Operational Risk	60.7	58.7	2.0	3.4%
Indirect Investment Risk	0.0	0.0	0.0	-
Net Capital Ratio	791.70%	813.29%	-21.59%p	-

Net capital ratio in 2017 declined 21.59%p, ending the year at 791.7%. The ratio satisfies the regulatory guideline (100%) of the Financial Supervisory Service, in addition to the level set by the company's Risk Management Committee (200%).

Shareholders' equity on the balance sheet rose KRW 68.0 billion YoY to KRW 1,996.7 billion, while net capital went up KRW 22.8 billion to KRW 1,635.2 billion. The rise in net capital is owing to the increase in shareholders' equity as well as an increase in unsecured loans with a term-to-maturity of 3 months or more.

Gross risk amount grew KRW 51.8 billion in 2017, which is attributable to an increase in assets as well as in market risk following the adoption of accounting standards for consolidated financial statements, and in credit exposure following the increase of debt guarantee.

KEB Hana Card

I. OVERVIEW

Table 1. Summarized Financial Information (Consolidated)

(Unit: KRW billion, thousands)				
	2017	2016	YoY	%
Profitability				
General Operating Income	645.6	551.7	93.9	17.0%
Operating Income	137.2	94.4	42.8	45.3%
Net Income	106.4	75.6	30.8	40.7%
Return on Assets (ROA)	1.46%	1.11%	0.35%p	-
Return on Equity (ROE)	7.20%	5.51%	1.69%p	-
Cost to Income Ratio	50.23%	55.18%	-4.95%p	-
Business Volume <sup>1)</sup>	62,484.7	59,942.8	2,541.9	4.2%
Lump-sum	48,928.4	47,449.5	1,478.9	3.1%
Installment	5,995.9	5,266.9	729.1	13.8%
Cash Advance	4,396.2	4,235.9	160.3	3.8%
Card Loans	3,164.1	2,990.5	173.7	5.8%

Note 1) Other credit card assets and installments are included in credit sales.

In 2017, KEB Hana Card grew in both business volume and income, and thus set a string of new records - 1.34 million new cardholders, 4 million active users, and KRW 62.0 trillion total transaction volume, in the face of an increasingly stringent regulatory environment.

The company substantially reduced the cost of signing up new customers by avoiding competition in the low-yield & reverse margin market and abolishing the Credit Planner (CP) channel. In addition, the competitiveness of customer service was improved to the enhancement of income quality. By establishing a virtuous circle of more new cardholders leading to more active users, which in turn translate into higher transaction volume resulting in bigger income, KEB Hana Card achieved a record net income of KRW 106.4 billion.

In 2018, profitability will likely continue to deteriorate in the card industry as such new regulations are to be enforced as additional reduction of merchant fees, adoption of an interest rate ceiling system, and reduction of overdue fee rates. To overcome these regulatory challenges, KEB Hana Card will continue to expand its overseas operations and subsidiary business income, improve income by strengthening personalized marketing and curtailing service costs through rationalizing of the product lineup, and engage in activities that enhance cost efficiencies. It also plans to substantially improve the market competitiveness of its debit card and corporate card sectors.



Net Income  
(Unit: KRW billion)



## II. SUMMARY OF BUSINESS PERFORMANCE

Table 2. Comprehensive Income Statement (Consolidated)

	2017	2016	YoY	%
<b>General Operating Income</b>	<b>645.6</b>	551.7	93.9	17.0%
Net Interest Income	-107.1	-112.5	5.4	-
Net Fee & Commission Income	706.0	642.7	63.3	9.8%
Gains on Disposition & Valuation	34.2	32.0	2.2	6.9%
Other Operating Income <sup>1)</sup>	12.5	-10.5	23.0	-
<b>General &amp; Administrative Expense</b>	<b>324.3</b>	304.5	19.8	6.5%
<b>Pre-Provisioning Operating Profit (PPOP)</b>	<b>321.3</b>	247.3	74.0	29.9%
<b>Credit Loss Provision</b>	<b>184.1</b>	152.8	31.3	20.5%
<b>Operating Income</b>	<b>137.2</b>	94.4	42.8	45.3%
<b>Non-Operating Income</b>	<b>3.7</b>	5.8	-2.0	-35.0%
<b>Net Income before Income Tax</b>	<b>140.9</b>	100.2	40.7	40.6%
<b>Income Tax Expense</b>	<b>34.6</b>	24.6	10.0	40.6%
<b>Net Income</b>	<b>106.4</b>	75.6	30.8	40.7%

Note 1) Other operating income includes transfer to reserve for unused credit loss provision and provisions for other allowances.

General operating income grew KRW 93.9 billion or 17.0% over the previous year, which is mainly attributable to an increase in card transactions and loan assets that led to higher fee incomes. General and administrative expenses were KRW 324.3 billion, a slight increase compared with the prior-year figure. Credit loss provision rose KRW 31.3 billion as a result of a KRW 795.7 billion increase in card assets. Net income reached a record high of KRW 106.4 billion.

Net interest income grew KRW 5.4 billion YoY, an outcome of reduced funding costs and an efficient management of idle funds. Net Fee and commission income went up KRW 63.3 billion as a result of business expansions in scale, including a rise in car transactions and loan assets. Gains on disposition and valuation grew KRW 2.2 billion YoY, as an increasing number of card users traveling overseas contributed to higher foreign-exchange profits. Other operating income went up KRW 23.0 billion owing to a KRW 10.5 billion increase in gains from the sale of NPLs, and a KRW 12.5 billion decrease in transfer to reserve for unused credit loss provisions. Credit loss provision grew KRW 31.3 billion, mainly attributable to a KRW 795.7 billion increase in earning assets. Net income totaled KRW 106.4 billion, a 40.7% increase from the KRW 75.6 billion recorded in the previous year.

Table 3. Fee Structure (Consolidated)

	2017	2016	YoY	%
<b>Fee Revenue</b>	<b>1,609.4</b>	1,492.4	116.9	7.8%
Credit Card Receivables in Won	819.6	739.7	79.9	10.8%
Cash Advance	107.2	101.5	5.8	5.7%
Card Loan	259.6	227.4	32.2	14.2%
Others	423.0	423.9	-1.0	-0.2%
<b>Fee Expenses</b>	<b>903.4</b>	849.7	53.7	6.3%
<b>Fee Income</b>	<b>706.0</b>	642.7	63.3	9.8%

Fee revenue went up a total of KRW 116.9 billion, comprising KRW 79.9 billion in credit card receivables, KRW 5.8 billion in cash advance interest, and KRW 32.2 billion in interest income from card loans. Fee expenses rose KRW 53.7 billion due to the rise in transaction handling cost (processing and service) resulted largely from an increase in card transaction volume.

Table 4. General and Administrative Expenses (Consolidated)

	2017	2016	YoY	%
<b>General &amp; Administrative Expenses</b>	<b>324.3</b>	304.5	19.8	6.5%
Salaries and Employee Benefits	76.0	71.3	4.7	6.7%
Severance and Retirement Benefits	8.0	5.5	2.5	45.1%
Administrative Expenses	195.8	180.1	15.7	8.7%
Depreciation and Amortization	32.0	35.3	-3.2	-9.2%
Taxes and Dues	12.4	12.2	0.2	1.5%
<b>Cost to Income Ratio</b>	<b>50.23%</b>	55.18%	-4.95%p	-

General and administrative expenses grew KRW 19.8 billion, reflecting higher marketing and IT center relocation expenses. However, C/I ratio declined 4.95%p YoY to 50.23%.

Cost to Income Ratio  
(Unit: %)



## III. KEY FIGURES

Table 5. Earning Asset Portfolio

	2017	2016	YoY	%
<b>Earning Assets (Managed) <sup>1)</sup></b>	<b>7,057.1</b>	6,263.4	793.7	12.7%
Credit Purchase	3,452.5	2,867.5	585.0	20.4%
Cash Advances	571.7	541.7	30.0	5.5%
Card Loan	2,013.2	1,880.9	132.3	7.0%
Re-aged Loan	73.6	67.5	6.1	9.0%
Installment Finance	-	-	-	-
Lease	-	-	-	-
Others	1,019.8	973.3	46.4	4.8%

Note 1) Earning assets before deducting credit loss provisions and present value discounts

Earning assets grew in all segments, including KRW 585.0 billion in credit purchase, KRW 30.0 billion in cash advances, and KRW 132.3 billion in card loans. In 2018, KEB Hana Card will continue to increase high-yield assets by strengthening risk management and improving convenience of services for customers.

Substandard & Below  
(NPL) Coverage  
(Unit: %)



## IV. ASSET QUALITY

Table 6. Asset Quality and Loan Loss Provision

(Unit: KRW billion)

	2017	2016	YoY	%
<b>Total Credit</b>	<b>7,209.9</b>	6,425.2	784.7	12.2%
Normal	<b>6,865.2</b>	6,134.3	730.9	11.9%
Precautionary	<b>243.6</b>	195.4	48.2	24.7%
Substandard	<b>0.0</b>	0.0	0.0	0.0%
Doubtful	<b>57.3</b>	50.9	6.5	12.7%
Estimated Loss	<b>43.8</b>	44.6	-0.9	-1.9%
Substandard & Below (NPL)	<b>101.1</b>	95.5	5.6	5.9%
Substandard & Below (NPL) Ratio <sup>1)</sup>	<b>1.40%</b>	1.49%	-0.08%p	-5.6%
Precautionary & Below <sup>2)</sup>	<b>344.8</b>	290.9	53.8	18.5%
Precautionary & Below ratio	<b>4.78%</b>	4.53%	0.25%p	5.6%
<b>Loan Loss Reserves</b>	<b>209.2</b>	193.4	15.8	8.2%
Normal	<b>78.9</b>	75.6	3.3	4.4%
Precautionary	<b>53.4</b>	47.0	6.3	13.5%
Substandard	<b>0.0</b>	0.0	0.0	0.0%
Doubtful	<b>42.0</b>	34.8	7.1	20.4%
Estimated Loss	<b>35.0</b>	36.0	-1.0	-2.6%
Coverage Ratio				
Substandard & Below (NPL) Coverage	<b>206.93%</b>	202.52%	4.41%p	-
Precautionary & Below <sup>2)</sup>	<b>60.69%</b>	66.48%	-5.79%p	-

Note 1) NPL Ratio inclusive of factoring

Note 2) The KRW 53.8 billion increase in precautionary loan is due largely to the conservative reclassification of assets as demanded by the Financial Supervisory Service. Of loans previously classified as 'normal', KRW 25.0 billion worth of loans were re-categorized\* as precautionary

\* Type of re-categorized loans: Non-overdue loans to individual with a low credit rating, and temporary, ultra-short overdue loans to corporate, with a high credit rating, etc.

At the end of 2017, total credit amounted to KRW 7,209.9 billion, a YoY increase of KRW 784.7 billion. The NPL ratio improved 8bp from the previous year's 1.49% to 1.40%, maintaining the industry's lowest level.

## V. CAPITAL ADEQUACY

Table 7. Adjusted Equity Capital Ratio and Leverage Ratio

(Unit: KRW billion)

	2017	2016	YoY	%
Adjusted Equity Capital	<b>1,393.0</b>	1,338.0	54.9	4.1%
Adjusted Total Asset	<b>6,764.4</b>	6,055.2	709.2	11.7%
Adjusted Equity Capital Ratio (%)	<b>20.6%</b>	22.1%	-1.5%p	-
Total Equity Capital	<b>1,516.5</b>	1,411.8	104.7	7.4%
Total Assets	<b>7,565.1</b>	7,108.1	456.9	6.4%
Leverage Ratio (Multiples)	<b>4.99</b>	5.03	-0.05	-0.9%

The adjusted equity capital ratio declined 1.5%p from the previous year's 22.1% to 20.6% which is still considered stable. The leverage ratio improved from 5.03 at the end of 2016 to 4.99 at the end of 2017, maintaining a level comfortably below the regulatory guideline of 6.0.

## Hana Capital

### I. OVERVIEW

In 2017, the capital sector continued to grow but at a slowing pace as new players from different industries entered the new car loan financing market, while regulation stiffened, including household loan regulations. Interest margins steadily decreased as market interest rate hikes also raised funding interest rates. Amid these circumstances, Hana Capital enhanced rates of return and customer convenience by strengthening high-yield operations, such as used car finance and consumer credit loan. In addition to diversifying revenue through promotion of rental car uses, the company set up a non-face-to-face channel by upgrading the smart channel. As a result, stable growth was achieved despite the unfavorable environment. In 2018, the company will enhance profitability in the auto finance sector by focusing on rental and used car finance, expanding its non-auto finance operations by making inroads into new markets, and further strengthening its sales capabilities through active process improvement.

Table 1. Summarized Financial Information (Consolidated)

(Unit: KRW billion)

	2017	2016	YoY	%
<b>Profitability</b>				
General Operating Income	<b>242.2</b>	212.9	29.3	13.7%
Operating Income	<b>106.3</b>	104.3	2.0	1.9%
Net Income	<b>90.4</b>	80.6	9.8	12.2%
Return on Assets (ROA)	<b>1.60%</b>	1.66%	-0.06%p	-
Return on Equity (ROE)	<b>13.35%</b>	13.39%	-0.04%p	-
Cost to Income Ratio	<b>24.71%</b>	27.45%	-2.74%p	-
<b>Financial Assets</b>				
Lease	<b>1,945.9</b>	1,661.3	284.6	17.1%
Installment	<b>459.1</b>	227.9	231.2	101.5%



Net Income  
(Unit: KRW billion)



## II. SUMMARY OF BUSINESS PERFORMANCE

Table 2. Comprehensive Income Statement (Separated)

	2017	2016	YoY	%
<b>General Operating Income</b>	<b>242.2</b>	212.9	29.3	13.7%
Net Interest Income	219.7	202.8	16.9	8.3%
Net Fee and Commission Income	34.5	21.6	13.0	60.1%
Gains on Disposition & Valuation	-	-	-	-
Other Operating Income	-12.1	-11.4	-0.6	-
<b>General &amp; Administrative Expenses</b>	<b>59.8</b>	58.4	1.4	2.4%
<b>Pre-Provisioning Operating Profit (PPOP)</b>	<b>182.3</b>	154.5	27.8	18.0%
<b>Credit Loss Provision</b>	<b>76.1</b>	50.2	25.9	51.6%
<b>Operating Income</b>	<b>106.3</b>	104.3	2.0	1.9%
<b>Non-Operating Income</b>	<b>7.1</b>	-0.5	7.6	-
<b>Net Income before Income Tax</b>	<b>113.4</b>	103.8	9.5	9.2%
<b>Income Tax Expense</b>	<b>23.0</b>	23.2	-0.3	-1.1%
<b>Net Income</b>	<b>90.4</b>	80.6	9.8	12.2%

Hana Capital generated net income of KRW 90.4 billion in 2017, the highest since its foundation. General operating income grew KRW 29.3 billion or 13.7% YoY as growing financial assets contributed to increase in interest and fee incomes. General and administrative expenses totaled KRW 59.8 billion, up KRW 1.4 billion or 2.4% over the previous year. Credit loss provision rose KRW 25.9 billion largely due to a special depreciation. Non-operating income increased KRW 7.6 billion reflecting a corporate tax return.

Table 3. General and Administrative Expenses (Separated)

	2017	2016	YoY	%
<b>General &amp; Administrative Expenses</b>	<b>59.8</b>	58.4	1.4	2.4%
Salaries and Employee Benefits	26.3	24.9	1.4	5.6%
Severance and Retirement Benefits	1.8	1.7	0.1	4.5%
Administrative Expenses	26.4	25.4	1.0	3.9%
Depreciation and Amortization	3.6	4.2	-0.7	-15.4%
Taxes and Dues	1.8	2.2	-0.4	-18.1%
<b>Cost to Income Ratio</b>	<b>24.71%</b>	27.45%	-2.74%p	-

General and administrative expenses went up KRW 1.4 billion YoY to KRW 59.8 billion. Salaries and employee benefits rose KRW 1.4 billion on an addition of talents to the workforce. Administrative expenses increased KRW 1.0 billion reflecting the advertising and sales promotion activities conducted for business expansion purposes. The C/I ratio, however, dropped 2.74%p to 24.71% as a result of the continued implementation of cost cutting measures.

## III. FINANCIAL ASSETS

Table 4. Lease/Installment

	2017	2016	YoY	%
<b>Lease</b>	<b>1,945.9</b>	1,661.3	284.6	17.1%
Auto	1,776.9	1,459.7	317.2	21.7%
General	169.0	201.6	-32.6	-16.2%
<b>Installment</b>	<b>459.1</b>	227.9	231.2	101.5%
Durable Goods	98.7	103.6	-4.8	-4.6%
Auto	341.8	110.0	231.8	210.7%
General	18.5	14.3	4.2	29.5%
<b>Total</b>	<b>2,405.0</b>	1,889.2	515.8	27.3%

Lease and installment finance assets grew KRW 515.8 billion over the previous year to KRW 2,405.0 billion. Auto lease assets grew KRW 317.2 billion YoY as the imported car finance business improved and rental car sales strengthened. Auto installment assets went up KRW 231.8 billion over the previous year, attributable to the expansion of domestic car finance. Lease and installment finance assets accounted for 88.1% of auto-related assets, a YoY rise of 5.0%p.

Substandard & Below  
(NPL) Coverage Ratio  
(Unit: %)



## IV. ASSET QUALITY

Table 5. Asset Quality and Loan Loss Provision

(Unit: KRW billion)

	2017	2016	YoY	%
<b>Total Credit</b>	<b>5,931.3</b>	5,176.1	755.2	14.6%
Normal	<b>5,779.1</b>	5,020.1	759.0	15.1%
Precautionary	<b>92.1</b>	78.5	13.6	17.4%
Substandard	<b>29.9</b>	33.3	-3.4	-10.1%
Doubtful	<b>29.9</b>	42.0	-12.1	-28.7%
Estimated Loss	<b>0.3</b>	2.3	-2.0	-88.3%
<b>Precautionary &amp; Below</b>				
Amount	<b>152.2</b>	156.0	-3.8	-2.4%
Ratio	<b>2.57%</b>	3.01%	-0.45%p	-
<b>Substandard &amp; Below (NPL)</b>				
Amount	<b>60.1</b>	77.5	-17.4	-22.5%
Ratio	<b>1.01%</b>	1.50%	-0.48%p	-
<b>Loan Loss Reserve</b>	<b>76.9</b>	85.9	-0.9	-10.5%
Normal	<b>33.7</b>	33.7	0.0	0.0%
Precautionary	<b>14.9</b>	12.6	2.3	18.6%
Substandard	<b>6.7</b>	7.7	-1.0	-12.4%
Doubtful	<b>21.4</b>	30.3	-8.9	-29.5%
Estimated Loss	<b>0.2</b>	1.6	-1.5	-90.7%
<b>Precautionary &amp; Below</b>				
Loan Loss Reserve	<b>43.2</b>	52.3	-9.0	-17.3%
Coverage Ratio	<b>50.53%</b>	55.10%	-4.57%p	-
<b>Substandard &amp; Below (NPL)</b>				
Loan Loss Reserve	<b>28.3</b>	39.7	-11.4	-28.7%
Coverage Ratio	<b>128.01%</b>	110.90%	17.11%p	-

Thanks to active asset quality improvements and risk management practices, NPLs declined KRW 17.4 billion, lowering NPL ratio to 1.01%, a substantial YoY decline of 0.48%p. Loan loss reserve also decreased by KRW 9.0 billion, while NPL coverage ratio improved to 128.01%, a 17.11%p increase from the previous year.

## V. CAPITAL ADEQUACY

Table 6. Adjusted Equity Capital Ratio

(Unit: KRW billion)

	2017	2016	YoY	%
<b>Adjusted Equity Capital</b>	<b>760.0</b>	680.3	79.7	11.7%
Tier 1 Capital	<b>566.3</b>	488.7	77.6	15.9%
Shareholders' Equity	<b>566.3</b>	488.7	77.6	15.9%
Tier 2 Capital	<b>193.7</b>	191.6	2.1	1.1%
Subordinate Debt	<b>149.6</b>	149.6	0.0	0.0%
Loan Loss Reserve	<b>48.5</b>	46.3	2.2	4.7%
(-) Deduction	<b>4.4</b>	4.3	0.1	2.3%
<b>Adjusted Total Assets</b>	<b>6,005.0</b>	5,235.3	769.7	14.7%
Total Assets on Balance Sheet	<b>6,066.6</b>	5,257.4	809.2	15.4%
(-) Deduction	<b>61.6</b>	22.1	39.5	178.5%
<b>Adjusted Equity Capital Ratio</b>	<b>12.66%</b>	12.99%	-0.34%p	-

Adjusted equity capital ratio reached 12.66%, well above the 7% guideline set by supervision authorities.



I. OVERVIEW

The insurance industry is witnessing the slowing of savings-type insurance sales and stagnant growth of premium income, both triggered by the protraction of the low growth environment, the advent of an aging society, toughening financial regulations, and the adoption of IFRS 17. Also soon to be emerged are liberalization of insurance prices, convergence among industries and other changes that will have a lasting effect on the life insurance industry. Against this backdrop, life insurance companies are striving to strengthen their competitive advantages.

In respond to these challenges, Hana Life is striving to increase sales of protection-type insurance products, which are higher in profitability, and to expand variable insurance products with small capital burden. The company is diversifying its investment portfolio, including expansion of loans and alternative investments, and pursuing profitability-centered value management by reducing costs and strengthening risk management. Hana Life increased protection-type insurance sales mainly through its bancassurance sales channel, using a business platform linking the synergies of Hana Financial Group, which is considered the greatest strength of the company. By breaking away from the previous safe assets-centered asset management and instead expanding the proportion of loans and alternative investments through leveraging of synergies with its affiliates, Hana Life achieved an outstanding financial performance despite the challenging environment.

Hana Life is focused on strengthening its constitution as a way to cope with changes confronting the life insurance industry. Difficulties are forecast to increase in the insurance and investment sectors owing to sluggish domestic business conditions and the protraction of the low-growth trend. Against this backdrop, the company is striving to improve its profit structure by increasing protection-type insurance sales, and strengthening asset management and enhance rates of return on its investments by expanding loans and alternative investments.

In response to changes in the business environment, Hana Life will continue its profitability-centered value management practices and efforts aimed at improving its business constitution. As a life-long partner to customers, Hana Life Insurance will fulfill its obligations as a company that places the highest priority on customers' dreams, hopes and future value.

II. SUMMARY OF BUSINESS PERFORMANCE

Table 1. Main Performance Indicators (Separated)

(Unit: KRW billion)				
	2017	2016	YoY	%
Monthly Converged Premiums (MCP)	5.4	10.0	-4.7	-46.5%
Annuity	2.2	2.1	0.1	5.0%
Saving	0.3	5.3	-5.0	-94.8%
Protection	2.8	2.6	0.2	7.7%
Variable	0.1	0.0	0.1	-
Premium Income	485.7	585.5	-99.9	-17.1%
Investment Income	130.0	126.0	4.0	3.2%
Investment Income Ratio	2.89%	3.12%	-0.24%p	-
Net Income	14.4	17.1	-2.7	-15.5%
Return on Assets (ROA)	0.34%	0.43%	-0.09%p	-
Return on Equity (ROE)	6.18%	6.76%	-0.58%p	-
Cost to Income Ratio	68.55%	61.50%	7.06%p	-

Hana Life generated monthly converged premiums of KRW 5.4 billion in 2017, and recorded a net income of KRW 14.4 billion. The rebalancing of its product portfolio with protection-type insurance resulted in a YoY decrease of KRW 99.9 billion in premium income, whereas improvements in the asset portfolio, including the expansion of loans and alternative investments, led to a KRW 4.0 billion rise in investment income.

Table 2. Comprehensive Income Statement (Separated)

(Unit: KRW billion)				
	2017	2016	YoY	%
Net Insurance Business Income	177.9	326.9	-149.0	-45.6%
Insurance Income	494.3	593.5	-99.2	-16.7%
Premium Income	485.7	585.5	-99.9	-17.1%
Reinsurance Income	8.6	8.0	0.6	8.1%
Insurance Expense	316.4	266.6	49.8	18.7%
Benefit & Payments	252.8	202.4	50.4	24.9%
Reinsurance Expense	9.5	9.5	0.0	-0.3%
General & Administrative Expense	50.5	47.7	2.8	5.8%
Decrease (Increase) of Deferred Acquisition Cost	3.6	6.9	-3.3	-48.3%
Discount	0.0	0.0	-	-
Net Investment Business Income	93.8	90.6	3.2	3.5%
Investment Income	130.0	126.0	4.0	3.2%
Investment Expense	36.2	35.4	0.8	2.3%
Increase of Policy Reserve	339.6	448.7	-109.1	-24.3%
Operating Income	-67.9	-31.1	-36.8	-
Non-Operating Income	85.2	52.9	32.3	61.1%
Net Income before Income Tax	17.3	21.7	-4.5	-20.5%
Income Tax Expense	2.8	4.6	-1.8	-39.0%
Net Income	14.4	17.1	-2.7	-15.5%

The company’s net income declined KRW 2.7 billion to KRW 14.4 billion. Insurance business income stood at KRW 177.9 billion, down KRW 149.0 billion over the previous year. This is attributable to a switch to a portfolio that centers on protection-type insurance product portfolio in preparation for execution of the new accounting standard IFRS 17. Investment business income grew KRW 3.2 billion to KRW 93.8 billion, mainly attributable to a YoY rise of KRW 3.3 billion in dividend income. Policy reserve went down proportional to the reduction in premium income.

Table 3. General and Administrative Expenses (Separated)

(Unit: KRW billion)				
	2017	2016	YoY	%
General & Administrative Expenses	33.1	31.7	1.4	4.3%
Salaries and Employee Benefits	13.8	13.6	0.2	1.3%
Severance and Retirement Benefits	1.3	1.2	0.0	1.6%
Administrative Expenses	15.5	13.8	1.7	12.6%
Depreciation and Amortization	2.1	2.4	-0.3	-12.4%
Taxes and Dues	0.4	0.7	-0.3	-42.4%
Cost to Income Ratio	68.55%	61.50%	7.05%p	-

General and administrative expenses totaled KRW 33.1 billion, up KRW 1.4 billion over the previous year. Administrative expenses went up KRW 1.7 billion, reflecting the consulting fees paid in relation to the adoption of IFRS 9 and 17 as well as the relocation of the company’s headquarters and the opening of the Hana Financial Group Data Center.

III. CAPITAL ADEQUACY

Table 4. Solvency Margin Ratio

(Unit: KRW billion)				
	2017	2016	YoY	%
Solvency Margin	276.8	238.3	38.5	16.2%
Shareholders' Equity	228.9	237.6	-8.7	-3.6%
Loan Loss Reserve	1.0	1.1	-0.1	-8.8%
Subordinated Debts	50.0	0.0	50.0	-
Net Premium Reserve in Excess	33.7	37.1	-3.4	-9.3%
(-) Deduction	36.8	37.6	-0.7	-1.9%
Standard Amount of Solvency Margin	155.2	148.7	6.5	4.4%
Solvency Margin Ratio	178.3%	160.2%	18.12%p	-

At the end of 2017, the risk-based capital (RBC) ratio of Hana Life stood at 178.3%, exceeding the prior-year figure by 18.12%p. Solvency margin rose KRW 38.5 billion YoY to KRW 276.8 billion based on earned surplus increase as well as issuing of subordinated debts worth KRW 50.0 billion (Tier 2 capital), while receivables gains and losses on valuation deteriorated due to interest rate hikes Standard amount of solvency margin grew KRW 6.5 billion to KRW 155.2 billion as an investment portfolio diversification increased credit exposure, interest rate risk decreased following the interest rate hikes, and a regulation change reduced guarantee reserves in variable life insurance.

Hana Savings Bank

I. OVERVIEW

Savings banks are community financial institutions created in 1972 for the purpose of offering banking convenience to, and promoting savings among, small businesses and the general public with little or no collateral and low credit ratings. Hana Savings Bank seeks to improve profitability and asset quality by practicing relationship banking and implementing stable growth strategies as part of ‘One Company’ of Hana Financial Group. Based on its sufficient capital strength relative to other savings banks, Hana Savings Bank has earned a degree of trust that large financial institutions usually enjoy. It is enhancing profitability by engaging in loan operations linked with the business network of KEB Hana Bank, an affiliated company. It is also strengthening its sales capacity by generating synergies with the Group’s subsidiaries.

Hana Savings Bank was named ‘Outstanding Family-Friendly Company’ and received a commendation from the Minister of Gender Equality and Family in 2014. It also received the Grand Prize in the trusted management category at the ‘2014 Aju Business Daily Finance and Securities Awards’, and ‘Korea’s Best Banker Award of 2016’ from Maeil Business Newspaper. By being named ‘Outstanding Family-Friendly Company’ again in 2017, Hana Savings Bank made outstanding achievements in its external activities as well.

II. SUMMARY OF BUSINESS PERFORMANCE

Table 1. Comprehensive Income Statement (Separated)

(Unit: KRW billion)				
	2017	2016	YoY	%
General Operating Income	50.2	41.2	9.1	22.0%
Net Interest Income	39.5	39.1	0.4	1.0%
Net Fee and Commissions Income	2.2	0.5	1.8	366.6%
Gains on Disposition & Valuation	0.4	0.7	-0.3	-42.9%
Other Operating Income (Expenses)	8.0	0.8	7.2	900.0%
General & Administrative Expenses	25.8	27.1	-1.4	-5.1%
Pre-Provisioning Operating Income (PPOP)	24.5	14.0	10.4	74.5%
Credit Loss Provision	3.5	-3.4	6.9	-
Operating Income	21.0	17.4	3.6	20.5%
Non-Operating Income	0.4	1.1	-0.7	-62.8%
Net Income before Income Tax	21.4	18.5	2.9	15.4%
Income Tax Expense	3.8	3.1	0.7	22.6%
Net Income	17.6	15.4	2.2	14.0%

Hana Savings Bank was established in February 2012 through the acquisition of Jeil Savings Bank II and Ace Mutual Savings Bank, and acquired another savings bank – Korea Mutual Savings Bank – on September 5, 2012. It turned a profit of KRW 5.8 billion in 2013, only two years into operation. It recorded a net income of KRW 15.4 billion in 2016 and KRW 17.6 billion in 2017. Fee and commissions as well as interest incomes both grew in 2017, attributable to the restructuring of the loan portfolio conducted in the year, while the sale of non-performing loans(NPLs) led operating income to grow over 2016. Seven years into operation, the company has since 2013 operated above a break-even point, grown normal loans, built a stable income structure through qualitative growth and value management.



Cost to Income Ratio  
(Unit: %)



Table 2. General and Administrative Expenses

	2017	2016	YoY	%
<b>General &amp; Administrative Expenses</b>	<b>25.8</b>	27.1	-1.4	-5.1%
Salaries and Employee Benefits	10.6	10.7	-0.1	-0.5%
Severance and Retirement Benefits	0.7	0.8	-0.1	-15.9%
Administrative Expenses	8.2	7.8	0.4	5.5%
Depreciation and Amortization	4.2	6.9	-2.8	-40.0%
Taxes and Dues	2.1	1.0	1.1	116.2%
<b>Cost to Income Ratio</b>	<b>51.28%</b>	65.94%	-14.66%p	-

In 2017, taxes and dues went up KRW 1.1 billion owing to the contributions made to a newly-established Sunshine Loan program. However, depreciation and amortization expenses fell KRW 2.8 billion, largely attributable to the completion of write-off of core deposits among intangible assets. As a result, general and administrative expenses went down KRW 1.4 billion from the previous year.

C/I ratio declined 14.7%p as general operating income grew due to the sale of loans.

### III. SUMMARY OF FINANCIAL CONDITION

Table 3. Condensed Balance Sheets (Separated)

	2017	2016	YoY	%
<b>Interest Earning Assets</b>	<b>1,006.3</b>	1,072.5	-66.2	-6.2%
Due from Banks	107.6	214.1	-106.5	-49.7%
Fixed Income Securities	0.0	0.0	0.0	-
Loans	948.6	920.5	28.1	3.1%
Loan Loss Allowance	-50.0	-62.1	12.2	-
<b>Other Revenue Earning Assets</b>	<b>29.1</b>	24.8	4.3	17.5%
Stocks and Others	22.3	24.1	-1.8	-7.5%
Lease	0.0	0.0	0.0	-
Trust Account Assets	0.0	0.0	0.0	-
Domestic Exchange Settlement	6.9	0.7	6.1	843.3%
<b>Non-Revenue Earning Assets</b>	<b>79.4</b>	82.0	-2.6	-3.2%
<b>Total Assets</b>	<b>1,114.7</b>	1,179.2	-64.5	-5.5%
<b>Interest Bearing Liabilities</b>	<b>882.4</b>	958.9	-76.5	-8.0%
Deposits	882.3	952.7	-70.3	-7.4%
Borrowings	0.0	0.0	0.0	-
Debentures	0.0	0.0	0.0	-
Policy Reserve	0.0	0.0	0.0	-
Borrowings from Trust Accounts	0.0	0.0	0.0	-
Trust Account Liabilities	0.0	0.0	0.0	-
Domestic Exchange Settlement	0.0	6.2	-6.2	-99.9%
<b>Non-Interest Bearing Liabilities</b>	<b>26.0</b>	27.3	-1.4	-5.0%
<b>Total Liabilities</b>	<b>908.3</b>	986.2	-77.9	-7.9%
<b>Shareholders' Equity</b>	<b>206.4</b>	193.0	13.4	6.9%
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>1,114.7</b>	1,179.2	-64.5	-5.5%

In February 2012, Hana Savings Bank was launched with the KRW 184.3 billion in capital invested by Hana Financial Group, through the acquisition of Jeil Savings Bank II and Ace Mutual Savings Bank. It again acquired Korea Mutual Savings Bank through a purchase and assumption (P&A) method in September of the same year. At the end of 2017, it operates 5 branches, 3 sub-branches, and Strategic Sales Division at its headquarters. It has KRW 1,114.7 billion of assets, KRW 908.3 billion of liabilities, and KRW 206.4 billion in shareholders' equity.

In 2017, Hana Savings Bank recorded total assets of KRW 1,114.7 billion, KRW 64.5 billion less than 2016. This decline in total assets is attributable to reduction of deposits as a result of an efficient deposit management.

### IV. ASSET QUALITY

Table 4. Asset Quality and Loan Loss Provision

	2017	2016	YoY	%
<b>Total Credit</b>	<b>948.7</b>	920.6	28.1	3.1%
Normal	645.3	384.3	261.0	67.9%
Precautionary	247.0	460.8	-213.8	-46.4%
Substandard	13.9	32.7	-18.8	-57.4%
Doubtful	20.5	16.6	3.9	23.5%
Estimated Loss	22.0	26.2	-4.2	-16.0%
<b>Precautionary &amp; Below</b>				
Amount	303.5	536.3	-232.9	-43.4%
Ratio	31.99%	58.26%	-26.27%p	-45.1%
<b>Substandard &amp; Below (NPL)</b>				
Amount	56.5	75.5	-19.0	-25.2%
Ratio	5.95%	8.20%	-2.25%p	-
<b>Loan Loss Reserve</b>	<b>50.1</b>	62.2	-12.2	-19.6%
Normal	6.2	3.5	2.7	75.7%
Precautionary	7.4	9.9	-2.5	-25.0%
Substandard	5.9	14.9	-9.0	-60.2%
Doubtful	13.4	12.6	0.8	6.5%
Estimated Loss	17.1	21.3	-4.2	-19.7%
<b>Precautionary &amp; Below</b>				
Loan Loss Reserve	43.9	58.7	-14.8	-25.3%
Coverage Ratio	16.49%	11.60%	4.89%p	-
<b>Substandard &amp; Below (NPL)</b>				
Loan Loss Reserve	36.5	48.8	-12.4	-25.3%
Coverage Ratio	88.64%	82.39%	6.25%p	-

Total credit, including provisional payment of credit, went up KRW 28.1 billion over the previous year to KRW 948.7 billion. NPLs decreased KRW 19.0 billion to KRW 56.5 billion, the result of the efforts conducted throughout the year to reduce troubled assets. NPL ratio decreased by 2.25%p YoY to 5.95%, and further efforts are being made to increase loans based on the assets quality improvement.

Substandard & Below  
(NPL) Ratio  
(Unit: %)



V. CAPITAL ADEQUACY

Table 5. BIS Capital and Ratio

(Unit: KRW billion)				
	2017	2016	YoY	%
<b>Tier 1 Capital</b>	<b>144.0</b>	136.8	7.2	5.3%
Common Equity Capital	144.0	136.8	7.2	5.3%
Capital Stock	75.0	75.0	0.0	0.0%
Capital Surplus	108.3	108.3	0.0	0.0%
Retained Earnings	18.2	1.4	16.8	1,157.4%
Others	-57.6	-48.0	-9.5	-
Hybrid Bonds	0.0	0.0	0.0	0.0%
<b>Tier 2 Capital</b>	<b>11.8</b>	12.7	-0.9	-7.0%
Loan Loss Reserve	11.3	12.1	-0.8	-6.5%
Subordinated Bonds	0.0	0.0	0.0	0.0%
Others	0.4	0.5	-0.1	-18.5%
<b>Total BIS Capital</b>	<b>155.8</b>	149.4	6.3	4.2%
<b>Risk Weighted Assets</b>	<b>875.0</b>	924.6	-49.6	-5.4%
<b>BIS Capital Adequacy Ratio</b>	<b>17.80%</b>	16.16%	1.64%p	-
Tier 1 Ratio	16.46%	14.79%	1.66%p	-
Tier 2 Ratio	1.34%	1.37%	-0.02%p	-

At the end of 2017, the BIS capital adequacy ratio of Hana Savings Bank was 17.80%, well above the regulatory guideline of 8.00% as stipulated in the Savings Bank Act. This reflects that the Bank is maintaining a high level of capital adequacy. BIS capital adequacy ratio went up 1.64%p as RWAs decreased over the year.

Hana Savings Bank plans to maintain a stable capital structure by increasing Tier 1 capital through continued income structure improvement.

Independent Auditors’ Report



THE SHAREHOLDERS AND BOARD OF DIRECTORS  
HANA FINANCIAL GROUP INC. AND ITS SUBSIDIARIES

We have audited the accompanying consolidated financial statements of Hana Financial Group Inc. (“HFG”, the “Company” or the “Parent Company”) and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2017 and 2016, and its financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

March 6, 2018

This audit report is effective as at March 6, 2018, the independent auditors’ report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditors’ report to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.



# Consolidated Statements of Financial Position

As at December 31, 2017 and 2016

(Unit: Korean won in millions)

	Notes	December 31, 2017	December 31, 2016
<b>Assets</b>			
Cash and due from banks	5, 6, 7, 9, 11, 56	₩ 21,850,692	₩ 29,226,462
Financial assets held-for-trading	5, 6, 7, 8, 9, 12, 16, 18	22,704,104	21,777,566
Financial assets designated at fair value through profit and loss	5, 6, 7, 9, 13	1,292,758	1,837,924
Available-for-sale financial assets	5, 6, 7, 9, 14, 16	46,921,429	40,012,085
Held-to-maturity investments	5, 6, 7, 9, 15, 16	7,392,100	5,050,119
Loans receivable	5, 6, 7, 8, 9, 17, 22	238,943,185	228,607,008
Derivative assets used for hedging purposes	5, 6, 7, 8, 9, 18	23,724	25,825
Investments in associates and joint ventures	19	1,073,578	1,037,160
Property and equipment	20	2,651,551	3,003,152
Investment property	21	976,572	748,596
Intangible assets	23	823,856	1,006,836
Net defined benefit assets	31	44,545	-
Deferred income tax assets	52	150,533	153,239
Current tax assets		10,868	5,135
Non-current assets held for sale	24	439,324	21,326
Other assets	5, 6, 7, 8, 9, 25	14,790,530	15,665,058
<b>Total assets</b>		<b>360,089,349</b>	<b>348,177,491</b>
<b>Liabilities</b>			
Financial liabilities held-for-trading	5, 6, 7, 8, 9, 18, 26	7,834,600	7,073,272
Financial liabilities designated at fair value through profit and loss	5, 6, 7, 9, 27	8,819,336	9,706,839
Deposits	5, 6, 7, 9, 28	232,166,153	222,413,004
Borrowings	5, 6, 7, 8, 9, 29	18,791,895	20,031,622
Debentures	5, 6, 7, 9, 30	36,444,451	32,305,789
Derivative liabilities used for hedging purposes	5, 6, 7, 8, 9, 18	71,797	121,310
Net defined benefit liabilities	31	25,573	60,794
Provisions	32	384,102	408,666
Deferred income tax liabilities	52	144,676	454,068
Current tax liabilities		678,253	109,466
Other liabilities	5, 6, 7, 8, 9, 33	29,900,569	32,102,623
<b>Total liabilities</b>		<b>335,261,405</b>	<b>324,787,453</b>
<b>Equity</b>			
Issued capital	34	1,480,015	1,480,015
Hybrid equity securities	34	443,769	443,769
Capital surplus	34	10,463,033	10,463,067
Capital adjustments	35	(15,049)	(13,183)
Accumulated other comprehensive income	36	(765,642)	(461,369)
Retained earnings	37	12,267,565	10,575,395
<b>Equity attributable to equity holders of the parent</b>		<b>23,873,691</b>	<b>22,487,694</b>
<b>Non-controlling shareholders' equity</b>		<b>954,253</b>	<b>902,344</b>
<b>Total equity</b>		<b>24,827,944</b>	<b>23,390,038</b>
<b>Total liabilities and equity</b>		<b>₩ 360,089,349</b>	<b>₩ 348,177,491</b>

The accompanying notes are an integral part of the consolidated financial statements.

# Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(Unit: Korean won in millions, except per share amounts)

	Notes	2017	2016
<b>Net interest income:</b>	39, 40		
Interest income		₩ 8,932,396	₩ 8,381,809
Interest expense		(3,822,888)	(3,739,714)
		5,109,508	4,642,095
<b>Net fee and commission income:</b>	39, 41		
Fee and commission income		2,856,157	2,557,890
Fee and commission expense		(979,551)	(917,997)
		1,876,606	1,639,893
Net trading income	39, 42	411,539	687,847
Net gain (loss) on financial assets and liabilities designated at fair value through profit and loss	39, 43	(382,240)	(233,778)
Net loss on derivative financial instruments used for hedging purposes	39, 44	36,240	(36,792)
Net other income on financial instruments	39, 45	662,598	588,744
Gain on foreign currency translation and transactions	39	694,819	(41,588)
<b>Total operating income</b>		<b>8,409,070</b>	<b>7,246,421</b>
Impairment loss on financial assets	39, 46	(947,496)	(807,601)
<b>Net operating income</b>		<b>7,461,574</b>	<b>6,438,820</b>
General and administrative expenses	39, 47	(4,039,072)	(4,076,885)
Other operating income	39, 48	838,961	818,179
Other operating expenses	39, 49	(1,543,326)	(1,566,007)
<b>Operating income</b>		<b>2,718,137</b>	<b>1,614,107</b>
<b>Non-operating income:</b>			
Share of earnings from investments in associates and joint ventures	10, 19	99,892	52,305
Other non-operating income	50	126,727	283,995
Other non-operating expenses	51	(146,091)	(130,412)
		80,528	205,888
<b>Net income before income tax</b>		<b>2,798,665</b>	<b>1,819,995</b>
<b>Income tax expense</b>	52	<b>(682,043)</b>	<b>(420,251)</b>
<b>Net income</b>		<b>2,116,622</b>	<b>1,399,744</b>
Attributable to: Equity holders of the parent		2,036,839	1,330,477
Non-controlling interests		79,783	69,267
<b>Other comprehensive income:</b>			
Items that could be recycled to profit or loss at a future point in time:			
Gain on valuation of available-for-sale financial assets		(132,503)	(395,156)
Exchange differences on transaction of foreign operations		(203,042)	42,074
Changes in unrealized gain or loss on valuation of equity method investments		(50,648)	(38,207)
Gain on valuation of net investment hedges of foreign operations		42,427	(14,369)
Net income (loss) on cash flow hedges		1,314	960
Items that will never be recycled:			
Remeasurement of the net defined benefit liability		30,636	(47,491)
<b>Total comprehensive income</b>		<b>₩ 1,804,806</b>	<b>₩ 947,555</b>
Attributable to: Equity holders of the parent		1,732,566	875,490
Non-controlling interests		72,240	72,065
<b>Earnings per share</b>	54		
Basic earnings per share (Korean won)		₩ 6,817	₩ 4,421
Diluted earnings per share (Korean won)		₩ 6,774	₩ 4,395

The accompanying notes are an integral part of the interim consolidated financial statements.

# Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(Unit: Korean won in millions)

	Notes	Issued capital	Hybrid equity securities	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Equity attributable to equity holders of the parent	Non-controlling shareholders' equity	Total
As at January 1, 2016		₩ 1,480,015	₩ 742,890	₩ 10,464,530	₩ (13,232)	₩ (6,382)	₩ 9,481,847	₩ 22,149,668	₩ 822,076	₩ 22,971,744
Dividends	53	-	-	-	-	-	(148,002)	(148,002)	-	(148,002)
Interim dividends	53	-	-	-	-	-	(74,001)	(74,001)	-	(74,001)
Acquisition of additional equity interests in subsidiaries		-	-	(427)	-	-	-	(427)	-	(427)
Issuance of share capital in subsidiaries		-	-	(158)	-	-	-	(158)	158	-
Issuance of hybrid equity securities in subsidiaries		-	-	-	-	-	-	-	29,835	29,835
Redemption of hybrid equity securities		-	(299,121)	(879)	-	-	-	(300,000)	-	(300,000)
Dividends on hybrid equity securities	53	-	-	-	-	-	(21,961)	(21,961)	(20,572)	(42,533)
Dividends on preferred stock issued by subsidiaries		-	-	-	-	-	-	-	(1,247)	(1,247)
Others		-	-	1	49	-	7,035	7,085	29	7,114
		1,480,015	443,769	10,463,067	(13,183)	(6,382)	9,244,918	21,612,204	830,279	22,442,483
Net income for the year		-	-	-	-	-	1,330,477	1,330,477	69,267	1,399,744
Loss on valuation of available-for-sale financial assets		-	-	-	-	(394,757)	-	(394,757)	(399)	(395,156)
Exchange differences on transaction of foreign operations		-	-	-	-	39,128	-	39,128	2,946	42,074
Changes in unrealized gain on valuation of equity method investments		-	-	-	-	(38,368)	-	(38,368)	161	(38,207)
Loss on valuation of net investment hedges of foreign operations		-	-	-	-	(14,369)	-	(14,369)	-	(14,369)
Net gain on cash flow hedges		-	-	-	-	818	-	818	142	960
Remeasurement of the net defined benefit liability		-	-	-	-	(47,439)	-	(47,439)	(52)	(47,491)
Total comprehensive income		-	-	-	-	(454,987)	1,330,477	875,490	72,065	947,555
As at December 31, 2016		₩ 1,480,015	₩ 443,769	₩ 10,463,067	₩ (13,183)	₩ (461,369)	₩ 10,575,395	₩ 22,487,694	₩ 902,344	₩ 23,390,038

	Notes	Issued capital	Hybrid equity securities	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Equity attributable to equity holders of the parent	Non-controlling shareholders' equity	Total
As at January 1, 2017		₩ 1,480,015	₩ 443,769	₩ 10,463,067	₩ (13,183)	₩ (461,369)	₩ 10,575,395	₩ 22,487,694	₩ 902,344	₩ 23,390,038
Dividends	53	-	-	-	-	-	(236,802)	(236,802)	-	(236,802)
Interim dividends	53	-	-	-	-	-	(88,801)	(88,801)	-	(88,801)
Acquisition of additional equity interests in subsidiaries		-	-	-	-	-	(19,098)	(19,098)	(20,824)	(39,922)
Dividends on hybrid equity securities	53	-	-	-	-	-	-	-	(1,247)	(1,247)
Dividends on preferred stock issued by subsidiaries		-	-	-	(1,710)	-	-	(1,710)	1,710	-
Others		-	-	(34)	(156)	-	32	(158)	30	(128)
		1,480,015	443,769	10,463,033	(15,049)	(461,369)	10,230,726	22,141,125	882,013	23,023,138
Net income for the year		-	-	-	-	-	2,036,839	2,036,839	79,783	2,116,622
Loss on valuation of available-for-sale financial assets		-	-	-	-	(133,753)	-	(133,753)	1,250	(132,503)
Exchange differences on transaction of foreign operations		-	-	-	-	(194,735)	-	(194,735)	(8,307)	(203,042)
Changes in unrealized gain on valuation of equity method investments		-	-	-	-	(50,325)	-	(50,325)	(323)	(50,648)
Loss on valuation of net investment hedges of foreign operations		-	-	-	-	42,427	-	42,427	-	42,427
Net gain on cash flow hedges		-	-	-	-	1,124	-	1,124	190	1,314
Remeasurement of the net defined benefit liability		-	-	-	-	30,989	-	30,989	(353)	30,636
Total comprehensive income		-	-	-	-	(304,273)	2,036,839	1,732,566	72,240	1,804,806
As at December 31, 2017		₩ 1,480,015	₩ 443,769	₩ 10,463,033	₩ (15,049)	₩ (765,642)	₩ 12,267,565	₩ 23,873,691	₩ 954,253	₩ 24,827,944

The accompanying notes are an integral part of the consolidated financial statements.



# Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Unit: Korean won in millions)

	Notes	2017	2016
<b>Operating activities</b>			
Net income before income tax		₩ 2,798,665	₩ 1,819,995
Adjustments to reconcile net income before income tax to net cash flows:			
Net interest expense		431,718	35,349
Net loss (gain) on valuation of trading securities		(160,133)	(371,009)
Net gain on valuation of financial assets and liabilities designated at fair value through profit and loss		(91,177)	(162,331)
Net gain on disposal of available-for-sale financial assets		(448,618)	(415,452)
Net loss on fair value of hedged items		(36,219)	101,555
Impairment loss on available-for-sale financial assets		155,713	45,070
Net loss (gain) on foreign currency translation		(306,747)	38,350
Provision of allowance for possible loan losses		791,783	762,531
Depreciation and amortization		535,404	489,329
Share based payment expense (income)		45,917	22,673
Provision of post-employment benefit obligations		163,190	158,813
Net gain on valuation of investments in associates and joint ventures		(99,892)	(52,305)
Other loss (gain) relating to property, equipment and intangible assets, net		(46,707)	(99,974)
Others		(98,270)	75,956
		835,962	628,555
Changes in operating assets and liabilities:			
Due from banks		₩ 6,827,925	₩ (8,193,923)
Financial assets held-for-trading		(864,697)	(2,414,318)
Financial assets designated at fair value through profit and loss		(15,605,340)	(343,553)
Loans receivable		539,867	(6,901,224)
Derivative assets used for hedging purposes		9,626	(84,173)
Investment in associates and joint ventures		40,376	54,906
Other assets		(520,606)	1,045,446
Financial liabilities held-for-trading		767,818	1,026,824
Financial liabilities designated at fair value through profit and loss		(791,027)	1,751,360
Deposits		13,587,681	13,709,107
Derivative liabilities used for hedging purposes		(27,383)	72,908
Net defined benefit liabilities		(201,542)	(322,420)
Impairment loss on available-for-sale financial assets		(63,082)	(70,378)
Other liabilities		(965,371)	1,837,150
		2,734,245	1,167,712
Payment of income tax		(356,947)	(180,880)
<b>Net cash flows provided by operating activities</b>		₩ 6,011,925	₩ 3,435,382

(Unit: Korean won in millions)

	Notes	2017	2016
<b>Investing activities</b>			
Net cash flows used in purchasing subsidiary		₩ -	₩ (427)
Purchase of available-for-sale financial assets		₩ (33,559,715)	₩ (30,904,211)
Proceeds from disposal of available-for-sale financial assets		26,702,282	28,596,372
Purchase of held-to-maturity financial assets		(3,101,936)	(612,353)
Proceeds from redemption of held-to-maturity financial assets		181,343	1,750,919
Purchase of investments in associates and joint ventures		(54,007)	(97,192)
Proceeds from disposal of investments in associates		2,247	101,217
Acquisition of property and equipment		(740,284)	(557,712)
Proceeds from disposal of property and equipment		232,267	226,993
Purchase of investment property		(266)	(1,539)
Proceeds from disposal of investment property		-	1,517
Purchase of intangible assets		(116,173)	(201,398)
Proceeds from disposal of intangible assets		12,383	11,722
Decrease in guarantee deposit, net		59,845	-
Decrease in guarantee deposit, net		129,031	110,764
<b>Net cash flows used in investing activities</b>		(10,252,983)	(1,575,328)
<b>Financing activities</b>			
Decrease in borrowings, net		₩ 52,922	₩ (2,734,809)
Issuance of debentures		25,321,837	13,488,336
Redemption of debentures		(20,916,143)	(11,537,353)
Dividends paid		(325,603)	(222,003)
Redemption of hybrid equity securities		-	(300,000)
Dividends of hybrid equity securities		(19,098)	(23,869)
Acquisition and disposal of treasury stock		-	12
Decrease (increase) in non-controlling shareholders' equity, net		(22,071)	8,016
<b>Net cash flows provided provided by (used in) financing activities</b>		₩ 4,091,844	₩ (1,321,670)
<b>Effect of exchange rate changes on cash and cash equivalents</b>		(399,451)	147,880
<b>Net increase (decrease) in cash and cash equivalents (I+II+III+IV)</b>		(548,665)	686,264
<b>Cash and cash equivalents at the beginning of the year</b>	56	8,920,432	8,234,168
<b>Cash and cash equivalents at the end of the year</b>	56	₩ 8,371,767	₩ 8,920,432

The accompanying notes are an integral part of the consolidated financial statements.

# Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

## 1. Company information

The accompanying consolidated financial statements include Hana Financial Group Inc. (HFG, the “Company” or the “Parent Company”), a parent company according to KIFRS 1110 Consolidated Financial Statements, and its subsidiaries (collectively, the “Group”). General information describing HFG, the Group and joint ventures is provided below.

### 1.1 HFG

HFG was incorporated on December 1, 2005 under the *Financial Holding Company Act*, by issuing 204,256,243 common shares with the aggregate par value of ₩1,021,281 million to the shareholders of Hana Bank, Hana Finance Investment Co., Ltd. (HFI), Hana TI (formerly, Hana I&S), and Hana Institute of Finance (HIF) in exchange for those entities' shares owned by their shareholders. HFG was established to primarily engage in management of its subsidiaries, which operate in the financial services industry in the Republic of Korea.

Date of acquisition	Subsidiaries	Notes
October 13, 2006	Hana IB Securities Co., Ltd. (Hana IB)	Acquired by HFI in 2008
April 27, 2007	Hana Capital Co., Ltd. (Hana Capital)	Acquired by the stock swap transaction with Hana Bank
August 10, 2007	Hana Life Insurance Co., Ltd. (Hana Life Insurance)	Acquired by the stock swap transaction with Hana Bank
October 31, 2009	Hana SK Card Co., Ltd. (Hana SK Card)	Established by the spin-off of Hana Bank's credit card business
March 10, 2010	Hana Asset Trust Co., Ltd. (Hana Asset Trust)	Acquired by the purchase of common shares
February 8, 2012	Hana Savings Bank Co., Ltd. (Hana Savings Bank)	Established by the purchase and assumption agreement
February 9, 2012	Korea Exchange Bank (KEB)	Acquired by the purchase of common shares
August 30, 2013	Hana Bancorp, Inc.	Acquired by the purchase of common shares
September 1, 2014	KEB Hana Card Co., Ltd. (KEB Hana Card)	Established by the spin-off of KEB credit card business
December 29, 2015	Hana Investors Services Co., Ltd. (HIS)	Acquired by the purchase of common shares held by Hana Bank
March 28, 2016	Hana Bancorp, Inc.	Sold common shares to KEB Hana Bank
April 22, 2016	Hana Futures Co., Ltd.	Acquired by the purchase of common shares held by Hana Bank
May 26, 2016	Hana Alternative Asset Management	Acquired by the purchase of common shares held by Hana Asset Trust
August 1, 2016	Hana Futures Co., Ltd.	Merged with Hana Financial Investment Co., Ltd.
August 24, 2016	Finnq inc.	Established by capital investment
December 14, 2017	Hana Institute of Finance (HIF)	Completion of liquidation

The total number of the Company's issued and outstanding common shares is 296,003,062 shares with the aggregate par value of ₩1,480,015 million as at December 31, 2017. The Company's common shares have been listed on the Korea Exchange (KRX) since December 12, 2005 and the number of the Company's authorized common shares are 800,000,000 shares as at December 31, 2017.

### 1.2 Scope of consolidation

	Country	Major business	Number of shares	Ownership (%)	Reporting date
<b>Subsidiaries of HFG:</b>					
KEB Hana Bank	Korea	Banking	1,071,915,717	100.0	December 31
HFI	Korea	Financial investments	35,875,956	100.0	December 31
KEB Hana Card	Korea	Credit card business	226,113,162	85.0	December 31
Hana Capital	Korea	Installment credit financing	7,261,199	50.1	December 31
Hana Asset Trust	Korea	Real estate trust	10,000,000	100.0	December 31
Hana TI (formerly, Hana I&S)	Korea	System development service	18,600,000	90.0	December 31
Hana Savings Bank	Korea	Mutual savings banking	15,000,000	100.0	December 31
Hana Life Insurance	Korea	Life insurance	27,040,200	100.0	December 31
HIS	Korea	Transfer agent	510,000	100.0	December 31
Hana Alternative Asset Management Co.,Ltd. (formerly, Hana Asset Management)	Korea	Asset management	2,000,000	100.0	December 31
Hana Professional Investment Type Private Equity Real Estate 28 (*1)	Korea	Private investment trust company	-	45.8	December 31
Hana Japan Residence Professional Investment Type Private Equity Real Estate 47 (*1)	Korea	Private investment trust company	-	33.3	December 31
Special Money Intrust (*1) (*2)	Korea	Specified Money Intrust	-	-	December 31
<b>Subsidiaries of KEB Hana Bank:</b>					
Hana Bank (China) Co., Ltd. (*1)	China	Banking	-	100.0	December 31
Hana Micro Finance Ltd.	Myanmar	Other financial business	1,070,293	99.9	December 31
Hana F&I, Inc.	Korea	Investment and management service for NPL assets backed securities	24,975,670	99.6	December 31
KEB Hana Bank Canada	Canada	Financial business	834,000	100.0	December 31
KEB Hana Bank (Deutschland) A.G.	Germany	Financial business	45,000	100.0	December 31
<b>Subsidiaries of KEB Hana Bank:</b>					
PT Bank KEB Hana	Indonesia	Financial business	2,180,624,663	89.0	December 31
Banco KEB Hana Do Brasil S. A.	Brazil	Financial business	69,726,415	100.0	December 31
KEB Hana NY Financial Corp.	U.S.	Financial business	100	100.0	December 31
KEB Hana LA Financial Corp.	U.S.	Financial business	200	100.0	December 31
KEB Hana Global Finance Limited	Hong Kong	Financial business	50,000,000	100.0	December 31
KEB RUS LLC. (*1)	Russia	Financial business	-	99.9	December 31
KEB Hana Mexico	Mexico	Banking	624,827,999	99.9	December 31
Hana Bancorp, Inc.	U.S	Financial holdings company	22,413,529	90.6	December 31
Hana UBS Power PEF Invest Trust 21 [Bond] (*1)	Korea	Private investment trust company	-	100.0	December 31
Hyundai Trust PEF Invest 16 [Bond] (*1)	Korea	Private investment trust company	-	100.0	December 31
<b>Subsidiaries of KEB Hana Bank:</b>					



	Country	Major business	Number of shares	Ownership (%)	Reporting date
Korea Investment Basic 63 Private Equity Investment Vehicles [Bond] (*1)	Korea	Private investment trust company	-	100.0	December 31
DGB Leading Solution PEF Invest Trust 143 [Bond] (*1)	Korea	Private investment trust company	-	100.0	December 31
Sevenstar Co., Ltd (*1)	Korea	SPC	-	-	December 31
Marine Solution Co., Ltd. (*1)	Korea	SPC	-	-	December 31
Joong-ang star Co., Ltd. (*1)	Korea	SPC	-	-	December 31
Okea Co., Ltd. (*1)	Korea	SPC	-	-	December 31
HS First Securitization Specialty Co., Ltd. (*1)	Korea	SPC	-	-	December 31
Antakya Co., Ltd (*1)	Korea	SPC	-	-	December 31
Cosmos Solution Ltd. (*1)	Korea	SPC	-	-	December 31
Trust accounts guaranteeing the repayment of principal (*1)	Korea	Trust accounts	-	-	December 31
<b>Subsidiaries of Hana F&amp;I Inc.:</b>					
KEBW First Securitization Specialty Co., Ltd.	Korea	Asset securitization	50	5.0	December 31
KEB VERITAS Second Securitization Co., Ltd. (*1)	Korea	Asset securitization	-	-	December 31
KEB Pepper First Securitization Co., Ltd.	Korea	Asset securitization	30	5.0	December 31
KEBI First Securitization Co., Ltd.	Korea	Asset securitization	18	9.0	December 31
KEBS Third Securitization Co., Ltd.	Korea	Asset securitization	10	5.0	December 31
KEBT First Securitization Specialty Co., Ltd.	Korea	Asset securitization	10	5.0	December 31
KEB The Loft Co., Ltd. (*1)	Korea	Asset securitization	-	-	December 31
HFS First Securitization Specialty Co., Ltd.	Korea	Asset securitization	28	14.0	December 31
Shinseung Building Inc. (*1)	Korea	Asset securitization	-	-	December 31
Hana Stone First Co., Ltd. (*1)	Korea	Asset securitization	-	-	December 31
HFT Second Securitization Specialty Co., Ltd.	Korea	Asset securitization	10	5.0	December 31
Hana Stone Second Co., Ltd. (*1)	Korea	Asset securitization	-	-	December 31
Hana Sinji First, Inc. (*1)	Korea	Asset securitization	-	-	December 31
Hana Stone Fifth Co., Ltd. (*1)	Korea	Asset securitization	-	-	December 31
HFSH First Securitization Specialty Co., Ltd.	Korea	Asset securitization	28	14.0	December 31
HFS Second Securitization Specialty Co., Ltd.	Korea	Asset securitization	28	14.0	December 31
Hana K First Securitization Specialty Co., Ltd.	Korea	Asset securitization	28	14.0	December 31
HFD First Securitization Specialty Co., Ltd.	Korea	Asset securitization	28	14.0	December 31
<b>Subsidiaries of Hana F&amp;I Inc.:</b>					

	Country	Major business	Number of shares	Ownership (%)	Reporting date
HFDG Securitization Specialty Co., Ltd.	Korea	Asset securitization	28	14.0	December 31
HFS 73A Securitization Specialty Co., Ltd.	Korea	Asset securitization	18	9.0	December 31
HFS 73B Securitization Specialty Co., Ltd.	Korea	Asset securitization	18	9.0	December 31
HFW 73 Securitization Specialty Co., Ltd.	Korea	Asset securitization	18	9.0	December 31
Hyundai Veritas Investment 1 Loan	Korea	Asset securitization	-	-	December 31
HFK74 Securitization Specialty Co., Ltd.	Korea	Asset securitization	18	9.0	December 31
<b>Subsidiary of Hana Bancorp, Inc.:</b>					
KEB Hana Bank USA	U.S	Banking	500,100	100.0	December 31
BNB Statutory trust I (*1)	U.S	SPC	-	-	December 31
<b>Subsidiary of KEB Hana Bank USA:</b>					
BNB Funding Corp. (*1)	U.S	SPC	-	-	December 31
<b>Subsidiaries of HFI:</b>					
Hana the First Private Equity Fund (*1)	Korea	Private equity fund	-	48.9	December 31
Hana Daol Land Chip Heungdeok Real Estate Private Fund 35 (*1)	Korea	Investment trust	-	100.0	December 31
KoFC Hana-Dongbu Frontier Champ 2010 No. 6 Private Equity Fund (*1)	Korea	Private equity fund	-	29.2	December 31
Hana Global Investment Consulting Co., Ltd. (*1)	China	Investment consulting	-	100.0	December 31
<b>Subsidiaries of HFI:</b>					
Hana Land Chip Houston Real Estate Private Fund 59 (*1)	Korea	Investment trust	-	100.0	December 31
Hana the Third Private Equity Fund (*1)	Korea	Private equity fund	-	35.0	December 31
<b>Subsidiaries of Hana the First Private Equity Fund:</b>					
Radian 1 SPC Co., Ltd.	Korea	SPC	20	100.0	December 31
Warden 1 SPC Ltd.	Korea	SPC	-	100.0	December 31
<b>Subsidiaries of KEB Hana Card:</b>					
Hana Card Payment	Japan	Other financial support services	1	100.0	December 31
Special money intrust (*1) (*2)	Korea	Special money intrust	-	-	December 31
<b>Subsidiaries of Hana Life Insurance:</b>					
Hana Land Chip Real Estate Private Equity Fund 68 (*1)	Korea	Investment trust	-	100.0	December 31
<b>Subsidiaries of Hana TI:</b>					
PT.NEXT Transformtech Indonesia (*3)	Indonesia	Technology	25,000	100.0	December 31

(\*1) The Group has not presented the number of investment shares since the entity has not issued shares.

(\*2) Special Money Intrust consists of many accounts, but the number of accounts is not recorded.

(\*3) Hana TI and Hana Capital hold 95.1% and 4.9% shares of PT Next INS Indonesia, respectively.

The financial information of subsidiaries as at December 31, 2017 and 2016 is as follows (Korean won in millions):

	December 31, 2017						
	Assets	Liabilities	Equity	Revenue	Net income (loss)	Other comprehensive income (loss)	Comprehensive income (loss)
KEB Hana Bank (*1)	₩ 320,894,409	₩ 297,655,254	₩ 23,239,155	₩ 33,072,551	₩ 2,112,239	₩ (363,513)	₩ 1,748,726
HFI (*1)	18,821,552	16,824,857	1,996,695	3,355,315	146,274	(26,858)	119,416
KEB Hana Card (*1)	7,565,090	6,048,554	1,516,536	1,605,570	106,352	(674)	105,678
Hana Capital	6,066,632	5,350,685	715,947	497,256	90,398	(241)	90,157
Hana Asset Trust	304,482	127,300	177,182	68,411	31,920	141	32,061
Hana TI (formerly, Hana I&S) (*1)	460,815	350,568	110,247	167,465	1,181	25	1,206
HIF (*2)	7	-	7	5,167	47	261	308
Hana Savings Bank	1,114,732	908,321	206,411	72,527	17,575	(151)	17,424
Hana Life Insurance (*1)	4,490,707	4,262,665	228,042	710,213	13,753	(22,113)	(8,360)
HIS	34,077	4,101	29,976	23,843	2,343	201	2,544
Hana Alternative Asset Management Co., Ltd (formerly, Hana Asset Management)	42,460	6,709	35,751	21,589	5,108	109	5,217
Hana professional investment type private equity real estate 28	12,054	4	12,050	681	633	-	633
Hana Japan residence professional investment type private equity real estate 47	29,266	102	29,164	2,077	15	-	15
Hana US Photovoltaic Special Investment-Type Private Equity Investment Trust 52 (*4)	-	-	-	597	(202)	-	(202)
	December 31, 2016						
	Assets	Liabilities	Equity	Revenue	Net income (loss)	Other comprehensive income (loss)	Comprehensive income (loss)
KEB Hana Bank (*1)	₩ 310,784,226	₩ 288,671,610	₩ 22,112,616	₩ 29,313,204	₩ 1,380,171	₩ (411,407)	₩ 968,764
HFI (*1)	18,898,237	16,969,489	1,928,748	2,678,824	86,633	(14,736)	71,897
KEB Hana Card (*1)	7,108,144	5,696,306	1,411,838	1,487,517	75,595	(154)	75,441
Hana Capital	5,257,437	4,619,088	638,349	393,755	80,595	129	80,724
Hana Asset Trust (*1)	199,037	32,678	166,359	54,080	46,494	(156)	46,338
Hana TI (formerly, Hana I&S)	505,305	396,257	109,048	147,144	1,427	401	1,828
HIF (*2)	4,716	1,121	3,595	10,129	83	(6)	77
Hana Savings Bank	1,179,241	986,232	193,009	69,970	15,422	(109)	15,313
Hana Life Insurance (*1)	4,214,641	3,977,291	237,350	773,877	16,581	(46,571)	(29,990)
HIS	32,345	4,582	27,763	22,533	4,634	(143)	4,491

	December 31, 2016						
	Assets	Liabilities	Equity	Revenue	Net income (loss)	Other comprehensive income (loss)	Comprehensive income (loss)
Hana Alternative Asset Management Co., Ltd. (formerly, Hana Asset Management) (*3)	33,007	2,209	30,798	9,469	3,003	43	3,046
Hana Futures Co., Ltd. (*4)	-	-	-	170	(3,804)	437	(3,367)
Hana Bancorp, Inc. (*1) (*5)	-	-	-	2,852	(1,859)	(722)	(2,581)

(\*1) Consolidated financial information of the intermediate parent company

(\*2) Completed liquidation registration on December 14, 2017

(\*3) Income for the period generated after the entities became subsidiaries of the Company from subsidiaries of Hana Asset Trust.

(\*4) Income for the period generated after the entities became subsidiaries of the Company.

(\*5) As at March 28, 2016, Hana Bancorp, Inc. is no longer a subsidiary of the Company as all its interest in KEB Hana Bank has been sold.

Changes in scope of consolidation for the year ended December 31, 2017 are as follows:

Name of subsidiaries	Reason
Included in scope of consolidation:	
Hana professional investment type private equity real estate 28	Included due to the new investments
PT.NEXT Transformtech Indonesia	Included due to the new investments
Hana Card payment	Included due to the new investments
Hana Japan Residence Professional Investment Type Private Equity Real Estate 47	Included due to the new investments
Hana US Photovoltaic Special Investment-Type Private Equity Investment Trust 52	Included due to the new investments
HFDG Securitization Specialty Co., Ltd.	Included due to the new investments
HFS 73A Securitization Specialty Co., Ltd.	Included due to the new investments
HFS 73B Securitization Specialty Co., Ltd.	Included due to the new investments
HFW 73 Securitization Specialty Co., Ltd.	Included due to the new investments
HFK74 Securitization Specialty Co., Ltd.	Included due to the new investments
HYUNDAI Veritas investment I Loan	Included due to the new investments
KEB Hana Mexico	Included due to the new investments
Excluded from scope of consolidation:	
HIF	Excluded due to the liquidation
Hana US Photovoltaic Special Investment-Type Private Equity Investment Trust 52	Excluded due to the disposal
Hana Stone Third Co., Ltd	Excluded due to the liquidation
KEBS First Securitization Specialty Co., Ltd.	Excluded due to the disposal
Hongdae Picasso Co., Ltd.	Excluded due to the disposal
HHM1	Excluded due to the disposal
HANA Miraeasset Third Securitization Specialty Co., Ltd.	Excluded due to the disposal
Hana Stone Sixth Co., Ltd	Excluded due to the disposal
HFHB Securitization Specialty Co., Ltd.	Excluded due to the disposal
Hana VERITAS First Securitization Co., Ltd.	Excluded due to the disposal

#### 1.2.1 KEB Hana Bank

KEB was established on January 30, 1967, as a government-invested bank to engage in foreign exchange and trade finance business under the Korea Exchange Bank Act proclaimed on July 28, 1966. On December 30, 1989, the *Korea Exchange Bank Act* was repealed and KEB was converted into a corporation under the *Commercial Code* of the Republic of Korea. On April 4, 1994, KEB was listed on the Korean Stock



Exchange. The merger between KEB and Korea Exchange Bank Credit Service Co., Ltd. was finalized on February 28, 2004. KEB primarily provides commercial banking services, trust banking services, foreign exchange, merchant banking business through the merger with Korea International Merchant Bank, a domestic subsidiary of the Bank, and other related operations as permitted under the *Banking Act*, the *Capital Market and the Financial Investment Business Act* and other relevant laws and regulations in the Republic of Korea. As at February 9, 2012, the Company purchased 57.27% interest in KEB, which gives it control of KEB. On March 15, 2013, the Company's general meeting of stockholders approved a share swap contract to acquire a 100 % equity interest in KEB. Pursuant to the contract, KEB was incorporated into the Company's wholly owned subsidiary as at April 5, 2013. As at September 1, 2014, Hana Card (formerly, KEB Card) was spun off from the credit card business unit of KEB. KEB merged with Hana Bank and changed its name to KEB Hana Bank on September 1, 2015.

**1.2.2 Hana Financial Investment Co., Ltd.**

Hana Financial Investment Co., Ltd. (HFI) was incorporated on January 18, 1977 pursuant to the *Security Investment Trust Act* of the Republic of Korea for the purpose of providing a wide range of security investment trust services for its customers. H&DS combined with Hana IB (formerly, Hana Securities Co., Ltd.) as a business combination under common control (wholly-owned by HFG) on December 1, 2008, and changed its name to HFI on September 3, 2015. HFI merged with Hana Futures Co., Ltd. on August 1, 2016.

**1.2.3 KEB Hana Card**

Hana SK Card was merged into Korea Exchange Bank Credit Service Co., Ltd. (formerly, KEB Card) on December 1, 2014 and KEB Card changed its name to KEB Hana Card. The common shares were exchanged at a ratio of 1 common share of Hana SK Card for 1.1731316 common shares of KEB Card.

**1.2.4 Hana Capital**

Hana Capital (formerly Kolon Capital Co., Ltd.) was incorporated on February 13, 1987 and changed its name to Hana Capital on April 8, 2005. Hana Capital obtained a license to engage in the installment financing business on January 9, 1996 in accordance with the *Credit Card Business Act* of the Republic of Korea and was registered as an installment financing company in accordance with the Credit-Specialized *Financial Business Act* of the Republic of Korea on January 16, 1998 to engage in leasing, installment financing and corporate and consumer loan business. The Company acquired a 50.13% ownership of Hana Capital through a stock swap transaction with Hana Bank on April 27, 2007.

**1.2.5 Hana Asset Trust**

Hana Asset Trust was incorporated on June 15, 1999 for the purpose of conducting research and analysis of regional and local developments. On February 27, 2004, Hana Asset Trust changed its primary business to a real estate investment trust company, pursuant to the Trust Business Act. The Company acquired 58% ownership of Hana Daol Trust (formerly, Daol Trust Co., Ltd.) and incorporated Hana Daol Trust as its subsidiary as at March 10, 2010. The Company additionally acquired 7% ownership of Hana Daol Trust as at December 30, 2011, and purchased residual interest in Hana Daol Trust for the year ended December 31, 2013 and incorporated Hana Asset Trust (formerly, Hana Daol Trust) as its wholly owned subsidiary as at December 31, 2013.

**1.2.6 Hana TI (formerly, Hana I&S)**

Hana TI (formerly, Seoun System Inc.) was incorporated on August 30, 1990 pursuant to the laws of the Republic of Korea for the purpose of developing and maintaining software used in the financial service industry. The company changed its name to Hana I&S on March 1, 2003 and changed its name to Hana TI on June 19, 2017.

**1.2.7 Hana Savings Bank**

Hana Savings Bank was incorporated on February 8, 2012 pursuant to the Depositor Protection Act of the Republic of Korea for the purpose of engaging in the credit business as permitted by Financial Services Commission and the Company made a purchase and assumption agreement with Korea Deposit Insurance Corporation. In accordance to the agreement, Hana Savings Bank commenced its business after purchasing assets and assuming liabilities from Ace Savings Bank and Jeil- II Savings Bank on February 17, 2012. On September 5, 2012, Hana Savings Bank purchased assets and assumed liabilities from Korea Mutual Savings Bank in accordance to the purchase and assumption agreement with Korea Deposit Insurance Corporation after the approval of the Board of Directors held on August 21, 2012.

**1.2.8 Hana Life Insurance**

Hana Life Insurance Co., Ltd (Hana Life Insurance) was incorporated on November 25, 1991 pursuant to the laws of the Republic of Korea after getting permission of foreign investment to engage in the life insurance business from Ministry of Strategy and Finance. The name changed from France Life Insurance Co., Ltd. to Hana Life Insurance Co., Ltd. on March 21, 2003. The Company acquired 100% ownership of Hana Life Insurance

Co., Ltd. through acquisition of Hana Bank's equities on August 10, 2007 and the Company subsequently sold its 50% ownership minus 1 share of Hana Life Insurance on January 28, 2008 to the HSBC Group (HSBC Insurance (Asia-Pacific) Holding Ltd.). As a result, Hana Life Insurance became joint venture and changed its name to Hana HSBC Insurance. The Company re-acquired the ownership of Hana HSBC Insurance after the Company's Board of Directors approved a share purchase contract to acquire 50 % minus 1 share of Hana HSBC Insurance on April 26, 2013. It changed its name to Hana Life Insurance on May 10, 2013.

**1.2.9 Hana Investors Services Co., Ltd.**

Hana Investors Services Co., Ltd. (HIS) was established on April 1, 2003 to provide trust services for securities companies and general services including accounting and trust services for banks, pension funds and other companies under the *Financial Investment Services and Capital Market Act* (formerly, the *Indirect Investment Asset Management Business Act*). The Company acquired 100% ownership of HIS from Hana Bank on December 29, 2015.

**1.2.10 Hana Alternative Asset Management Co., Ltd. (formerly, Hana Asset Management Co., Ltd.)**

Hana Asset Management Co., Ltd. (Hana Asset Management) was incorporated on April 14, 2006 for the purpose of providing asset management and investment advisory services, pursuant to the *Financial Investment Services and Capital Market Act*. Hana Asset Management changed its name from Hana Daol Fund Management to Hana Asset Management on December 12, 2013. The Company acquired 100% ownership of Hana Asset Management from Hana Asset Trust on May 26, 2016. It changed its name to Hana Alternative Asset Management on November 23, 2017.

**1.2.11 Special Money Intrust**

In accordance with the KIFRS 1110 *Consolidated Financial Statements*, the Company consolidated the special money intrust (Special Money Intrust) as the Company assessed that because the Company is exposed, or has rights, to variable returns from its involvement with the private equity investment vehicle and has the ability to affect those returns through its power over the private equity investment vehicle.

**1.2.12 Subsidiaries of KEB Hana Bank**

**1.2.12.1 Hana F&I, Inc.**

Hana F&I, Inc. (Hana F&I) was established on September 11, 1989, to engage in equipment rental and other relevant businesses under the Specialized Credit Financial Business Act (formerly, the *Equipment Rental Business Act*) and was listed on the Korea Securities Dealers Automated Quotation (KOSDAQ) on January 15, 1995. As HFG acquired KEB and its subsidiaries including Hana F&I, KEB is restricted to control a company which runs the specialized credit financial business in accordance with the Financial Holding Companies Act Article 19 as on and after January 31, 2014. On October 17, 2013, Hana F&I's Board of Directors approved to change its business field to investment in asset backed securities and management of asset securitization firm under the *Asset-Backed Securitization Act*. On September 30, 2015, Hana F&I changed its name to Hana F&I, Inc. resulting from the merger of Hana Bank and KEB.

**1.2.12.2 Hana Bank (China) Co., Ltd. (Hana Bank China)**

Hana Bank China was incorporated in Beijing to engage in commercial banking, foreign currency exchanges and other related operations in China on December 14, 2007. On December 24, 2007, KEB Hana Bank took investment in kind through assets and liabilities of branches in Shanghai and Syenyang and shares in Qingdao International Bank owned by KEB Hana Bank. The branches and Qingdao International Bank were changed into the branches of Hana Bank China. Hana Bank China was merged with KEB China and incorporated into a subsidiary of KEB Hana Bank in December, 2014 since KEB Hana Bank acquired control over Hana Bank China after the merger.

**1.2.12.3 Hana Micro Finance Ltd.**

Hana Micro Finance Ltd., a subsidiary established in Yangon, Myanmar on August 7, 2014, is engaged in small-loan finance services. The objective of the service is to satisfy low incomers' demand for small-loan finance and at the same time to lay the foundation for a retail market. Its head office is located in Yangon.

**1.2.12.4 KEB Hana Bank Canada (KEBOC)**

KEBOC was established in Toronto, Canada on October 6, 1981 to provide financial services to Korean companies and local residents of Toronto and the surrounding area.

**1.2.12.5 KEB Hana Bank (Deutschland) A.G. (KEBDAG)**

KEBDAG was established in Frankfurt, Germany on December 29, 1992 to provide financial services to Korean companies and local residents in Frankfurt and the surrounding area.

**1.2.12.6 PT. Bank KEB Hana**

PT. Bank KEB Hana was established in Jakarta, Indonesia on November 5, 1990 to provide financial services to Korean companies and local residents in Jakarta. In accordance with the regulations of the Bank Indonesia, 2 or more local banks with the same ultimate parent company are prohibited to operate as an independent entity in Indonesia. Accordingly, PT. Bank KEB Indonesia (KEBI), a subsidiary of the Bank, and PT. Bank Hana, a subsidiary of Hana Bank, have completed a merger process on February 20, 2014 and changed the name to PT. Bank KEB Hana. PT. Bank KEB Hana incorporated into a subsidiary of KEB on February 28, 2014 since KEB owned the major shares of PT. Bank KEB Hana after the acquisition.

**1.2.12.7 Banco KEB Hana do Brasil S. A. (KEBB)**

KEBB was incorporated on May 21, 1999 to provide finance services for foreign clients, advisory services, finance arrangement and security investment trust services regarding overseas investment for domestic companies.

**1.2.12.8 KEB Hana NY Financial Corp. (NYFinCo)**

NYFinCo was established in New York, USA on April 8, 2004 to provide financial services to Korean companies and local residents in New York and the surrounding area.

**1.2.12.9 KEB Hana LA Financial Corp. (LAFinCo)**

LAFinCo was established in Los Angeles, USA on July 2, 2009 to provide financial services to Korean companies and local residents in Los Angeles and the surrounding area.

**1.2.12.10 KEB Hana Global Finance Limited (KAF)**

KEB Hana Global Finance Limited was incorporated on July 2, 2009 to provide finance services for foreign clients, advisory services, finance arrangement and security investment trust services regarding overseas investment for domestic companies.

**1.2.12.11 KEB RUS LLC.**

In 2008, KEB launched a representative office in Moscow to provide financial information and consulting services for Korean and local companies in Russia. KEB RUS LLC was established on August 15, 2014 after obtaining permission to operate corporation from Russian supervisory authorities in order to expand business area.

**1.2.12.12 KEB Hana Mexico**

Mexico KEB Hana Bank was established in Mexico City on November 3, 2017 to engage in provision of financial services to Korean companies and local corporations. At the end of the reporting period, KEB Hana Bank holds 99.99% interest in the entity. At the end of the reporting period, the local regulatory authority has not given permission to start the operations.

**1.2.12.13 Hyundai Trust PEF Invest 16 [Bond] and other 3 collective Private investment trust companies**

In accordance with KIFRS 1110 *Consolidated Financial Statements*, the Group has consolidated Hyundai Trust PEF Invest 16 [Bond] and other 3 collective private investment trust companies as they currently have controlling power to instruct the activities of the investees, are exposed to or hold rights to the changeable profits of the investees, and are capable of influencing on the profits of the investees.

**1.2.12.14 Special Purpose Entities**

In accordance with the KIFRS 1110 *Consolidated Financial Statements*, the Group consolidated Sevenstar Co., Ltd. and 6 other special purpose entities as the Group is exposed, or has rights, to variable returns from its involvement with the SPEs and has the ability to affect those returns through its power over the SPEs.

**1.2.12.15 Hana Bancorp, Inc.**

Hana Bancorp, Inc. (formerly, BNB Financial Services Corporation) was incorporated on April 8, 1988 to engage in the bank business. The Company acquired 52.29% ownership in BNB Financial Service Corporation and incorporated Hana Bancorp, Inc. as its subsidiaries as at August 30, 2013 and changed its name to Hana Bancorp, Inc. The Company sold common shares of Hana Bancorp to KEB Hana Bank on March 28, 2016 and Hana Bancorp became a subsidiary of KEB Hana Bank.

**1.2.12.16 Trust Accounts**

In accordance with the KIFRS 1110 *Consolidated Financial Statements*, the Group consolidated certain trust accounts with a guarantee of principal repayment or with a guarantee of principal and interest repayment as the Group is exposed, or has rights, to variable returns from its involvement with the trust accounts and has the ability to affect those returns through its power over the trust accounts.

**1.2.13 Subsidiaries of HFI**

**1.2.13.1 Hana the First Private Equity Fund**

Hana the First Private Equity Fund (Hana the First PEF) was established on December 22, 2009 as a joint-stock company under the *Capital Market Financial Investment Business Act* for the purpose of distributing to the partners of Hana the First PEF the profits generated from participating in control, improving financial, business and governance structures of invested companies. Hana the First PEF is owned by KEB Hana Bank (29.97% ownership) as a limited partner and HFI (18.93% ownership) as a general and management partner.

**1.2.13.2 Hana Daol Land Chip Heungdeok Real Estate Private Fund 35**

Hana Daol Land Chip Heungdeok Real Estate Private Fund 35 was incorporated on September 19, 2011 in accordance with the *Financial Investment Services and Capital Markets Act* and wholly owned by HFI. It manages Knowledge Industrial Center (apartment-type factory), Heungdeok IT Valley which was built in the Heungdeok Housing Site Development District G1 Block. The collective investment company, the asset manager, is Hana Asset Management Co., Ltd. while the trustee is National Agricultural Cooperative Federation.

**1.2.13.3 KoFC Hana-Dongbu Frontier Champ 2010 No. 6 Private Equity Fund**

KoFC Hana-Dongbu Frontier Champ 2010 No. 6 Private Equity Fund was incorporated on November 22, 2010 as a joint-stock company under the *Capital Market Financial Investment Business Act* for the purpose of distributing to the partners of KoFC Hana-Dongbu Frontier Champ 2010 No. 6 Private Equity Fund the profits generated from participating in control, improving financial, business and governance structures of invested companies.

**1.2.13.4 Hana Global Investment Consulting Co., Ltd.**

Hana Global Investment Consulting Co., Ltd. was incorporated in Beijing on October 14, 2011 and engages in advisory services on issuing bonds, listing Chinese companies on the Korean stock market, cross-border M&A transactions and others.

**1.2.13.5 Hana Land Chip Houston Real Estate Private Fund 59**

Hana Land Chief Houston Private Equity Real Estate Investment Trust (REIT) 59, which was established by the *Capital Markets and Financial Investment Services Act* on October 30, 2014, manages common stocks of FG US Holdings 2 LLC that was established to acquire preferred stocks of 3000Post Oak Blvd. in Houston, the USA. The collective investment company, the asset manager, is Hana Asset Management Co., Ltd. and while the trustee is National Agricultural Cooperative Federation.

**1.2.13.6 Hana the Third Private Equity Fund**

Hana the Third Private Equity Fund (Hana the First PEF) was established on July 29, 2016 as a joint-stock company under the *Capital Market Financial Investment Business Act* for the purpose of distributing to the partners of Hana the First PEF the profits generated from participating in control, improving financial, business and governance structures of invested companies.

**1.2.14 Subsidiaries of KEB Hana Card**

**1.2.14.1 Special money intrust**

In accordance with the KIFRS 1110 *Consolidated Financial Statements*, the Group consolidated special money intrust (Special Money Intrust) as the Group is exposed, or has rights, to variable returns from its involvement with the private equity investment vehicle and has the ability to affect those returns through its power over the private equity investment vehicle.

**1.12.14.2 Hana Card Payment**

Hana Card Payment was established on May 26, 2017 with the main purpose of providing electronic payment services to Chinese tourists making purchases in Japan.

**1.2.15 Subsidiaries of Hana Life Insurance**

**1.2.15.1 Hana Land Chip Real Estate Private Equity Fund 68**

Hana Land Chip Real Estate Private Equity Fund 68 was incorporated in accordance with the Financial Investment Services and Capital Markets Act. It manages a building located in Gangnam-gu for the subsidiaries of HFG to move in. The collective investment company, an asset management company, is Hana Asset Management Co., Ltd. *and the trustor is NongHyup Bank.*



1.2.16 Subsidiaries of Hana TI

1.2.16.1 PT.NEXT Transformtech Indonesia

PT.NEXT Transformtech Indonesia started its operations on February 23, 2017 with the purpose of providing development and maintenance of financial information system for local banks and multi-financing companies in Indonesia.

1.3 The financial support to a consolidated structured entity

Nature and reason of the contractual arrangements for providing the financial support to a consolidated structured entity as at December 31, 2017 are as follows:

Entity	Description	Purpose
Trust accounts guaranteeing the repayment of principal	The Group offers principal conservation commitment to trust accounts. The Group is required to conserve the deficit amount in case the trust account stands below the principal as a result of the operation.	Credit risk mitigation on financial management of trust account
Joong-ang Star Co., Ltd.	The Group lends ₩12,300 million to Joong-ang Star Co., Ltd.	Operating activities
HS First Securitization Specialty Co., Ltd.	The Group purchased ABCP (purchase commitment of ₩25,300 million) from HS First Securitization Specialty Co., Ltd.	Operating activities
Antakya Co., Ltd.	The Group purchased ABCP (purchase commitment of ₩50,000 million) from Antakya Co., Ltd.	Operating activities
Cosmos Solution Co., Ltd.	The Group purchased ABCP (purchase commitment of ₩22,500 million) from Cosmos Solution Co., Ltd.	Operating activities
KEBW First Securitization Specialty Co., Ltd.	The Group purchased the unsubordinated securities and subordinated securities issued by KEBW First Securitization Specialty Co., Ltd. for the amount of ₩69,400 million.	Operating activities
KEB Pepper First Securitization Co., Ltd.	The Group purchased senior bonds issued by KEB Pepper First Securitization Co., Ltd. for ₩8,170 million.	Operating activities
KEBI First Securitization Co., Ltd.	The Group purchased senior bonds issued by KEB Pepper First Securitization Co., Ltd. for ₩81,400 million.	Operating activities
KEBS Third Securitization Co., Ltd.	The Group purchased subordinated bonds issued by KEBS Third Securitization Co., Ltd. for ₩21,600 million.	Operating activities
KEBT First Securitization Specialty Co., Ltd.	The Group purchased bonds issued by KEBT First Securitization Specialty Co., Ltd. for ₩14,200 million.	Operating activities
KEB The Loft Co., Ltd.	The Group purchased bonds issued by KEB The Loft Co., Ltd. for ₩18,000 million.	Operating activities
KEB VERITAS Second Securitization Co., Ltd.	The Group purchased bonds issued by KEB VERITAS Second Securitization Co., Ltd. for ₩14,600 million.	Operating activities
HFS First Securitization Specialty Co., Ltd.	The Group purchased ₩38,300 million bonds issued by HFS First Securitization Specialty Co., Ltd. for ₩38,300 million.	Operating activities
Shinseung Building Inc.	The Group purchased bonds issued by Shinseung Building Inc. for ₩6,660 million.	Operating activities
Hana Stone First Co., Ltd	The Group purchased bonds issued by Hana Stone First Co., Ltd for ₩17,500 million.	Operating activities
HFT Second Securitization Specialty Co., Ltd.	The Group purchased bonds issued by HFT Second Securitization Specialty Co., Ltd. for ₩36,300 million.	Operating activities
Hana Stone Second Co.,Ltd	The Group purchased bonds issued by Hana Stone Second Co., Ltd for ₩6,800 million.	Operating activities
Hana Sinji First Co., Ltd.	The Group purchased bonds issued by Hana Sinji First Co., Ltd. for ₩5,000 million.	Operating activities
Hana Stone Fifth Co., Ltd.	The Group purchased bonds issued by Hana Stone Fifth Co., Ltd. for ₩13,100 million.	Operating activities

Entity	Description	Purpose
Hana SH First Securitization Specialty Co., Ltd.	The Group purchased bonds issued by Hana SH First Securitization Specialty Co., Ltd. for ₩21,000 million.	Operating activities
HFS Second Securitization Specialty Co., Ltd.	The Group purchased ₩48,100 million of bonds issued by HFS Second Securitization Specialty Co., Ltd.	Operating activities
Hana K First Securitization Specialty Co., Ltd.	The Group purchased ₩85,600 million of bonds issued by Hana Stone Fifth Co., Ltd.	Operating activities
HFD First Securitization Specialty Co., Ltd.	The Group purchased ₩26,500 million of bonds issued by HFD First Securitization Specialty Co., Ltd.	Operating activities
HFDG Securitization Specialty Co., Ltd.	The Group purchased ₩16,300 million of senior bonds issued by HFDG Securitization Specialty Co., Ltd.	Operating activities
HFS 73A Securitization Specialty Co., Ltd.	The Group purchased ₩84,000 million of senior bonds issued by HFS 73A Securitization Specialty Co., Ltd.	Operating activities
HFS 73B Securitization Specialty Co., Ltd.	The Group purchased ₩60,900 million of senior bonds issued by HFS 73B Securitization Specialty Co., Ltd.	Operating activities
HFW 73 Securitization Specialty Co., Ltd.	The Group purchased ₩81,700 million of senior bonds issued by HFW 73 Securitization Specialty Co., Ltd.	Operating activities
HFK74 Securitization Specialty Co., Ltd.	The Group purchased ₩53,880 million of senior bonds issued by HFK74 Securitization Specialty Co., Ltd.	Operating activities
HYUNDAI Veritas investment I Loan	The Group purchased ₩8,900 million of senior bonds issued by HYUNDAI Veritas investment I Loan	Operating activities
Hana the First PEF	The Group is obligated to meet capital call request by the General Partner within the limit of capital commitment (₩155,000 million) and the accumulated investment in capital amounts to ₩153,000 million as at December 31, 2017.	Operating activities
KoFC Hana- Frontier Champ 2010 No. 6 Private Equity Fund	The Group is obligated to meet capital call request by the General Partner within the limit of capital commitment (₩35,000 million) and the accumulated investment in capital amounts to ₩22,800 million as at December 31, 2017.	Operating activities
Hana the Third PEF	The Group is obligated to meet capital call request by the General Partner within the limit of capital commitment (₩70,000 million) and the accumulated investment in capital amounts to ₩81 million as at December 31, 2017.	Operating activities

2. Unconsolidated structured entities

Details of the nature of the Group's interests in unconsolidated structured entities as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	Purpose	Financing arrangement	Total assets	
			December 31, 2017	December 31, 2016
Special purpose company	Financing through asset liquidation and securitization	Issuing ABL/ABCP and others	₩ 12,404,601	₩ 12,057,262
Real estate finance	Operation for real estate (including SOC) development	Investment and borrowing	25,327,687	24,978,116
Shipping finance and primary market finance	Financing to purchase ships, NPL and ownership	Investment and borrowing	12,788,536	12,419,162
Investment fund and trust	Managing investment fund and trust	Issuing beneficiary certificates	150,620,427	91,403,140

Details of the Company's maximum exposure to loss from its interests in unconsolidated structured entities as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017			
	Special purpose company	Real estate finance	Shipping finance and primary market finance	Investment fund and trust
Assets:				
Loans receivable (A)	₩ 1,142,117	₩ 1,430,207	₩ 636,887	₩ 810,686
Securities (B)	744	72,180	-	6,971,950
Derivatives (C)	469	13,475	12,600	4,572
Others (D)	3,450	2,463	2,103	415
Liabilities:				
Derivatives	6,901	7,494	18,174	35,619
Provision	1,381	37	271	2
Others	3	24	168	20
Net asset	₩ 1,138,495	₩ 1,510,770	₩ 632,977	₩ 7,751,982
Maximum exposure to loss:				
Financial assets (A+B+C+D)	1,146,780	1,518,325	651,590	7,787,623
Credit and other commitment	2,411,796	86,179	221,767	5,102
	December 31, 2016			
	Special purpose company	Real estate finance	Shipping finance and primary market finance	Investment fund and trust
Assets:				
Loans receivable (A)	₩ 1,792,875	₩ 1,684,028	₩ 987,363	₩ 1,204,755
Securities (B)	643	80,937	-	5,849,606
Derivatives (C)	39,182	8,936	47,165	111,598
Others (D)	3,920	3,189	3,342	626
Liabilities:				
Derivatives	746	4,374	14,322	5,001
Provision	1,278	30	570	1
Others	110	20	206	454
Net asset	₩ 1,834,486	₩ 1,772,666	₩ 1,022,772	₩ 7,161,129
Maximum exposure to loss:				
Financial assets (A+B+C+D)	1,836,620	1,777,090	1,037,870	7,166,585
Credit and other commitment	2,061,252	83,149	281,923	255,130

3. Summary of significant accounting policies and basis of preparation

3.1 Basis of preparation

The Group prepares statutory financial statements in the Korean language in accordance with Korean International Financial Reporting Standards (KIFRS) enacted by the *Act on External Audit of Stock Companies*. The accompanying consolidated financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditors' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

3.2 Principles of consolidation

The significant accounting methods of consolidation that the Group adopts in preparing the consolidated financial statements are as follows.

3.2.1 Subsidiaries

Subsidiaries are the companies controlled by the Group, and the Group has rights to determine the financial and operational policies of the subsidiaries. Generally, it has at least 50% voting rights, and special purpose vehicles are included. When the Group evaluates whether a company falls under a subsidiary, it considers the existence of an exercisable or convertible potential voting right and its effect. When the Group controls a subsidiary, the subsidiary is subject to consolidation; when the Group loses the control, it is eliminated from the consolidation.

3.2.2 Offsetting investment account against equity account

The investment accounts of the Group and the corresponding equity accounts of the subsidiaries were offset and eliminated as at the date of acquiring control.

3.2.3 Difference between net assets of an investee and acquisition costs

When offsetting the investment of the Parent Company and the equity of a subsidiary, the Group applies an acquisition method in accounting treatment. When applying the acquisition method, if the purchase price to acquire shares of the subsidiary's assets and liabilities at fair value exceeds the investment as at the date of acquiring control, the excess is recognized as goodwill and recorded as an intangible asset, and the Group tests goodwill for impairment annually at the end of reporting period.

If the parent acquires additional shares of the subsidiary after acquiring the control of the subsidiary, the investment of the Parent Company and the equity of the subsidiary are offset and eliminated as at the initial acquisition date: at this time, if the investment and the corresponding equity are not equal, the difference is recorded as consolidated capital surplus (or consolidated capital adjustments).

3.2.4 Elimination of related party transactions and unrealized gains or losses

The Group offset and eliminated intercompany accounts receivable-payable, and intercompany revenues-expenses, and interest incomes or expenses arising from intercompany loans by applying an interest rate for the current term.

3.2.5 Application of equity method

According to the sources of changes in net assets of an investee under equity method, the Group differently records the changes in accounting treatments. If the net assets of an investee are changed due to a net profit or loss for the current term, the change is recorded as an investment income or loss under equity method; if the net assets are changed due to an increase or decrease in retained earnings carried over from the previous term, the change is recorded as a positive or negative change in retained earnings under equity method; if the net assets are changed due to an increase or decrease in equity other than the net profit or loss for the current term or the change in retained earnings carried over from the previous term, the change is recorded as a positive or negative change in equity under equity method.

3.2.6 Special reserve of trust account

In the trusts with stipulations of preserving principals and interests, which are consolidated, special reserves accumulated in accordance with the terms and conditions of the trusts are adjusted in the consolidated retained earnings in accordance with the detailed enforcement regulations on banking supervision.

3.2.7 Non-controlling interests

The Group recognizes equity in a subsidiary not attributable to a parent as non-controlling interests. The Group also attributes total comprehensive income to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The Group presents the deficit balance as a negative number in equity.

3.2.8 Business combination

3.2.8.1 Business combination

Acquisition method is applied to business combinations except a business combination between entities or business under the control of the same ultimate parent company. The Group recognizes identifiable assets acquired and liabilities taken over at fair value on the acquisition date except the following cases.

- Lease contracts: classified by the terms and conditions of contracts on the date of contract
- Contingent liabilities: recognized as the liabilities that can be reliably measured as current obligations
- Deferred tax assets and liabilities: recognized and measured in accordance with KIFRS 1012 corporate income tax.
- Employee benefits: recognized and measured in accordance with KIFRS 1019 employee benefits



- Compensable assets: recognized and measured in accordance with standards applicable to compensable items
- Reacquired rights: measured in accordance with special regulations
- Stock options: stock option related debt or equity securities are measured in accordance with KIFRS 1102 stock options
- Assets held-for-sale: measured at net fair value in accordance with KIFRS 1105 non-current assets held-for-sale and discontinued operation

In business combination, consideration for transfer is measured at fair value, which is a sum of the fair values of assets transferred by the Group, liabilities that the Group bears for the previous owner of a company being acquired, and equity instruments issued by the Group on the acquisition date. However, the stock options included in the consideration for transfer, which the acquirer grants to exchange for the compensations that are held by the employees of the acquiree, are not measured at fair value but evaluated in the way described above.

The acquisition-related costs are costs the acquirer has incurred to achieve effects of business combination. Those costs include brokerage fees – in other words, advisory, legal, accounting, valuation and other professional or consulting fees – general administrative costs including costs of maintaining an internal acquisitions department, and costs to register and issue debt securities and equity securities. Except the costs of issuing debt and equity securities under KIFRS 1032 and KIFRS 1039, the acquirer recognizes acquisition related costs as expenses in the periods in which the costs are incurred and the services are received.

#### 3.2.8.2 Goodwill or gain on bargain purchase

The Group recognizes goodwill as at the acquisition date measured as the excess of (a) the aggregate of (i) the consideration transferred measured which generally requires acquisition-date fair value and (ii) the amount of any non-controlling interest in the acquire over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If (b) exceeds (a), the Group reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed. After reassessments, the Group recognizes the resulting gain in profit or loss (a gain on bargain purchase) on the acquisition date.

Additional acquisition of non-controlling interest is taken into account as transactions between the shareholders, and the resulting goodwill, etc. is not recognized.

### 3.3 Foreign exchange

#### 3.3.1 Functional currency

When the Group prepares the financial statements, it measures and recognizes all transactions according to the functional currency. The functional currency is the currency of the primary economic environment in which the entity operates and entities with different functional currencies measures and recognizes in its own functional currencies.

#### 3.3.2 Translation of foreign currency transactions and balances at the end of the reporting period

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate at the reporting date and the exchange difference is recognized as profit or loss. Non-monetary items measured at fair value in a foreign currency are translated at the exchange rates at the end of reporting date. When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The Group may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

#### 3.3.3 Translation to the presentation currency

The Group translates the results and financial position of overseas branches and subsidiaries recorded on its own functional currencies into the presentation currency of the Group, Korean Won (KRW). The Group translates (i) assets and liabilities for each statement of financial position at the closing rate at the date of that statement of financial position and (ii) income and expenses for each statement presenting profit or loss and

other comprehensive income at exchange rates at the dates of the transactions or an average rate of the period. The Group recognizes all resulting exchange differences as other comprehensive income.

### 3.4 Cash and cash equivalents

Cash and cash equivalent comprise of cash at banks and on hand and short-term demand deposits. The purpose of cash and cash equivalents are to make short-term investments and to meet short-term cash demands. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 3.5 Classification and measurement of financial assets

Financial assets within the scope of KIFRS 1039 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets.

The Group recognizes and derecognizes a regular way purchase or sale of financial assets, as applicable, using trade date accounting or settlement date accounting. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

All financial assets are measured initially at fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition.

#### 3.5.1 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held-for-trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments or financial guarantee contracts. After initial recognition, the Group subsequently measures financial assets at fair value through profit or loss at fair value and recognizes related gain or loss on valuation, interest income and dividends as profit or loss.

The Group may only designate financial assets as financial assets at fair value through profit or loss upon initial recognition when the following criteria are met.

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The Company is required to separate an embedded derivatives from its host contract, but is unable to measure the embedded derivatives separately either at acquisition or at the end of a subsequent financial reporting period.

#### 3.5.2 Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. A gain or loss arising from a change in the fair value of an available-for-sale financial asset is recognized as other comprehensive income, except for impairment losses and foreign exchange gains and losses. Investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured are measured at cost. When an available-for-sale financial asset is derecognized or impaired, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

#### 3.5.3 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to maturity when the Group has the positive intention and ability to hold it to maturity. After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less accumulated impairment. The Group recognizes the unwinding of the discount relating to effective interest amortization as interest income or expense in the statements of comprehensive income.

**3.5.4 Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, such financial assets are subsequently measured at amortized cost using the effective interest method, less allowance for bad debt. The Company recognizes the unwinding of the discount relating to effective interest amortization as interest income or expense in the statements of comprehensive income, except for short-term receivables that its difference between par value and amortized cost are insignificant.

**3.6 Derivative financial instruments and hedge accounting**

The Group measures derivative financial instruments at fair value at initial recognition The Group classifies derivative financial instruments as derivative financial instruments held for trading purpose or hedging instruments. After initial recognition, the Group measures derivative financial instruments at fair value and gains or loss arising from changes in the fair value as profit or loss, except the following cases. When the derivative financial instruments are previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies, the Group recognizes the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge as other comprehensive income.

The Group applies fair value hedge accounting for a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

The Group applies cash flow hedge for a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction.

The Group formally documents the hedging relationship, Group's risk management objective and strategy for undertaking the hedge, the risk being hedged and how to assess the hedging instrument's effectiveness for applying hedge accounting. The effectiveness of the hedge is the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The Group assesses the hedge on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated and documents the result of assessment.

**3.6.1 Fair value hedges**

For fair value hedge accounting, the Group recognizes a gain or a loss on valuation of the hedging instrument and the hedged item as profit or loss for offsetting the changes in the fair value of the hedging instrument and the hedged item. The Group discontinues prospectively the hedge accounting if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from the change in the fair value of the hedged financial instrument for which the effective interest method is used is amortized to profit or loss fully by maturity of the hedged financial instrument.

**3.6.2 Cash flow hedges**

For cash flow hedge accounting, the Group recognizes the effective portion of the gain or loss on the hedging instrument directly as other comprehensive income for offsetting the exposure to changes in cash flows of the hedging instrument and the hedged item attributable to the hedged risk. The Group reclassified from equity to profit or loss the associated gain or loss that was recognized in other comprehensive income in the same period during which the hedged forecast cash flows affect profit or loss. The Group discontinues prospectively the cash flow hedge accounting if the hedge no longer meets the criteria for hedge accounting.

**3.6.3 Embedded derivatives**

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The Group separates an embedded derivative from the host contract and accounted for as a derivative only if the requirements of separation are met.

**3.6.4 ‘Day 1’ profit or loss**

In case of derivatives in level 3, whose fair value is determined using data which is not observable from markets, the difference between the transaction price and fair value at initial recognition (a ‘Day 1’ profit or loss) is deferred and amortized over the life of the associated instrument using the straight–line method and the amortization is recognized in the statement of comprehensive income.

**3.6.5 Credit risk valuation adjustment**

When measuring derivatives at fair value, credit risk valuation adjustment is calculated to reflect the effectiveness of the adjustment for counterparties.

**3.7 Investments in associates and joint ventures**

Investments in entities over which the Group has joint control or significant influence (investments in associates and joint ventures) are accounted for using the equity method. Under the equity method, on initial recognition the Group recognizes investments in associates and joint ventures cost. Subsequently, the Group adjusts the carrying amount of the investments in associates and joint ventures to recognize the Group's share of the profit or loss of the investee as profit or loss in the statement of comprehensive income. The Group recognizes the Group's share of changes in equity (except for profit or loss of the investee) directly in the related equity account to the statement of financial position.

If the Group's share of losses of the investee equals or exceeds its interest in the associates and joint ventures, it suspends recognizing its share of further losses. However, if the Group has other long-term interests in the investee, it continues recognizing its share of further losses to the extent of the carrying amount of such long-term interests. Such items include preference shares and long-term receivables or loans. The Group resumes the application of the equity method if the Group's share of income or change in equity of an investee exceeds the Group's share of losses accumulated during the period of suspension of the equity method.

On acquisition of the investment, the excess of the cost of the investment over the Group's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as goodwill. The Group does not amortize goodwill relating to an associates or a joint venture and tests the investment for impairment if there is an indication which the investment is impaired. Further, the Group's share of any difference between the net fair value of the investee's identifiable assets and liabilities, and the net book value of such assets and liabilities is amortized based on the investee's accounting treatments on the related assets and liabilities and charged or credited to the valuation gain or loss on the equity method investments in the statement of comprehensive income.

The Group's share in the investee's unrealized profits and losses resulting from transactions between the Group and its investee are eliminated to the extent of the interest in the investee.

**3.8 Impairment of financial assets**

**3.8.1 Available-for-sale financial assets**

When there is any objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognized in other comprehensive income reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. The amount of the cumulative loss that is reclassified from equity to profit or loss less the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss and the change in the fair value of the equity instrument is recognized as other comprehensive income. If there is objective evidence that an impairment loss has been incurred on an equity instrument carried at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

**3.8.2 Held-to-maturity investments**

If there is any objective evidence that a held-to-maturity investment is impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. The reversal is not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.



3.8.3 Loans and receivables

The Group first assesses whether objective evidence of impairment exists individually financial assets that are individually significant. If there is any objective evidence that a financial asset is impaired, the Group assesses the asset individually for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The Group assesses collectively for financial assets that are not significant.

If there is any objective evidence that an individually assessed loan or receivable is impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate.

If an individually assessed financial asset is not expected to recover in future periods and the collection through the disposal of all collateral is complete, the Group writes off both the financial asset and the allowance. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment is reversed by adjusting an allowance account.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For a collective assessment of impairment, the Group classifies loans and receivables by similar credit risk characteristics. Such characteristics include asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

A collective evaluation of impairment is based on incurred loss model. The ratio of allowance for possible loan losses on credit by collective assessment is the incurred but not reported possibility of default (IBNR PD) times loss given default (LGD). IBNR PD is estimated by applying Loss Emergence Period (LEP) to Probability of default (PD) regulated by Basel II on the basis of historical loss experience for a group of loan receivables with similar credit risk characteristics. LGD is estimated by applying EIR of a group of loan receivables and reflecting types of products and collaterals.

3.9 Reclassification of financial assets

The Group reclassifies financial assets in the following circumstances.

- Financial assets at fair value through profit or loss may be reclassified out of the fair value through profit or loss category only in rare circumstances if financial assets are no longer held for the purpose of selling or repurchasing it in the near term. Financial assets that would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition) may be reclassified out of the fair value through profit or loss category if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- A financial asset classified as available for sale that would have met the definition of loans and receivables (if it had not been designated as available for sale) may be reclassified out of the available-for-sale category to the loans and receivables category if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it can be reclassified as available for sale. If there are sales or reclassification of more than an insignificant amount of held-to-maturity investments, the Group reclassifies any remaining held-to-maturity investments as available for sale.

3.10 Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when (i) the rights to receive cash flows from the asset have expired or, (ii) the Group has transferred substantially all the risks and rewards of the asset. If the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset, the Group recognizes the asset and the associated liability to the extent of the Group's continuing involvement in the asset. If the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset and recognizes a collateralized borrowing for the consideration received.

3.11 Classification and measurement of financial liabilities

When a financial liability is recognized initially, the Group classifies the liability as financial liability at fair value through profit or loss or borrowings, etc. and measures it at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability.

3.11.1 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. All financial liabilities including an embedded derivative separated from the host contract are reclassified as financial liabilities at fair value through profit or loss except for financial liabilities designated as effective hedging instruments or financial guarantee contracts. After initial recognition, the changes in the fair value of the financial liabilities at fair value through profit or loss and the related interest expense are recognized as profit or loss.

The Group performs securities lending and borrowing classified to held-for-trading financial liabilities. When the Group borrows securities from Korea Securities Depository, securities borrowed are managed as memorandum value and when selling them, they are recorded as securities sold. At closing, the difference in the price securities are sold and the market price prevailing on the closing date is taken into account as valuation gain or loss on securities sold, and at the time of selling the securities, the difference in book value and the price securities are purchased is recorded as trading gain or loss on securities sold.

3.11.2 Deposits, borrowings, and debentures

After initial recognition, interest bearing deposits, borrowings and debentures are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the EIR method amortization process.

3.12 Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

3.13 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.14 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provision is used only for expenditures for which the provision was originally recognized. If a present obligation is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability, the Group discloses the obligation as a contingent liability. If the effect of the time value of money is material, provisions are measured at present value, the amount of a provision is measured at the present value of the expenditures expected to be required to settle the obligation.

The Group recognizes a provision for confirmed acceptances and guarantees, unconfirmed acceptances and guarantees, bills endorsed, unused credit line and cash advance commitments on credit cards by applying credit conversion factor (CCF). The Group measures provisions for such off-statement of financial position items in the same way that is applied to collective assessments of loans and receivables.

3.15 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument and is measured at fair value on date of initial recognition. After initial recognition, the Group, as an issuer of such a contract, measures it at the higher of (i) the amount determined in accordance with IAS 37 and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18.

3.16 Bonds purchased under resale agreements and bonds sold under repurchase agreements

Bonds purchased under resale agreements and bonds sold under repurchase agreements are included in loans receivable and borrowings, respectively, in the accompanying statement of financial position. Interest income and expense from purchase or sale are recognized as interest income on loan receivables and interest expense on borrowings.

3.17 Property and equipment

An item of property and equipment is measured at its cost less any accumulated depreciation. The cost of an item of property and equipment includes any costs directly attributable to acquisition of an item.

Subsequent cost is recognized as an asset if, and only if it is probable that future economic benefits associated with the cost will follow to the Group and the cost can be measured reliably. The carrying amount of parts that are replaced is derecognized. The Group recognizes other repair and maintenance costs as profit or loss for the current period.

Land is not depreciated. Depreciation of other item of property and equipment is calculated using methods listed below to write down the cost of property and equipment to their residual values over their estimated useful lives. The depreciation methods and estimated useful lives are as follows:

	Depreciation method	Years
Buildings for business purpose, equipment attached to the building and Construction structures	Straight-line method	5 to 50
Vehicles, furniture and fixtures, leasehold improvements	Straight-line method or declining balance method	3 to 20

When the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. The residual value of and useful life of an asset is reviewed at each financial year end and, if expectations differ from previous estimates, the Group applies change in estimates. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in non-operating income in the statements of comprehensive income.

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

3.18 Investment properties

An item of investment properties is measured at its cost less any accumulated depreciation. The cost of an item of investment properties includes any costs directly attributable to acquisition of an item. After initial recognition, the Group measures all of its investment properties in accordance with the cost model in *IAS 40*.

Land is not depreciated. Depreciation of other item of investment properties is calculated using methods listed below to write down the cost of investment properties to their residual values over their estimated useful lives. The depreciation methods and estimated useful lives are as follows:

	Depreciation method	Years
Buildings	Straight-line method	40 to 50

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the

asset is recognized in the statement of comprehensive income in the period of derecognition. Transfers to, or from, investment properties are made when, and only when, there is a change in use.

For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

3.19 Lease

The Group classifies a lease as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Otherwise, a lease is classified as an operating lease.

3.19.1 Finance lease

The Group measures financial lease receivables at an amount equal to the net investment in the lease Initial direct costs are included in the initial measurement of the finance lease receivable. Initial direct costs include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income. The finance income is calculated by using the EIR method on the Group's net investment in the lease contract.

3.19.2 Operating lease

The Group presents operating lease assets in the statements of financial position according to the nature of the assets. Initial direct costs incurred by lessors in negotiating and arranging the lease contract are added to the carrying amount of the operating lease assets and recognized as an expense over the period of the lease contract corresponding to the amount of lease revenues. Depreciation of operating lease assets is calculated using the same method of other similar assets.

3.20 Intangible assets

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. Intangible assets include industrial right, software, development cost and others.

Amortization of items of intangible assets is calculated using methods listed below to write down the cost of items to their residual values over their estimated useful lives. The amortization methods and estimated useful lives are as follows:

	Depreciation method	Years
Industrial property, software, system development, trademark rights	Straight-line method	5
Core deposit	Straight-line method	7
Client membership	Straight-line method	10
Others	Straight-line method	1 to 7

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition in accordance with KIFRS 1103 *Business Combinations*. Following initial recognition, the carrying amount of intangible assets with finite useful lives is allocated on a systematic basis over their useful lives. The intangible assets with indefinite useful lives are not amortized and the Group tests those assets for impairment annually and whenever there is an indication that the intangible asset may be impaired. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

3.21 Non-current assets 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 to be the case, the asset or disposal group must be available for immediate sale in its present condition and its sale must be highly probable. The asset (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.

The Group measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.



3.22 Impairment of non-financial assets

The Group tests the depreciable asset for impairment whenever there is a change of environment or an event that the carrying amount may not be recoverable. The Group recognizes an excess of the carrying amount over the recoverable amount as an impairment loss. The Group defines recoverable amount as the higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value in use. For measuring the impairment of assets, the Group identifies the lowest aggregation of assets that generate largely independent cash inflows (CGU). The Group assesses reversal of an impairment loss recognized for the non-financial assets other than goodwill at the end of reporting period.

3.23 Retirement benefits

The Group has both defined benefit (DB plan) and defined contribution (DC plan) plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service rendered in the current and prior periods. Defined benefit plans are all post-employment benefit plans except for defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The defined benefit liability is the present value of the defined benefit obligation less the fair value of plan assets. The cost of providing benefits under the defined benefit plan is determined separately using the projected unit credit actuarial valuation method. The present value of the defined benefit liability is recorded in the same currency as the payment itself and is calculated by discounting the expected future cash flow and using the interest rate of other reputable companies with similar payment and end of reporting dates.

Changes in the actuarial estimates and actuarial gains and losses between estimates and results are recognized in the period they occur as part of other comprehensive income. The past service cost is recognized immediately.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

3.24 Share-based payment transactions

The Group grants share options to its employees in the form of share-based payment transactions. For equity-settled share-based payment transactions, the Group measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, and recognizes the cost as employee benefits expense and other capital adjustment in equity. If the Group cannot estimate reliably the fair value of the goods or services received, the Group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted and recognizes the cost as employee benefits expense and other capital adjustment in equity. For cash-settled share-based payment transactions, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period. For share-based payment transactions in which the terms of the arrangement provide the counterparty with a choice of settlement, the Group accounted for the transactions in accordance with their commercial substance.

3.25 Income tax expenses and deferred tax assets and liabilities

Income taxes comprise of current and deferred taxes. All items related to taxes, other than those recognized directly in equity, are accounted for in the statement of comprehensive income. Accordingly, items recognized directly in equity and the related taxes are accounted for as other comprehensive income in the consolidated statements of comprehensive income.

Current income tax expenses are computed based on the tax rates and tax laws enacted or substantively enacted in the jurisdictions that the Group operates in and generates taxable income at the end of the reporting period. If application of related tax law or regulation depends on the interpretation, the Group measures the current tax liabilities at the amount expected to be paid to the taxation authorities based on its interpretation and assesses its initial interpretation periodically.

Deferred tax is provided on the temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

When the initial recognition of an asset or liability in a transaction which is not a business and at the time of the transaction, affects neither accounting profit nor taxable profit, the Group does not recognize a deferred tax asset or liability. The Group measures deferred tax assets and liabilities at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The Group recognizes a deferred tax asset for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

The Group recognizes a deferred tax liability for all taxable temporary differences with investments in subsidiaries, except to the extent that both of the following conditions are satisfied: (a) the parent is able to control the timing of the reversal of the temporary difference; and (b) it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and taxation authority.

The Group offsets deferred assets and liabilities if, and only if (a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities and, (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either on (i) the same taxable entity or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

The Company and its wholly owned subsidiaries have adopted a Consolidated Tax Return which is calculated based on the consolidated taxable income. Under the Consolidated Tax Return, the Group recognizes the current tax liabilities on behalf of its subsidiary and also recognizes accounts receivable or accounts payable for the amount to be collected from or to be paid to the subsidiary for its share of the consolidated taxation.

3.26 Insurance contracts

Hana Life Insurance’s significant accounting policies relating to insurance contracts are as follows.

3.26.1 Reinsurance assets

The Group does not offset the reinsurance assets against the related reinsurance liabilities. If a reinsurance asset is impaired, the Group reduces its carrying amount accordingly and recognizes that impairment loss in profit or loss.

3.26.2 Deferred acquisition costs

The Group amortized the acquisition costs arising from long-duration contracts during the term of the contracts in the straight-line method in accordance with accounting standards for insurance business article 31 and article 3 of the supplementary provisions. If the acquisition costs exceed the expected amount or the additional premiums are settled highly for earlier term of the contracts to collect the acquisition costs in early stage, the acquisition costs are recognized in the period they occur as profit or loss. The deferred acquisition costs are amortized over the term of the contracts within the limits of 7 years. The unamortized costs of surrendered insurance contract are amortized in the period it is surrendered.

3.26.3 Liabilities reserves

The Group recognizes liabilities reserves by types of insurance contracts as at the reporting date in accordance with the Insurance Business Act and the related regulations. The liabilities reserves refer to an amount calculated pursuant to the premiums and liabilities reserves calculation manual for payment of claims, bonus return and policyholders dividend.

3.26.4 Valuation of special accounts assets and liabilities

The Group designates and operates any of the retirement insurance contracts, retirement dividend insurance contracts and variable insurance contracts (including variable universal insurance contracts) as special accounts pursuant to Article 108 (1) of the *Insurance Business Act* and Article 52 of the Regulations on Supervision of Insurance Business.

3.27 Equity

3.27.1 Classification of equity

The Group classifies a financial instrument on initial recognition as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. If the Group has the right to avoid contractual obligation relating to an issued financial instrument, the Group classifies the financial instrument as an equity instrument in accordance with the substance of the contractual arrangement. The Group classifies a hybrid equity security on initial recognition as equity if it meets the condition of an equity instrument.

3.27.2 Stock issuance costs

Additional stock issuance costs or incremental costs related to the stock issuance for business combinations are recorded as a deduction from issued capital net of tax effects.

3.27.3 Dividends on common stock

Dividends from common stock are deducted from the Group's equity and recognized as a liability upon approval of dividend distributions at the shareholders' meeting (the board of directors for the interim dividends). Dividends declared for the year that is approved after the reporting date are disclosed as a subsequent event.

3.27.4 Treasury stock

Equity instruments of the Group which are acquired by the Group or any of its subsidiaries are deducted from its equity and recorded at acquisition cost, including transaction costs. Consideration received on the sale or issuance of the Group's own equity instruments is recognized directly in equity.

3.28 Per share amounts

Basic and diluted earnings per share are computed by dividing net income by the weighted-average number of shares of common stock outstanding during the year.

3.29 Accounting basis for trust accounts

The Group separates trust properties from proprietary properties in accordance with the Supervisory Regulations on Financial Investment Business. The Group recognizes funds lent or borrowed to trust accounts as accounts receivables or account payables, respectively. The Group recognizes trust commissions earned from trust accounts as income from trust operations. When a loss is incurred on a trust account that includes a guarantee of principal repayment, the corresponding loss is recognized as a loss from trust operations.

3.30 Merchant banking accounts

As permitted by the Restructuring of Financial Institutions Act, the Group may continue its merchant banking operations, including business affairs of bill management accounts, until the existing contracts acquired from Korea International Merchant Bank upon merger are terminated. Significant accounting policies applied to the Group's merchant banking operations are summarized as follows:

3.30.1 Revenue recognition on discounted notes

Interest income on discounted notes is accrued over the term of the notes. Income from the sale of the discounted notes is recognized at the date of sale based on the difference between the purchase and sales prices of the notes, adjusted for interest earned during the holding period.

3.30.2 Cash Management Accounts (CMA)

The Group recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

3.31 Interest income and interest expense

The Group recognizes interest income and expense using the effective interest method by the passage of time.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly

discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The Group estimates cash flows considering all contractual terms of the financial instrument but do not consider future credit losses. The cash flows include all fees and points paid or received by the Group including transaction costs, and all other premiums or discounts.

If it is probable that interest income arising from a financial asset will flow to the Group, the interest income is recognized as income when the Group receives interest payments. For the impaired loans and receivable that are individually assessed, the Group recognizes the adjustment as interest income if recoverability of the assets subsequently increases.

3.32 Fee and commission income

The Group earns fees and commissions income from a diverse range of services it provides to its customers. Fees and commissions income from financial services are accounted for based on the related accounting standards of financial instruments and their purpose of such fees and commissions. Fees and commissions income are accounted for as follows:

- When the earned fees and commissions are a significant component of EIR from the related financial assets, the income is accounted for using the EIR method.
- Fees and commissions income earned from rendering services are recognized throughout the service period.
- Fees and commissions income earned through financial services are recognized immediately when the services are complete.

3.33 Dividend income

Dividend income is recognized when the Group's right to receive the payment is established.

3.34 Transaction under common control

The Company conducted accounting treatment of transactions under common control based on book value. Therefore, the Company recognized (eliminated) asset, liability and capital as at merger and spinoff date as book value and didn't recognize transaction gain (loss).

3.35 New and amended standards and interpretations

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2016, except for the adoption of new standards and interpretations as at January 1, 2017.

The nature and the impact of each new standards and amendments are described below:

3.35.1 Amendments to KIFRS 1007 *Statement of Cash Flows: Disclosure Initiative*

The amendments to KIFRS 1007 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, the Group is not required to provide comparative information for preceding periods.

3.35.2 Amendments to KIFRS 1012 *Income Taxes : Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in the opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. The Group retrospectively applied these amendments. However, their application has no effect on the Group's financial statements as the Group has no deductible temporary differences or assets that are in the scope of the amendments.



3.36 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s consolidated financial statements are disclosed below.

3.36.1 KIFRS 1109 Financial Instruments

KIFRS 1109, enacted on September 25, 2015, is effective for annual periods beginning on or after January 1, 2018, with early application permitted. KIFRS 1109 will replace KIFRS 1039 *Financial Instruments: Recognition and Measurement*. The Group plans to apply KIFRS 1109 for annual periods beginning on or after January 1, 2018.

The new KIFRS 1109 is retrospectively applied in principle, but there are some exceptions such as exemption of restatement of comparative information for classification, measurement, impairment of financial instruments. For hedge accounting, the requirements are generally applied prospectively, with some exceptions such as accounting for time value of options.

Major characteristics of KIFRS 1109 are financial assets being classified and measured on the basis of the holder's business model and instrument's contractual cash flow characteristics, impairment model of financial instruments based on expected credit losses (ECL), broader range of hedged items and hedging instruments that qualify for the application of hedge accounting or changes in evaluation of hedging effectiveness etc.

For smooth adoption of KIFRS 1109, financial impact analysis, accounting policies establishment, accounting system establishment and stabilization need to take place. The impact of the standards on the financial statements in the period they are initially adopted may differ depending on the Group's decisions and judgments of accounting policies as well as economic environment of its financial instruments.

In connection with the adoption of KIFRS 1109, the Group completed the process of undertaking any update on its internal control processes or a change in the accounting system related to the reporting of financial instruments. Based on the result of analysis on the financial impact of the new standard on the financial statements based on the information available on December 31, 2017, the general impacts on the financial statements are as follows:

The result of a preliminary impact assessment may be subject to change due to additional information available to the Group and related decision making.

- Financial assets classification and measurement

The new KIFRS 1109 requires a financial instrument to be classified and measured subsequently at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL), on the basis of the holder's business model and instrument's contractual cash flow characteristics as shown below. The requirements should be applied to an entire financial asset, even if it contains an embedded derivative. That is, in contrast with the requirements of KIFRS 1039, a derivative embedded within a hybrid (combined) contract containing a financial asset host is not accounted for separately.

Business model	Contractual cash flow characteristics	
	Composed solely of principal and interest	Other
Purpose of collecting contractual cash flows	Measured at amortized cost (*1)	
Purpose of collecting and selling contractual cash flows	Measured at FVOCI (*1)	Measured at FVTPL (*2)
Purpose of selling, others	Measured at FVTPL	

(\*1) can be irrevocably designated at FVTPL in order to get rid of or reduce accounting mismatch.  
(\*2) can be irrevocably designated at FVOCI in case of equity securities not for the held-for-trading purpose.

The requirements in KIFRS 1109 to classify financial assets measured at amortized costs or at FVOCI are stricter than KIFRS 1039, and thus, the proportion of financial assets measured at FVTPL may increase, which may lead to a rise in profit or loss volatility at the adoption of KIFRS 1109.

As at December 31, 2017, the Group holds loans and receivables of ₩274,347,565 million, financial assets at fair value through profit or loss of ₩23,996,862 million, available-for-sale financial assets of ₩46,921,429 million and held-to-maturity investments of ₩7,392,100 million.

In accordance to KIFRS 1109, equity security not designated as measured at FVOCI and a debt security that meets the following two conditions must be measured at FVTPL: 1) the contractual terms of the financial asset give rise to cash flows which are not solely payments of principal and interest on the principal amount outstanding, and 2) the objective of the entity's business model is to sell and purchase the financial asset.

In accordance with KIFRS 1109, a debt security that meets the following two conditions must be measured at FVOCI: 1) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and 2) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

In accordance with KIFRS 1109, an equity security is classified as FVTPL in principle but an entity can make an irrevocable election at initial recognition to measure it at FVOCI, and subsequent recycling from comprehensive income to profit or loss is not permitted.

In accordance to KIFRS 1109, a debt security that meets the following two conditions must be measured at amortized cost: 1) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and 2) the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows.

As at December 31, 2017, the following table summarizes the impacts on the classification and measurement of financial assets (excluding derivatives) held by the Group. The results of preliminary impact assessment may change due to additional information available and related decision making. (Korean won in millions):

Classification based on KIFRS 1039	Classification based on KIFRS 1109	Amount based on KIFRS 1039	Amount based on KIFRS 1109
Loans and receivables			
Cash and due from banks	Measured at amortized cost	₩ 21,850,692	₩ 21,850,692
Loan receivables	Measured at FVTPL	238,943,185	220,329
	Measured at amortized cost		238,579,547
Other financial assets	Measured at amortized cost	13,553,688	13,549,425
		274,347,565	274,199,993
Financial assets at fair value through profit or loss	Measured at FVTPL	23,996,862	23,995,188
	Measured at FVTPL		4,096,756
Available-for-sale financial assets	Measured at FVOCI	46,921,429	42,801,671
	Measured at amortized cost		21,937
		46,921,429	46,920,364
Held-to-maturity financial assets	Measured at amortized cost	7,392,100	7,415,182
		₩ 352,657,956	₩ 352,530,727

In accordance with KIFRS 1109, ₩220,329 million of loans and receivables and held-to-maturity financial assets measured at amortized cost as at December 31, 2017 and ₩4,096,756 million of available-for-sale financial assets will be classified as financial assets at fair value through profit or loss. The proportion of financial assets (excluding derivatives for hedging) will increase from 6.8% to 8.0%, resulting in a slight increase in the volatility of profit or loss due to changes in the fair value of financial assets.

- Financial liabilities classification and measurement

In KIFRS 1109, fair value changes of financial liabilities at FVTPL attributable to changes in credit risk of the liability shall be presented in other comprehensive income, not in profit or loss. Amounts presented in other comprehensive income shall not be subsequently recycled to profit or loss. However, the new standard allows the recognition of the full amount of change in the fair value in profit or loss only if the presentation of the changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

The fair value changes of financial liabilities designated at FVTPL that were previously recognized as profit of loss in KIFRS 1039 will partially be recorded as other comprehensive income and thus profit or loss related to financial liabilities evaluation may decrease.

Based on the results of preliminary impact assessment, credit risk changes in financial liabilities at FVTPL as at December 31, 2017 are insignificant and thus, the Company does not expect impact of the financial liabilities on the financial statements even after the adoption of KIFRS 1109.

- Impairment: financial assets and contract assets

In KIFRS 1039, impairment is recognized only when there is objective evidence of impairment based on incurred loss model. In the new KIFRS 1109, impairment of debt instruments, lease bonds, contract assets, loan commitments and financial guarantee contracts that are measured at amortized costs or at FVOCI is recognized based on the expected credit loss (ECL) impairment model.

KIFRS 1109 outlines a 'three-stage' model for impairment based on changes in credit risk since initial recognition. Loss allowance is measured based on the 12-month ECL or life-time ECL which allows early recognition of credit loss compared to the incurred loss model of KIFRS 1039.

	Classification	Loss allowance
Stage 1	Assets with no significant increase in credit risk since initial recognition	12-month ECL: Expected credit losses that result from default events that are possible within 12 months after the reporting date.
Stage 2	Assets with significant increase in credit risk since initial recognition	Lifetime ECL: Expected credit losses that result from all possible default events over the expected life of the financial instrument.
Stage 3	Credit-impaired assets	

In KIFRS 1109, accumulated changes in the life-time ECL after initial recognition are taken into account as loss allowance in case credit is impaired at initial recognition of financial assets.

The following table summarizes the impact on the loss allowance as at December 31, 2017. The results of these impacts are subject to change based on the additional information available to the Group and related decision-making. (Korean won in millions):

Account	Loss allowance in KIFRS 1039	Loss allowance in KIFRS 1109
Loans and receivables	₩ 1,737,433	₩ 1,877,153
Off-balance accounts	179,792	202,309
Available-for-sale debt instruments	-	8,878
Held-to-maturity debt instruments	-	1,688
	₩ 1,917,225	₩ 2,090,028

- Hedge accounting

The new KIFRS 1109 maintains mechanics of hedge accounting (fair value hedge, cash flow hedge and a hedge of a net investment in a foreign operation) as set forth in KIFRS 1039. However, unlike requirements in KIFRS 1039 that are too complex and strict, KIFRS 1109 is more practical, principle based and less strict and focuses on the entity's risk management activities. Also, KIFRS 1109 allows broader range of hedged items and hedging instruments. Under KIFRS 1039, a hedge is assessed to be highly effective only if the offset is in the range of 80-125 percentage by performing numerical test of effectiveness. In KIFRS 1109, such requirements are alleviated.

Transactions not qualifying for hedge accounting requirements of KIFRS 1039 may now qualify for hedge accounting under KIFRS 1109, resulting in less volatility in profit or loss.

Pursuant to transitional provisions of hedge accounting, the Group may choose to continue hedge accounting under KIFRS 1039 at first-time adoption of KIFRS 1109. The Group continues to apply KIFRS 1039 and thus there is no impact on the financial statements.

3.36.2 KIFRS 1115 Revenue from Contracts with Customers

KIFRS 1115 suggests a five-step model on revenue from contracts with customers. Under KIFRS 1115, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under KIFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group does not expect to have significant impact of the amendments on its financial statements.

3.36.3 Amendments to KIFRS 1110 and KIFRS 1028 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between KIFRS 1110 and KIFRS 1028 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in KIFRS 1103, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The amendments are not expected to have any impact on the Group's financial statements.

3.36.4 Amendments to KIFRS 1102 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to KIFRS 1102 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Group does not expect to have significant impact of the amendments on its financial statements.

3.36.5 Amendments to KIFRS 1116 Leases

KIFRS 1116 replaces KIFRS 1017 *Leases*, KIFRS 2104 *Determining whether an Arrangement contains a Lease*, KIFRS 2015 *Operating Leases-Incentives* and KIFRS 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. KIFRS 1116 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under KIFRS 1017. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under KIFRS 1116 is substantially unchanged from today's accounting under KIFRS 1017. Lessors will continue to classify all leases using the same classification principle as in KIFRS 1017 and distinguish between two types of leases: operating and finance leases.

KIFRS 1116 also requires lessees and lessors to make more extensive disclosures than under KIFRS 1017.

KIFRS 1116 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies KIFRS 1115. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is assessing the potential effect of the amendments on its consolidated financial statements. The Group will apply these amendments on the required effective date.

There are no standards issued but not yet effective that are early adopted by the Group.

4. Significant judgments and accounting estimates

For applying accounting policies of the Group's consolidated financial statements, management are required to make judgments, estimates and assumptions that affect the amount of assets and liabilities which are difficult to identify through other resources. The estimates and assumptions are based on the other factors considered that they are related to historical experience. Actual results may differ from these estimations.



Management reviews these estimates and assumptions regularly. The effect of a change in an accounting estimate is recognized in profit or loss in the period of the change, if the change affects that period only and the effect of a change in an accounting estimate is recognized in profit or loss in the period of the change and the future periods, if the change affects both.

In the process of applying the Group's accounting policies, management has made the following judgments that have a significant effect on the amounts recognized in the consolidated financial statements.

4.1 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, a degree of judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

4.2 Impairment losses on available-for-sale equity instruments

The Group assesses its equity securities classified as available-for-sale investments at the end of each reporting period whether there is any indication that an asset may be impaired.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value of the investment below their cost. The determination of what is ‘significant’ or ‘prolonged’ requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

When the fair value below the cost of available-for-sale equity instruments is significant or prolonged, the Group reclassifies the cumulative loss and is recognized as other comprehensive income from equity to profit or loss.

4.3 Impairment losses on loans

The Group assesses loans individually or collectively to determine the amount of impairment loss. The Group estimates future cash flow based on business and collateral of borrowers to measure recoverable amount of loans that are individually assessed. The Group estimates probability of default (PD), loan emergence period (LEP) and loss given default (LGD) using statistical method based on past experience of impairment loss.

4.4 Provision for severance and retirement benefits

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method. Actuarial assumptions were made for the discount rate, the overall expected rates of return on assets, and an increase in the future pay rate. Severance and retirement benefits include significant uncertainties in the estimates due to the long duration of the period.

4.5 Impairment of non-financial assets

The Group assesses at the end of the reporting period whether there is any indication that a non-financial assets may be impaired. The Group tests an intangible asset with an indefinite useful life for impairment annually or if any such indication exists. The Group tests an intangible asset with definite useful life for impairment if any such indication exists. Management estimates future cash flow associated with an asset or a cash-generating unit, and selects the adequate discount rate to compute present value of future cash flow.

4.6 Income taxes

Different taxation laws that the Group's foreign subsidiaries are exposed to require judgment in determining the amount of tax expenses that can be recognized. In addition, there has been various transactions and tax accounting methods which have made computing the final tax expenses for the period uncertain. The contingent liability from any future tax assessments is based on the estimates of the likelihood of additional taxes imposed and has been included in the Group's consolidated financial statements for the current period. When the finalized tax expense assessments are different from the appropriated amounts, the differences, if any, are recognized in current deferred tax assets, liabilities, and expenses for the period.

4.7 Share-based payment transactions

The Group measured the compensation cost of share-based payment transactions at fair value. The fair value is estimated by applying appropriate valuation model taking into account the terms of conditions upon which those equity instruments were granted. The Group should determine and assume the inputs of valuation model including the expected life, volatility and dividend ratio of the share option. The applied assumptions and models are described in Note 55.

5. Fair value measurement of financial assets and financial liabilities

The following standards are applied in measuring fair value of financial assets and financial liabilities:

- Financial assets and financial liabilities traded in active markets at the reporting date are based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.
- For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with the similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models. These techniques incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments. Valuation techniques which provide reliable estimates on mark-to-market prices are applied.
- When determining fair value by using the valuation techniques, comparison with the current market transaction of another instrument that is substantially the same as the financial instrument needed to be objectively substantiated or inclusion of variables in the marketable data must be performed. Not all of the significant market variables are observable and in relevant cases, the reasonable estimates or assumptions are required to determine the fair value.
- Investments in equity instruments that do not have a quoted market price in an active market as well as the derivatives that are linked to these equity instruments are accounted for using the cost method when it is determined that their fair values cannot be reliably measured.

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets held-for-trading through profit or loss:				
Debt securities	₩ 3,123,422	₩ 10,717,498	₩ -	₩ 13,840,920
Equity securities	337,373	212,355	-	549,728
Derivative assets held-for-trading	22,012	6,979,885	328,673	7,330,570
Others	-	-	982,886	982,886
	3,482,807	17,909,738	1,311,559	22,704,104
Financial assets designated at fair value through profit or loss	-	259,735	1,033,023	1,292,758
Available-for-sale financial assets:				
Debt securities	25,073,516	16,818,835	18,299	41,910,650
Equity securities (*1)	442,743	3,495,652	1,052,217	4,990,612
Others	-	-	20,167	20,167
	25,516,259	20,314,487	1,090,683	46,921,429
Derivative assets used for hedging	-	23,724	-	23,724
	₩ 28,999,066	₩ 38,507,684	₩ 3,435,265	₩ 70,942,015
Financial liabilities:				
Financial liabilities held-for-trading:				
Derivative liabilities held-for-trading	₩ 32,266	₩ 7,082,278	₩ 283,808	₩ 7,398,352
Securities sold	436,248	-	-	436,248
	₩ 468,514	₩ 7,082,278	₩ 283,808	₩ 7,834,600

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial liabilities designated at fair value through profit or loss	₩ -	₩ 2,604,836	₩ 6,214,500	₩ 8,819,336
Derivative liabilities used for hedging	-	61,344	10,453	71,797
	₩ 468,514	₩ 9,748,458	₩ 6,508,761	₩ 16,725,733
	December 31, 2016			
	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Financial assets held-for-trading through profit or loss:				
Debt securities	₩ 2,762,183	₩ 10,530,730	₩ -	₩ 13,292,913
Equity securities	262,615	226,657	-	489,272
Derivative assets held-for-trading	30,687	6,733,305	329,198	7,093,190
Others	-	-	902,191	902,191
	3,055,485	17,490,692	1,231,389	21,777,566
Financial assets designated at fair value through profit or loss	-	282,749	1,555,175	1,837,924
Available-for-sale financial assets:				
Debt securities	17,734,069	18,537,915	7,850	36,279,834
Equity securities (*1)	680,099	1,917,295	1,113,711	3,711,105
Others	-	-	21,146	21,146
	18,414,168	20,455,210	1,142,707	40,012,085
Derivative assets used for hedging	-	24,661	1,164	25,825
	₩ 21,469,653	₩ 38,253,312	₩ 3,930,435	₩ 63,653,400
<b>Financial liabilities:</b>				
Financial liabilities held-for-trading				
Derivative liabilities held-for-trading	₩ 81,699	₩ 6,619,349	₩ 355,013	₩ 7,056,061
Securities sold	17,211	-	-	17,211
	98,910	6,619,349	355,013	7,073,272
Financial liabilities designated at fair value through profit or loss	-	2,336,164	7,370,675	9,706,839
Derivative liabilities used for hedging	-	121,310	-	121,310
	₩ 98,910	₩ 9,076,823	₩ 7,725,688	₩ 16,901,421

(\*1) Equity securities in available-for-sale financial assets in the amount of ₩87,098 million and ₩94,457 million were valued at cost as at December 31, 2017 and December 31, 2016, respectively, since quoted prices in active market are not available and their fair values were not able to be reasonably estimated. They are included in Level 3 in the fair value hierarchy.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Fair value, valuation method, and input variables used to measure fair value of financial instruments classified as fair value hierarchy Level 2 as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	Fair value		Valuation method	Input variable
	December 31, 2017	December 31, 2016		
<b>Financial assets:</b>				
Financial assets held-for-trading through profit or loss:				
Debt securities	₩ 10,717,498	₩ 10,530,730	DCF model, etc.	Discount rate, etc.
Equity securities	212,355	226,657	DCF model, etc.	Discount rate, etc.
Derivative assets held-for-trading	6,979,885	6,733,305	Black-Scholes model, Hull-White 1 factor model, Black model, DCF model, Gaussian 1 factor model, etc.	Volatility, discount rate, stock price, exchange rate, interest rate, CDS premium, etc.
	17,909,738	17,490,692		
Financial assets designated at fair value through profit or loss	259,735	282,749	Black-Scholes model, Hull-White 1 factor model, DCF model, Gaussian 1 factor model, etc.	Volatility, discount rate, stock price, exchange rate, interest rate, CDS premium, etc.
Available-for-sale financial assets:				
Debt securities	16,818,835	18,537,915	DCF model, etc.	Discount rate, etc.
Equity securities	3,495,652	1,917,295	DCF model, Net asset value, etc.	Discount rate, price of underlying asset, etc.
	20,314,487	20,455,210		
Derivative assets used for hedging	23,724	24,661	Hull-White 1 factor smodel, Black model	Volatility, discount rate, exchange rate, etc.
	₩ 38,507,684	₩ 38,253,312		
<b>Financial liabilities:</b>				
Financial liabilities held-for-trading:				
Derivative liabilities held-for- trading	₩ 7,082,278	₩ 6,619,349	Black-Scholes model, Hull-White 1 factor model, Black model, DCF model, Gaussian 1 factor model, etc.	Volatility, discount rate, stock price, exchange rate, interest rate, CDS premium, etc.
Financial liabilities designated at fair value through profit or loss	2,604,836	2,336,164	Black-Scholes model, Hull-white 1 factor model, DCF model, Gaussian 1 factor model, Hull-white Short rate model, etc.	Yield curve of KRW swap, volatility of KRW swaption, volatility, discount rate, stock price, exchange rate, interest rate, CDS premium, etc.
Derivative liabilities used for hedging	61,344	121,310	Hull-White 1 factor model, Black model	Volatility, discount rate, etc.
	₩ 9,748,458	₩ 9,076,823		



Fair value, valuation method, input variables and significant unobservable input variables information used to measure fair value of financial instruments classified as fair value hierarchy Level 3 are as follows (Korean won in millions):

	Fair value		Valuation method	Input variable	Significant unobservable inputs used in the fair value measurement	Range	The effect of changes in unobservable Inputs on fair value
	December 31, 2017	December 31, 2016					
Financial assets:							
Financial assets held-for trading:							
Derivative assets held-for- trading	₩ 328,673	₩ 329,198	Black-Scholes model, Hull-white 1 factor model, Black model, Gaussian 1 factor model, Binomial tree model, etc.	KRW interest swap yield curve, KRW treasury bond yield curve, volatility, discount rate, stock price, exchange rate, interest rate, CDS premium, correlation of underlying assets (each yield)	Volatility Correlation of underlying assets (each yield) etc.	0 ~ 1 -1 ~1	Positive (negative in some cases)
Others	982,885	902,191	DCF model, etc.	Discount rate, etc.	Discount rate, etc		
	1,311,558	1,231,389					
Financial assets designated at fair value through profit or loss	₩ 1,033,023	₩ 1,555,175	Black-Scholes model, Hull-white 1 factor model, DCF model, Gaussian 1 factor model, etc.	Volatility, discount rate, stock price, exchange rate, interest rate, CDS premium, correlation of underlying assets (each yield), etc.	Volatility Correlation of underlying assets (each yield) etc.	0 ~ 1 -1~1	Negative Positive (negative in some cases)
Available-for-sale financial assets:							
Debt securities	₩ 18,299	₩ 7,850	DCF model, etc.	Discount rate, etc.	Discount rate, etc.	11.88%	Negative
Equity securities	1,052,217	1,113,711	DCF model, NAV model, Comparison of companies with similar business, Utilization of past transaction, WACC model, Residual income model, etc.	Growth rate, discount rate, liquidating value	Growth rate Discount rate	-1.0%~2.0% 4.0%~18.5%	Positive Negative
Others	20,167	21,146	DCF model, Comparison of companies with similar business, WACC model	Discount rate	Discount rate	-	Negative
	1,090,683	1,142,707					
Derivative assets used for hedging	-	1,164	Hull-White 2 factor model	Correlation of KRW interest and swap yield curve, etc.	Correlation of KRW interest and swap yield curve	0.83~0.98	Positive
	₩ 3,435,264	₩ 3,930,435					
Financial liabilities:							
Financial liabilities held for trading:							
Derivative liabilities held-for- trading	₩ 283,808	₩ 355,013	Black-Scholes model, Hull-White 2 factor, DCF model, Gaussian 1 factor, Binomial tree model, etc.	KRW interest swap yield curve, USD interest swap yield curve, volatility of each yield, correlation of underlying assets (each yield)	Volatility Correlation of underlying assets (each yield)	0~1 -1~1	Positive Negative (positive in some cases)
Financial liabilities designated at fair value through profit or loss	₩ 6,214,500	₩ 7,370,675	Black-Scholes model, Hull-White 2 factor, DCF model, Gaussian 1 factor, etc.	Volatility, discount rate, stock price, exchange rate, interest rate, and CDS premium, Correlation between underlying assets, Correlation between USD interest rate and KRW/USD exchange rate, etc.	Volatility Correlation between underlying assets (each yield)	0~1 -1~1	Negative Positive (negative in some cases)
Derivative liabilities used for hedging	10,453	-	Hull-White 2 factor model	KRW swap yield curve, USD swap yield curve, volatility of each yield curve, Correlation of each yield curve of underlying assets, Correlation between USD interest rate and KRW/USD exchange rate, etc.	Correlation of each yield curve of Underlying assets, etc.	0.83~0.98	Positive
	₩ 6,508,761	₩ 7,725,688					

Changes in the fair value of Level 3 financial instruments for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Financial assets held-for-trading		Financial assets designated at FVTPL	Available-for-sale financial assets			Financial liabilities designated at FVTPL	Net derivative instruments	
	Equity securities	Others		Debt securities	Equity securities	Others		Held-for-trading	Held-for-hedging
January 1, 2017	₩ -	₩ 902,191	₩ 1,555,175	₩ 7,850	₩ 1,113,711	₩ 21,146	₩ 7,370,675	₩ (25,815)	₩ 1,164
Net income	(1,348)	12,343	183,278	1,581	(144,263)	247	(753,894)	(230,449)	(1,164)
Other comprehensive income	-	-	-	(1,481)	78,611	-	-	-	-
Purchase / issue	367,642	2,294,116	435,552	10,349	40,258	3,228	4,762,402	105,196	(10,453)
Sell / settlement	(366,294)	(2,225,764)	(1,140,982)	-	(36,100)	(4,454)	(5,164,683)	195,933	-
December 31, 2017	₩ -	₩ 982,886	₩ 1,033,023	₩ 18,299	₩ 1,052,217	₩ 20,167	₩ 6,214,500	₩ 44,865	₩ (10,453)

	Financial assets held-for-trading	Financial assets designated at FVTPL	Available-for-sale financial assets			Financial liabilities designated at FVTPL	Net derivative instruments	
			Debt securities	Equity securities	Others		Held-for-trading	Held-for-hedging
January 1, 2016	₩ 682,279	₩ 1,329,182	₩ 20,486	₩ 738,015	₩ 12,720	₩ 5,883,532	₩ (371,775)	₩ 4,321
From others to Level 3 (*)	-	-	-	4,947	-	-	-	-
From Level 3 to others (*)	-	-	-	(26,345)	-	-	-	-
Net income	10,814	87,827	(1)	13,004	-	428,543	238,045	(3,157)
Other comprehensive income	-	-	(12)	(4,406)	-	-	-	-
Purchase / issue	2,289,407	704,328	200	400,685	15,773	4,912,374	(86,644)	-
Sell / settlement	(2,080,309)	(566,162)	(12,823)	(103,486)	(7,347)	(3,853,774)	194,559	-
Others	-	-	-	91,297	-	-	-	-
December 31, 2016	₩ 902,191	₩ 1,555,175	₩ 7,850	₩ 1,113,711	₩ 21,146	₩ 7,370,675	₩ (25,815)	₩ 1,164

(\*) The Group recognizes transfers between the levels in the fair value hierarchy when an event or a change in circumstance, which causes the transfers, occurs.

Total gains or losses recognized in profit or loss, and the line item in profit or loss in which those gains or losses related with the Level 3 financial instruments are recognized for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017		December 31, 2016	
	Total gains or losses recognized in profit or loss	The line item in profit or loss in which those gains or losses are recognized	Total gains or losses recognized in profit or loss	The line item in profit or loss in which those gains or losses are recognized
Gain (loss) on financial assets held-for-trading	₩ (219,454)	₩ 186,642	₩ 248,859	₩ 116,068
Gain (loss) on financial assets designated at FVTPL	937,172	40,307	(340,716)	(183,983)
Gain (loss) on derivative assets used for hedging	(1,164)	-	(3,157)	(1,399)
Gain on other financial instruments	(20,860)	(20,860)	24,373	22,700
Impairment loss on other financial instruments	(121,575)	(121,575)	(11,370)	(9,603)
	₩ 574,119	₩ 84,514	₩ (82,011)	₩ (56,217)

The amount of transfers into or out of level 3 of the fair value hierarchy for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017		December 31, 2016	
Transfer to level 1 from level 3	₩ -	₩ -	(26,345)	
Transfer to level 3 from level 1	-	-	4,947	

Changes in significant unobservable input variables are subject of a sensitivity analysis, which measures the impact on the fair value of financial instruments classified as Level 3. The amount of impact reported as favourable and unfavourable changes for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017		December 31, 2016	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Financial assets:				
Financial assets held-for-trading:				
Derivative assets held-for-trading (*1)	₩ 376	₩ (166)	₩ 140	₩ (129)
Financial assets designated at fair value through profit or loss	6,549	(6,549)	6,813	(6,813)
Available-for-sale financial assets:				
Debt securities	226	(218)	200	(12)
Equity securities (*2)	110,708	(41,032)	33,053	(15,924)
Derivative assets used for hedging (*1)	-	-	77	(208)
	₩ 117,859	₩ 47,965	₩ 40,283	₩ (23,086)
Financial liabilities:				
Financial liabilities held-for-trading:				
Derivative liabilities held-for-trading (*1)	₩ 32	₩ (120)	₩ (236)	₩ 232
Financial liabilities designated at fair value through profit or loss (*1)	2	(2)	3,791	(3,791)
Derivative liabilities used for hedging	287	(361)	-	-
	₩ 321	₩ (483)	₩ 3,555	₩ (3,559)

(\*1) By increasing or decreasing 10% of (i) correlation between KRW interest swap rates, (ii) correlation between KRW interest rates of treasury bond, (iii) correlation between KRW interest swap rate and interest rate of treasury bond, (iv) correlation between KRW/USD interest swap rates, (v) correlation between KRW/USD exchange rate and interest swap rate, favourable or unfavourable changes in fair values were measured.

(\*2) Fair value variation of equity securities is measured by increasing or decreasing growth rate (0.0~1.0%) and discount rate, the unobservable inputs. In case of beneficiary securities, it is impossible to calculate sensitivity in practice. But if it consists of real estate, impact on fair value can be measured by increasing or decreasing discount rate of rental cash flow (-1.0~1.0%) and growth rate of sale price of real estate (-1.0~1.0%).

Fair value hierarchy of financial instruments disclosed as fair value though it cannot be measured as fair value as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017			
	Fair Value			Total
	Level 1	Level 2	Level 3	
Financial assets:				
Cash and due from banks	₩ 2,224,789	₩ 19,625,903	₩ -	₩ 21,850,692
Held-to-maturity investments	1,721,044	5,705,697	-	7,426,741
Loans	-	-	237,374,928	237,374,928
Others	-	11,816	13,666,241	13,678,057
	₩ 3,945,833	₩ 25,343,416	₩ 251,041,169	₩ 280,330,418



	December 31, 2017				
	Fair Value			Total	
	Level 1	Level 2	Level 3		
<b>Financial liabilities:</b>					
Deposits	₩	- ₩	31,795,621 ₩	199,434,885 ₩	231,230,506 ₩
Borrowings		-	7,090,370	11,685,671	18,776,041 ₩
Debentures		-	36,459,009	119,660	36,578,669 ₩
Others		-	438,184	24,393,097	24,831,281 ₩
	₩	- ₩	75,783,184 ₩	235,633,313 ₩	311,416,497 ₩
	December 31, 2016				
	Fair Value			Total	
	Level 1	Level 2	Level 3		
<b>Financial assets:</b>					
Cash and due from banks	₩	2,130,163 ₩	27,096,299 ₩	- ₩	29,226,462 ₩
Held-to-maturity investments		1,037,025	4,156,372	-	5,193,397 ₩
Loans		-	-	222,087,935	222,087,935 ₩
Others		-	9,599	11,929,969	11,939,568 ₩
	₩	3,167,188 ₩	31,262,270 ₩	234,017,904 ₩	268,447,362 ₩
<b>Financial liabilities:</b>					
Deposits	₩	- ₩	31,550,999 ₩	191,763,625 ₩	223,314,624 ₩
Borrowings		-	7,891,629	12,138,906	20,030,535 ₩
Debentures		-	32,447,352	-	32,447,352 ₩
Others		-	390,547	24,554,089	24,944,636 ₩
	₩	- ₩	72,280,527 ₩	228,456,620 ₩	300,737,147 ₩

Fair value, valuation method, and input variables of financial instruments disclosed as fair value though it cannot be measured as fair value and the fair value hierarchy Level 2 as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017			
	Fair value		Valuation method	Input variables
<b>Financial assets:</b>				
Cash and due from banks	₩	19,625,903	DCF model, etc.	Credit and other spread, etc.
Held-to-maturity investments		5,705,697	DCF model, etc.	Discount rate
Others		11,816	DCF model, etc.	Other spread
	₩	25,343,416		
<b>Financial liabilities:</b>				
Deposits	₩	31,795,621	DCF model, etc.	Other spread, rate of advanced redemption
Borrowings		7,090,370	DCF model, etc.	Other spread
Debentures		36,459,009	DCF model, etc.	Other spread, rate of inherence bankruptcy
Others		438,184	DCF model, etc.	Other spread
	₩	75,783,184		

	December 31, 2016		
	Fair value		Valuation method
			Input variables
<b>Financial assets:</b>			
Cash and due from banks	₩	27,096,299	DCF model, etc.
Held-to-maturity investments		4,156,372	DCF model, etc.
Others		9,599	DCF model, etc.
	₩	31,262,270	
<b>Financial liabilities:</b>			
Deposits	₩	31,550,999	DCF model, etc.
Borrowings		7,891,629	DCF model, etc.
Debentures		32,447,352	DCF model, etc.
Others		390,547	DCF model, etc.
	₩	72,280,527	

Fair value, valuation method, and input variables of financial instruments disclosed as fair value though it cannot be measured as fair value and the fair value hierarchy Level 3 as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017		
	Fair value		Valuation method
			Input variables
<b>Financial assets:</b>			
Loans	₩	237,374,928	DCF model, etc.
Others		13,666,241	(*)
	₩	251,041,169	
<b>Financial liabilities:</b>			
Deposits	₩	199,434,885	DCF model, etc.
Borrowings		11,685,671	DCF model, etc.
Debentures		119,660	DCF model, etc.
Others		24,393,097	(*)
	₩	235,633,313	

	December 31, 2016		
	Fair value		Valuation method
			Input variables
<b>Financial assets:</b>			
Loans	₩	222,087,935	DCF model, etc.
Others		11,929,969	(*)
	₩	234,017,904	
<b>Financial liabilities:</b>			
Deposits	₩	191,763,625	DCF model, etc.
Borrowings		12,138,906	DCF model, etc.
Others		24,554,089	(*)
	₩	228,456,620	

(\*) Other financial instruments are temporary accounts derived from various transactions, with maturity not fixed or short. Therefore, the Group doesn't apply DCF method to calculate fair value and discloses book value as fair value.

Changes in deferred Day 1 gain (loss), for the years ended December 31, 2017 and 2016 are summarized as follows (Korean won in millions):

	December 31, 2017		December 31, 2016	
Beginning balance	₩	(9,321)	₩	(12,479)
Increase		(36,321)		(8,257)
Profit or loss		20,462		11,415
Ending balance	₩	(25,180)	₩	(9,321)

Details of transferred financial assets that are not derecognized in entirety as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017			
	Book value		Fair value	
Assets:				
Financial assets held-for trading	₩	4,263,605	₩	4,263,605
Available-for-sale financial assets (*)		1,295,875		1,295,875
Held-to-maturity investments		131,682		133,942
		5,691,162		5,693,422
Liabilities:				
Securities sold under repurchase agreements		4,731,409		4,731,948
	₩	959,753	₩	961,474
	December 31, 2016			
	Book value		Fair value	
Assets:				
Financial assets held-for trading	₩	4,224	₩	4,224
Available-for-sale financial assets (*)		1,501,672		1,501,672
Held-to-maturity investments		42,574		47,686
		1,548,470		1,553,582
Liabilities:				
Securities sold under repurchase agreements		680,713		681,306
	₩	867,757	₩	872,276

(\*) ₩613,005 million and ₩786,135 million of available-for-sale securities lent as at December 31, 2017 and 2016, respectively, in which the associated liabilities are not recognized, are included.

6. Fair value of financial assets and liabilities

Details of carrying amount and fair value of financial instruments as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and due from banks	₩ 21,850,692	₩ 21,850,692	₩ 29,226,462	₩ 29,226,462
Financial assets held-for-trading	22,704,104	22,704,104	21,777,566	21,777,566
Financial assets designated at fair value through profit or loss	1,292,758	1,292,758	1,837,924	1,837,924
Available-for-sale financial assets	46,921,429	46,921,429	40,012,085	40,012,085
Held-to-maturity investments	7,392,100	7,426,741	5,050,119	5,193,397
Loans receivable	238,943,185	237,374,928	228,607,008	222,087,935
Derivative assets used for hedging	23,724	23,724	25,825	25,825
Others	13,678,057	13,678,057	11,940,212	11,939,568
	₩ 352,806,049	₩ 351,272,433	₩ 338,477,201	₩ 332,100,762
Financial liabilities:				
Financial liabilities held-for-trading	₩ 7,834,600	₩ 7,834,600	₩ 7,073,272	₩ 7,073,272
Financial liabilities designated at fair value through profit or loss	8,819,336	8,819,336	9,706,839	9,706,839
Deposits	232,166,153	231,230,506	222,413,004	223,314,624
Borrowings	18,791,895	18,776,041	20,031,622	20,030,535
Debentures	36,444,451	36,578,669	32,305,789	32,447,352
Derivative liabilities used for hedging	71,797	71,797	121,310	121,310
Others	24,834,520	24,831,281	24,944,635	24,944,636
	₩ 328,962,752	₩ 328,142,230	₩ 316,596,471	₩ 317,638,568

The following standards are applied in measuring the fair value of financial instruments

- Loans and receivable: Expected cash flows, current market interest rates and discount rates including borrowers' credit risks are factors to calculate the fair value of loans and receivables. For lines of credit and loans that have a short term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value.
- Investment in financial assets: The fair value of financial assets held-to-maturity are as stated by the market, broker, or by credible sources. If none of the information is usable, published market price of financial instruments with similar credit rating, maturity, and ROI is used to estimate the fair value.
- Depository liabilities: For deposits with no interests, deposits without an explicit maturity period, deposits that have a short term maturity (less than three months), and deposits with a floating rate readjustment period of less than three months, it is assumed that the carrying amounts approximate to their fair value. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.
- Borrowing liabilities: For borrowings that have a short term maturity (less than three months) and borrowings with floating rate readjustment period of less than three months, it is assumed that the carrying amounts approximate to their fair value. The estimated fair value of fixed interest bearing borrowings is based on and discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.
- Debentures: For quoted debt issued the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads.



7. Categories of financial assets and financial liabilities

Categories of financial assets and financial liabilities as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017													
	Financial instruments held-for-Trading	Financial instruments designated at FVTPL	Available-for-sale financial instruments	Held-to-maturity Investments	Loans and receivables	Derivatives for hedging purposes	Total							
Financial assets:														
Cash and due from banks	₩	- ₩	- ₩	- ₩	- ₩	21,850,692 ₩	- ₩	21,850,692						
Financial assets held-for-trading	22,704,104	-	-	-	-	-	-	22,704,104						
Financial assets designated at fair value through profit or loss	-	1,292,758	-	-	-	-	-	1,292,758						
Available-for-sale financial assets	-	-	46,921,429	-	-	-	-	46,921,429						
Held-to-maturity investments	-	-	-	7,392,100	-	-	-	7,392,100						
Loans receivable	-	-	-	-	238,943,185	-	-	238,943,185						
Derivative used for hedging	-	-	-	-	-	23,724	23,724	23,724						
Others	-	-	-	-	13,678,057	-	-	13,678,057						
	₩	22,704,104 ₩	₩	1,292,758 ₩	₩	46,921,429 ₩	₩	7,392,100 ₩	₩	274,471,934 ₩	₩	23,724 ₩	₩	352,806,049
	December 31, 2017													
	Financial instruments held-for-Trading	Financial instruments designated at fair value through profit or loss	Amortized cost of a financial instruments	Derivatives for hedging purposes	Total									
Financial liabilities:														
Financial liabilities held-for-trading	₩	7,834,600 ₩	₩	- ₩	- ₩	- ₩	7,834,600							
Financial liabilities designated at fair value through profit or loss	-	8,819,336	-	-	-	-	8,819,336							
Deposits	-	-	232,166,153	-	-	-	232,166,153							
Borrowings	-	-	18,791,895	-	-	-	18,791,895							
Debentures	-	-	36,444,451	-	-	-	36,444,451							
Derivative used for hedging	-	-	-	71,797	-	-	71,797							
Others	-	-	24,834,520	-	-	-	24,834,520							
	₩	7,834,600 ₩	₩	8,819,336 ₩	₩	312,237,019 ₩	₩	71,797 ₩	₩	328,962,752				

	December 31, 2016													
	Financial instruments held-for-Trading	Financial instruments designated at FVTPL	Available-for-sale financial instruments	Held-to-maturity Investments	Loans and receivables	Derivatives for hedging purposes	Total							
Financial assets:														
Cash and due from banks	₩	- ₩	- ₩	- ₩	- ₩	29,226,462 ₩	- ₩	29,226,462						
Financial assets held-for-trading	21,777,566	-	-	-	-	-	-	21,777,566						
Financial assets designated at fair value through profit or loss	-	1,837,924	-	-	-	-	-	1,837,924						
Available-for-sale financial assets	-	-	40,012,085	-	-	-	-	40,012,085						
Held-to-maturity investments	-	-	-	5,050,119	-	-	-	5,050,119						
Loans receivable	-	-	-	-	228,607,008	-	-	228,607,008						
Derivative used for hedging	-	-	-	-	-	25,825	25,825							
Others	-	-	-	-	11,940,212	-	-	11,940,212						
	₩	21,777,566 ₩	₩	1,837,924 ₩	₩	40,012,085 ₩	₩	5,050,119 ₩	₩	269,773,682 ₩	₩	25,825 ₩	₩	338,477,201
	December 31, 2016													
	Financial instruments held-for-Trading	Financial instruments designated at fair value through profit or loss	Amortized cost of a financial instruments	Derivatives for hedging purposes	Total									
Financial liabilities:														
Financial liabilities held-for-trading	₩	7,073,272 ₩	₩	- ₩	- ₩	- ₩	7,073,272							
Financial liabilities designated at fair value through profit or loss	-	9,706,839	-	-	-	-	9,706,839							
Deposits	-	-	222,413,004	-	-	-	222,413,004							
Borrowings	-	-	20,031,622	-	-	-	20,031,622							
Debentures	-	-	32,305,789	-	-	-	32,305,789							
Derivative used for hedging	-	-	-	121,310	-	-	121,310							
Others	-	-	24,944,635	-	-	-	24,944,635							
	₩	7,073,272 ₩	₩	9,706,839 ₩	₩	299,695,050 ₩	₩	121,310 ₩	₩	316,596,471				

8. Offsetting financial assets and liabilities

Details of financial assets subject to offsetting, enforceable master netting arrangements and similar agreements as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement offinancial position (*)		Net amount
				Financial instruments	Cash collateral received	
Derivatives	₩ 7,253,468	₩ -	₩ 7,253,468	₩ (5,160,605)	₩ (1,076,559)	₩ 1,016,304
Equity securities	613,005	-	613,005	(613,005)	-	-
Bonds purchased under resale agreement	4,552,229	-	4,552,229	(4,552,229)	-	-
Receivables unpaid spot exchanges	6,171,297	-	6,171,297	(6,126,005)	-	45,292
Domestic exchange settlement debts	25,125,532	(23,618,668)	1,506,864	-	-	1,506,864
Others	464,523	(437,151)	27,372	-	-	27,372
	₩ 44,180,054	₩ (24,055,819)	₩ 20,124,235	₩ (16,451,844)	₩ (-1,076,559)	₩ 2,595,832

	December 31, 2016					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement offinancial position (*)		Net amount
				Financial instruments	Cash collateral received	
Derivatives	₩ 6,831,738	₩ -	₩ 6,831,738	₩ (4,316,095)	₩ (66,434)	₩ 2,449,209
Equity securities	786,135	-	786,135	(786,135)	-	-
Bonds purchased under resale agreement	3,403,941	-	3,403,941	(3,403,941)	-	-
Receivables unpaid spot exchanges	8,221,207	-	8,221,207	(8,216,813)	-	4,394
Domestic exchange settlement debts	22,439,223	(21,464,016)	975,207	-	-	975,207
Others	228,244	(159,202)	69,042	-	-	69,042
	₩ 41,910,488	₩ (21,623,218)	₩ 20,287,270	₩ (16,722,984)	₩ (66,434)	₩ 3,497,852

(\*) The rights to offset exist only in case of default, insolvency or bankruptcy. Accordingly, the amounts are not offset in the statement of financial position as they do not meet the criteria for offsetting.

Details of financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017				
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not off set in the statement of financial position (*)	
				Financial instruments	Cash collateral pledged
Derivatives	₩ 7,105,233	₩ -	₩ 7,105,233	₩ (5,200,476)	₩ (126,654)
Securities sold	436,248	-	436,248	(436,248)	-
Bonds sold under repurchase agreements	4,731,409	-	4,731,409	(4,731,409)	-

	December 31, 2017				
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not off set in the statement of financial position (*)	
				Financial instruments	Cash collateral pledged
Payables unpaid spot exchange	6,170,414	-	6,170,414	(6,126,005)	-
Domestic exchange settlement credits	27,925,849	(23,618,668)	4,307,181	(4,307,177)	-
Others	442,107	(437,151)	4,956	-	-
	₩ 46,811,260	₩ (24,055,819)	₩ 22,755,441	₩ (20,801,315)	₩ (126,654)

	December 31, 2016				
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not off set in the statement of financial position (*)	
				Financial instruments	Cash collateral pledged
Derivatives	₩ 6,607,102	₩ -	₩ 6,607,102	₩ (4,604,216)	₩ (840,974)
Securities sold	17,211	-	17,211	(17,211)	-
Bonds sold under repurchase agreements	4,701,442	-	4,701,442	(4,701,442)	-
Payables unpaid spot exchange	26,590,274	(21,464,016)	5,126,258	-	-
Domestic exchange settlement credits	8,222,136	-	8,222,136	(8,216,813)	-
Others	159,202	(159,202)	-	-	-
	₩ 46,297,367	₩ (21,623,218)	₩ 24,674,149	₩ (17,539,682)	₩ (840,974)

(\*) The rights to offset exist only in case of default, insolvency or bankruptcy. Accordingly, the amounts are not offset in the statement of financial position as they do not meet the criteria for offsetting.

9. Risk management

The Group is exposed to credit risk, liquidity risk, market risk and operational risk of its financial instruments. Risk management is the basic activities to use the Group's limited capital effectively under the rapidly changing financial circumstances. The ultimate goal of risk management is to maximize the Group's shareholder value with minimizing the sudden fluctuation of its income through a proper balance between risks and returns.

To keep the consistent risk management on a group level basis, the Group establishes and manages the group risk management policies and each of its subsidiaries also establishes its own risk management systems and policies suitable for the subsidiaries' industry through the risk committees and working-level councils under the group risk management policies. The Group identifies improvements by diagnosing the subsidiaries' risk management performance at least once a year and continuously enforces the subsidiaries' risk management activities to make them reflect the improvements.

The group risk management committee is the top decision-making organization of the group risk management and has responsibilities to establish and monitor risk management strategies and policies, allowable risk limits and investment limits, and capital allocation, which are required to be managed on a group level basis. The subsidiaries' risk management committees (or board of directors) are responsible for its own risk management strategies, policies and monitoring. If necessary, the group risk management committee or group risk management execution committee can apply separate risk management standards considering distinct characteristics of each subsidiary.



### 9.1 Credit risk

Credit risk is the risk that the Group will incur a loss because its customers' or counterparties' credit rating goes down or fail to discharge their contractual obligations. Credit risk is the highest risk exposed to the Group. Credit risk arises from on-balance and off-balance accounts including loans, financial guarantees, securities and derivatives. The purpose of managing credit risk is to control the relevant losses upon counterparties' default, for a certain period, within the allowable range.

The Group's group risk management committee and group risk management execution committee examines its credit risk on a regular basis. The Group continuously monitors whether credit limits set for each individual, corporation, borrower, subsidiary and major shareholder are complied and reviews the subsidiaries' asset quality. The Group also checks the status of change of risk exposure, residual limit, profitability, delinquency rate and change of loan loss provision, etc. at least on a quarterly basis.

The Group classifies expected loss and unexpected loss calculating the credit risk. The expected loss is assessed based on estimated LGD (Loss Given Default). The LGD is calculated by using EAD (Exposure at Default), estimated PD (Probability of Default), which is based on a historical default rate, and historical collection rate. The assessed expected loss is reflected on the interest rates on new or rolled over loans and loan loss provision. The unexpected loss, which means a potential volatility between estimate loss and actual loss, is estimated as a credit risk exposure of a portfolio using statistical models. The unexpected loss is used for the Group's internal management purpose.

The maximum exposure to credit risk as at December 31, 2017 and 2016 are as follows. The following table shows the maximum exposure to credit risk for the items in the statement of financial position, including derivatives, by geography of counterparty and by industry before the effect of mitigation through the use of master netting and collateral agreements. Equity securities in the trading financial assets and financial assets available-for-sale are excluded (Korean won in millions):

	December 31, 2017	December 31, 2016
<b>On balance accounts:</b>		
Due from banks	₩ 19,625,904	₩ 27,096,298
Financial assets held-for-trading:		
Debt securities	13,840,920	13,292,913
Derivative assets held-for-trading	7,330,570	7,093,190
Others	982,886	902,192
Financial assets designated at fair value through profit or loss	930,713	1,541,211
Available-for-sale financial assets	41,930,817	36,300,980
Held-to-maturity investments	7,392,100	5,050,119
Derivative assets for hedging purposes	23,724	25,825
Loans receivable:		
Household loans	104,461,785	99,607,832
Large business	33,219,450	34,336,310
Small and medium business	79,343,009	75,069,890
Public institution and others	15,097,612	13,547,389
Credit card loans	6,821,329	6,045,587
	238,943,185	228,607,008
Other financial assets	13,678,057	11,940,212
	₩ 344,678,876	₩ 331,849,948
<b>Off balance accounts:</b>		
Financial guarantees	₩ 684,944	₩ 874,714
Guarantee contracts	16,227,466	17,647,612
Commitment	90,512,516	100,468,168
	₩ 107,424,926	₩ 118,990,494

Details of collateral management and credit risk mitigation as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017					
	Impaired loan		Unimpaired loan		Total	
	Individual assessment	Collective assessment	Past due	Non past due		
Guarantees	₩ 124,566	₩ 58,923	₩ 141,209	₩ 30,798,448	₩ 31,123,146	
Deposit	74,038	9,466	11,947	2,550,122	2,645,573	
Movable assets	2,717	2,620	-	263,278	268,615	
Real estate	393,991	161,218	441,093	113,365,081	114,361,383	
Securities	7,160	90	683	11,210,461	11,218,394	
Others	60,241	34,286	3,127	7,124,425	7,222,079	
	₩ 662,713	₩ 266,603	₩ 598,059	₩ 165,311,815	₩ 166,839,190	
	December 31, 2016					
	Impaired loan		Unimpaired loan		Total	
	Individual assessment	Collective assessment	Past due	Non past due		
Guarantees	₩ 211,244	₩ 60,096	₩ 102,214	₩ 27,188,448	₩ 27,562,002	
Deposit	38,709	5,249	15,160	2,562,193	2,621,311	
Movable assets	38,353	4,184	27,066	4,326,347	4,395,950	
Real estate	516,418	191,494	349,724	104,567,393	105,625,029	
Securities	295	661	964	3,927,882	3,929,802	
Others	42,044	5,292	7,667	5,975,232	6,030,235	
	₩ 847,063	₩ 266,976	₩ 502,795	₩ 148,547,495	₩ 150,164,329	

Details of delinquency information on loans and receivable as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017					
	Household loans		Corporate loans		Credit card loans	
		Large business	Small and medium business	Public institution and others		
Neither past due nor impaired	₩ 103,664,481	₩ 32,692,558	₩ 78,735,464	₩ 15,069,873	₩ 6,687,862	₩ 236,850,238
Past due but unimpaired	522,454	2,083	280,451	34,036	193,194	1,032,218
Impaired	242,128	1,283,753	767,343	32,324	148,064	2,473,612
	104,429,063	33,978,394	79,783,258	15,136,233	7,029,120	240,356,068
Deferred loan fees and expenses	231,401	(3,423)	63,731	8,463	-	300,172
Allowance for possible loan losses	(198,679)	(755,521)	(503,980)	(47,084)	(207,791)	(1,713,055)
	₩ 104,461,785	₩ 33,219,450	₩ 79,343,009	₩ 15,097,612	₩ 6,821,329	₩ 238,943,185
	December 31, 2016					
	Household loans		Corporate loans		Credit card loans	
		Large business	Small and medium business	Public institution and others		
Neither past due nor impaired	₩ 98,899,870	₩ 34,001,507	₩ 74,419,424	₩ 13,529,135	₩ 5,963,559	₩ 226,813,495
Past due but unimpaired	420,095	21,093	202,740	11,813	148,827	804,568
Impaired	230,342	1,029,737	1,094,371	37,363	127,662	2,519,475
	99,550,307	35,052,337	75,716,535	13,578,311	6,240,048	230,137,538

	December 31, 2016					
	Household loans	Corporate loans			Credit card loans	Total
		Large business	Small and medium business	Public institution and others		
Deferred loan fees and expenses	240,380	(8,628)	54,622	10,431	-	296,805
Allowance for possible loan losses	(182,516)	(702,876)	(701,267)	(41,353)	(192,027)	(1,820,039)
	₩ 99,607,832	₩ 34,336,310	₩ 75,069,890	₩ 13,547,389	₩ 6,045,587	₩ 228,607,008

Delinquency occurs when a counterparty is unable to make principle and interest payments at the due date. A financial item is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the item (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults, delinquency in interest for more than 90 days, credit deterioration resulting in misleading information, damages incurred due to poor exposure.

Internal credit grades of loans that are neither past due nor impaired as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017					
	Household loans	Corporate loans			Credit card loans	Total
		Large business	Small and medium business	Public institution and others		
Grade 1	₩ 95,995,039	₩ 25,593,607	₩ 39,292,493	₩ 11,576,661	₩ 2,567,741	₩ 175,025,541
Grade 2	3,626,422	6,655,382	35,180,335	1,134,761	4,107,446	50,704,346
Grade 3	141,490	433,897	977,211	955	12,675	1,566,228
Unrated	3,901,530	9,672	3,285,425	2,357,496	-	9,554,123
	₩ 103,664,481	₩ 32,692,558	₩ 78,735,464	₩ 15,069,873	₩ 6,687,862	₩ 236,850,238

	December 31, 2016					
	Household loans	Corporate loans			Credit card loans	Total
		Large business	Small and medium business	Public institution and others		
Grade 1	₩ 92,132,889	₩ 25,809,416	₩ 33,978,638	₩ 8,826,775	₩ 2,402,316	₩ 163,150,034
Grade 2	3,383,903	7,171,784	35,611,932	2,738,784	3,548,142	52,454,545
Grade 3	187,324	999,629	953,809	300,714	13,101	2,454,577
Unrated	3,195,754	20,678	3,875,045	1,662,862	-	8,754,339
	₩ 98,899,870	₩ 34,001,507	₩ 74,419,424	₩ 13,529,135	₩ 5,963,559	₩ 226,813,495

The Group classifies the grade of loans in accordance with a credit rating chart below, based on the character of the borrowers.

	Household loans	Corporate loans	SOHO
Grade 1	Less or equal to 1.55% of PD	A1 ~ A7	Less or equal to 1.28% of PD
Grade 2	From 1.55% to 16.52% of PD	B1 ~ B6	From 1.28% to 14.30% of PD
Grade 3	From 16.52% to 100% of PD	C1 ~ C3	From 14.30% to 78.44% of PD

Types of unimpaired loans and receivables with delinquent payments as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017					
	Household loans	Corporate loans			Credit card loans	Total
		Large business	Small and medium business	Public institution and others		
Less than 30 days	₩ 445,295	₩ 1,289	₩ 222,705	₩ 26,387	₩ 161,468	₩ 857,144
31 to 60 days	51,691	771	36,491	4,563	24,282	117,798
61 to 90 days	25,363	23	21,255	2,591	7,407	56,639
Others	105	-	-	495	37	637
	₩ 522,454	₩ 2,083	₩ 280,451	₩ 34,036	₩ 193,194	₩ 1,032,218

	December 31, 2016					
	Household loans	Corporate loans			Credit card loans	Total
		Large business	Small and medium business	Public institution and others		
Less than 30 days	₩ 347,247	₩ 9,921	₩ 31,638	₩ 7,475	₩ 115,423	₩ 511,704
31 to 60 days	49,463	-	142,568	1,931	18,706	212,668
61 to 90 days	23,280	11,172	28,151	1,912	12,550	77,065
Others	105	-	383	495	2,148	3,131
	₩ 420,095	₩ 21,093	₩ 202,740	₩ 11,813	₩ 148,827	₩ 804,568

Types of impaired loans and receivables as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017					
	Household loans	Corporate loans			Credit card loans	Total
		Large business	Small and medium business	Public institution and others		
Individual impairment:						
Book value	₩ 9,161	₩ 1,268,555	₩ 543,806	₩ 15,921	₩ -	₩ 1,837,443
Deferred loan fees	(4,058)	-	(8,585)	(174)	-	(12,817)
Allowance for possible loan losses	(537)	(615,383)	(116,968)	(13,504)	-	(746,392)
	4,566	653,172	418,253	2,243	-	1,078,234
Collective impairment:						
Book value	232,967	15,198	223,537	16,403	148,064	636,169
Deferred loan fees and expenses	630	-	129	26	-	785
Allowance for possible loan losses	(78,059)	(8,681)	(84,523)	(8,104)	(114,632)	(293,999)
	155,538	6,517	139,143	8,325	33,432	342,955
	₩ 160,104	₩ 659,689	₩ 557,396	₩ 10,568	₩ 33,432	₩ 1,421,189



	December 31, 2016					
	Household loans	Corporate loans			Credit card loans	Total
		Large business	Small and medium business	Public institution and others		
<b>Individual impairment:</b>						
Book value	₩ 12,051	₩ 986,699	₩ 801,379	₩ 20,304	₩ -	₩ 1,820,433
Deferred loan fees	-	-	(360)	-	-	(360)
Allowance for possible loan losses	(5,514)	(489,161)	(268,808)	(19,038)	-	(782,521)
	6,537	497,538	532,211	1,266	-	1,037,552
<b>Collective impairment:</b>						
Book value	218,292	43,039	292,992	17,058	127,653	699,034
Deferred loan fees and expenses	(1,907)	-	(6,737)	31	-	(8,613)
Allowance for possible loan losses	(70,277)	(8,676)	(98,175)	(7,736)	(104,425)	(289,289)
	146,108	34,363	188,080	9,353	23,228	401,132
	₩ 152,645	₩ 531,901	₩ 720,291	₩ 10,619	₩ 23,228	₩ 1,438,684

Interest income on impaired loans and receivables as at December 31, 2017 and 2016 is as follows (Korean won in millions):

	December 31, 2017					
	Household loans	Corporate loans			Credit card loans	Total
		Large business	Small and medium business	Public institution and others		
Individual impairment	₩ 816	₩ 15,724	₩ 14,228	₩ 5,599	₩ -	₩ 36,367
Collective impairment	7,227	264	5,424	1,949	3,536	18,400
	₩ 8,043	₩ 15,988	₩ 19,652	₩ 7,548	₩ 3,536	₩ 54,767

	December 31, 2016					
	Household loans	Corporate loans			Credit card loans	Total
		Large business	Small and medium business	Public institution and others		
Individual impairment	₩ 636	₩ 16,029	₩ 14,875	₩ 6,257	₩ -	₩ 37,797
Collective impairment	6,860	720	5,979	1,819	2,886	18,264
	₩ 7,496	₩ 16,749	₩ 20,854	₩ 8,076	₩ 2,886	₩ 56,061

Overdue payments on debt securities as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017				
	Financial assets held-for-trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Total
Neither past due nor impaired	₩ 13,840,920	₩ 532,047	₩ 41,902,912	₩ 7,392,100	₩ 63,667,979
Impaired	-	-	7,738	-	7,738
	₩ 13,840,920	₩ 532,047	₩ 41,910,650	₩ 7,392,100	₩ 63,675,717

	December 31, 2016				
	Financial assets held-for-trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Total
Neither past due nor impaired	₩ 13,292,913	₩ 528,414	₩ 36,272,185	₩ 5,050,119	₩ 55,143,631
Impaired	-	-	7,650	-	7,650
	₩ 13,292,913	₩ 528,414	₩ 36,279,835	₩ 5,050,119	₩ 55,151,281

Internal credit ratings of debt securities as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017				
	Financial assets held-for-trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Total
Grade 1	₩ 13,836,062	₩ 91,363	₩ 41,443,808	₩ 7,249,326	₩ 62,620,559
Grade 2	4,858	1,630	464,480	140,739	611,707
Unrated	-	439,054	2,362	2,035	443,451
	₩ 13,840,920	₩ 532,047	₩ 41,910,650	₩ 7,392,100	₩ 63,675,717

	December 31, 2016				
	Financial assets held-for-trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Total
Grade 1	₩ 12,752,616	₩ 479,851	₩ 36,122,819	₩ 4,959,857	₩ 54,315,143
Grade 2	28,521	48,563	149,366	90,262	316,712
Unrated	511,776	-	7,650	-	519,426
	₩ 13,292,913	₩ 528,414	₩ 36,279,835	₩ 5,050,119	₩ 55,151,281

The credit rating classification of debt securities, which is rated by external rating agencies and applied by KEB Hana Bank, is as follows:

	Internal rating	Domestic rating agencies	Overseas rating agencies	
			Moody's	Fitch
Grade 1	A1+ ~ A3	AAA ~ A-	Aaa ~ Baa2	AAA ~ BBB
Grade 2	B1+ ~ B3	BBB+ ~ BB	Baa3 ~ B3	BBB- ~ B-
Grade 3	C1 ~ C3	BB- ~ B-	Caa1 ~ Caa3	CCC+ ~ CCC-

Credit risk concentration in each major industry as at December 31, 2017 and 2016 is as follows (Korean won in millions):

	December 31, 2017				
	Industry	Korean won	Foreign currency	Total	Ratio (%)
				Amount	
<b>On balance accounts:</b>					
Due from banks	<b>Financial services</b>	₩ 12,834,319	₩ 6,791,584	₩ 19,625,903	100.0
Financial assets held-for-trading: (Debt securities)	<b>Financial services</b>	6,079,009	784,802	6,863,811	49.6
	<b>Manufacturing</b>	918,587	126,007	1,044,594	7.5
	<b>Public administration</b>	3,763,884	132,773	3,896,657	28.2
	<b>Construction</b>	-	18,431	18,431	0.1
	<b>Wholesale &amp; retail</b>	409,196	8,579	417,775	3.0
	<b>Others</b>	1,486,468	113,184	1,599,652	11.6
		₩ 12,657,144	₩ 1,183,776	₩ 13,840,920	100.0

	Industry	December 31, 2017			
		Korean won	Foreign currency	Total	
				Amount	Ratio (%)
Financial assets designated at fair value through profit and loss	Financial services	₩ 930,714	₩ -	₩ 930,714	100.0
Available-for-sale financial assets	Financial services	19,025,251	4,890,279	23,915,530	57.0
	Manufacturing	150,614	6,904	157,518	0.4
	Public administration	14,982,246	1,001,518	15,983,764	38.1
	Construction	113,692	-	113,692	0.3
	Others	402,027	1,358,286	1,760,313	4.2
		34,673,830	7,256,987	41,930,817	100.0
Held-to-maturity investments	Financial services	2,888,269	1,007,793	3,896,062	52.7
	Manufacturing	-	22,904	22,904	0.3
	Public administration	2,118,191	352,507	2,470,698	33.4
	Construction	274,388	-	274,388	3.7
	Others	447,260	280,788	728,048	9.9
Loans receivable:		₩ 5,728,108	₩ 1,663,992	₩ 7,392,100	100.0
Household loans		₩ 103,304,602	₩ 1,124,461	₩ 104,429,063	43.7
Credit card loans		7,029,120	-	7,029,120	2.9
Business loans	Manufacturing	23,644,208	12,226,642	35,870,850	15.0
	Construction	3,076,789	628,395	3,705,184	1.6
	Wholesale & retail	11,867,833	3,417,653	15,285,486	6.4
	Financial	7,784,488	7,160,091	14,944,579	6.3
	Real estate	26,929,124	1,222,497	28,151,621	11.8
	Transportation	46,426	-	46,426	-
	Electricity, gas and water supply	20,018	-	20,018	-
	Others	24,566,515	6,307,206	30,873,721	12.9
Deferred loan fees and expenses		314,482	(14,310)	300,172	0.1
Allowance for possible loan losses		(1,424,265)	(288,790)	(1,713,055)	(0.7)
		207,159,340	31,783,845	238,943,185	100.0
		₩ 273,983,455	₩ 48,680,184	₩ 322,663,639	
Off-balance accounts:					
Financial guarantees	Manufacturing	₩ 241,611	₩ 25,871	₩ 267,482	39.1
	Construction	16,814	-	16,814	2.5
	Wholesale & retail	102,839	29,303	132,142	19.3
	Financial business	52,018	17,907	69,925	10.2
	Real estate	60,000	524	60,524	8.8
	Others	115,221	22,836	138,057	20.1
		₩ 588,503	₩ 96,441	₩ 684,944	100.0

	December 31, 2017				
	Industry	Korean won	Foreign currency	Total	
				Amount	Ratio (%)
Guarantee contracts	Manufacturing	₩ 510,099	₩ 7,257,392	₩ 7,767,491	47.9
	Construction	77,143	2,200,587	2,277,730	14.0
	Wholesale & retail	493,873	1,823,853	2,317,726	14.3
	Financial	45,040	988,001	1,033,041	6.4
	Real estate	25,270	139,496	164,766	1.0
	Others	545,325	2,121,387	2,666,712	16.4
		₩ 1,696,750	₩ 14,530,716	₩ 16,227,466	100.0
Commitment	Manufacturing	₩ 12,568,192	₩ 12,486,889	₩ 25,055,081	27.7
	Construction	2,683,365	856,477	3,539,842	3.9
	Wholesale & retail	3,567,187	3,711,937	7,279,124	8.0
	Financial	6,381,532	662,113	7,043,645	7.8
	Real estate	1,430,072	3,513	1,433,585	1.6
	Others	44,062,422	2,098,817	46,161,239	51.0
		70,692,770	19,819,746	90,512,516	100.0
		₩ 72,978,023	₩ 34,446,903	₩ 107,424,926	
	December 31, 2016				
	Industry	Korean won	Foreign currency	Total	
				Amount	Ratio (%)
On balance accounts:					
Due from banks	Financial services	₩ 17,636,078	₩ 9,460,221	₩ 27,096,299	100.0
Financial assets held-for-trading: (Debt securities)	Financial services	4,838,204	836,103	5,674,307	42.7
	Manufacturing	752,978	80,316	833,294	6.3
	Public administration	3,980,661	98,275	4,078,936	30.7
	Construction	32,953	20,225	53,178	0.4
	Wholesale & retail	235,341	-	235,341	1.8
	Others	2,376,896	40,961	2,417,857	18.1
		12,217,033	1,075,880	13,292,913	100.0
Financial assets designated at fair value through profit and loss	Financial services	1,305,944	235,267	1,541,211	100.0
Available-for-sale financial assets	Financial services	14,109,869	4,830,504	18,940,373	52.2
	Manufacturing	223,938	68,342	292,280	0.8
	Public administration	14,387,084	732,923	15,120,007	41.7
	Construction	113,951	24,667	138,618	0.4
	Wholesale& retail	10,155	-	10,155	-
	Others	743,277	1,056,270	1,799,547	4.9
		₩ 29,588,274	₩ 6,712,706	₩ 36,300,980	100.0



	December 31, 2016				
	Industry	Korean won	Foreign currency	Total	
				Amount	Ratio (%)
Held-to-maturity investments	Financial services	₩ 1,996,354	₩ 550,373	₩ 2,546,727	50.4
	Manufacturing	32,517	-	32,517	0.6
	Public administration	1,547,895	275,701	1,823,596	36.1
	Construction	236,332	-	236,332	4.7
	Others	410,947	-	410,947	8.2
		₩ 4,224,045	₩ 826,074	₩ 5,050,119	100.0
Loans receivable:					
Household loans		₩ 98,434,446	₩ 1,115,841	₩ 99,550,307	43.5
Credit card loans		6,237,609	-	6,240,048	2.7
Business loans	Manufacturing	23,217,368	13,564,893	36,782,261	16.1
	Construction	2,967,977	570,008	3,537,985	1.5
	Wholesale & retail	11,615,100	3,392,796	15,007,896	6.6
	Financial	4,436,755	7,534,995	11,971,750	5.2
	Real estate	23,369,426	1,876,763	25,246,189	11.0
	Transportation	42,520	-	42,520	-
	Electricity, gas and water supply	6,026	-	6,026	-
	Others	25,384,565	6,363,140	31,747,705	14.1
Deferred loan fees and expenses		310,299	(13,494)	296,805	0.1
Allowance for possible loan losses		(1,477,472)	(342,567)	(1,820,039)	(0.8)
		194,544,634	34,062,374	228,607,008	100.0
		₩ 259,516,008	₩ 52,372,522	₩ 311,888,530	
Off-balance accounts:					
Financial guarantees	Manufacturing	₩ 271,598	₩ 77,371	₩ 348,969	39.9
	Construction	12,661	-	12,661	1.4
	Wholesale & retail	149,232	51,178	200,410	22.9
	Real estate	60,068	554	60,622	6.9
	Others	164,023	88,029	252,052	28.9
		657,582	217,132	874,714	100.0
Guarantee contracts	Manufacturing	571,348	7,318,611	7,889,959	44.7
	Construction	89,820	2,960,230	3,050,050	17.3
	Wholesale & retail	571,542	2,031,060	2,602,602	14.7
	Financial	184,506	777,703	962,209	5.5
	Real estate	84,089	116,022	200,111	1.1
	Others	375,310	2,567,371	2,942,681	16.7
		₩ 1,876,615	₩ 15,770,997	₩ 17,647,612	100.0

	Industry	December 31, 2016			
		Korean won	Foreign currency	Total	
				Amount	Ratio (%)
Commitment	Manufacturing	₩ 14,450,729	₩ 15,746,447	₩ 30,197,176	30.1
	Construction	2,384,916	1,154,920	3,539,836	3.5
	Wholesale & retail	3,777,037	3,732,203	7,509,240	7.5
	Financial	8,638,738	550,665	9,189,403	9.1
	Real estate	1,371,265	7,239	1,378,504	1.4
	Electricity, gas	115,000	-	115,000	0.1
	Others	44,672,632	3,866,377	48,539,009	48.3
		75,410,317	25,057,851	100,468,168	100.0
		₩ 77,944,514	₩ 41,045,980	₩ 118,990,494	

Credit risk concentration in each country as at December 31, 2017 and 2016 is as follows (Korean won in millions):

	December 31, 2017				
	Country	Korean won	Foreign currency	Total	
				Amount	Ratio (%)
On balance accounts:					
Due from banks	Korea	₩ 12,834,319	₩ 705,545	₩ 13,539,864	69.0
	U.S	-	1,566,711	1,566,711	8.0
	China	-	2,042,552	2,042,552	10.4
	Japan	-	221,603	221,603	1.1
	Singapore	-	71,399	71,399	0.4
	Hong Kong	-	111,640	111,640	0.6
	Others	-	2,072,134	2,072,134	10.5
		12,834,319	6,791,584	19,625,903	100.0
Financial assets held-for-trading: (Debt securities)	Korea	12,657,144	497,189	13,154,333	95.0
	U.S	-	214,687	214,687	1.6
	China	-	26,260	26,260	0.2
	Japan	-	141,026	141,026	1.0
	Hong Kong	-	5,172	5,172	0.0
	Others	-	299,442	299,442	2.2
		12,657,144	1,183,776	13,840,920	100.0
Financial assets designated at fair value through profit and loss	Korea	930,714	-	930,714	100.0
Available-for-sale financial assets	Korea	34,673,830	4,211,409	38,885,239	92.7
	U.S	-	858,594	858,594	2.0
	China	-	770,246	770,246	1.8
	Japan	-	84,027	84,027	0.2
	Others	-	1,332,711	1,332,711	3.3
	₩ 34,673,830	₩ 7,256,987	₩ 41,930,817	100.0	

	December 31, 2017				
	Country	Korean won	Foreign currency	Total	
				Amount	Ratio (%)
Held-to-maturity investments	Korea	₩ 5,728,108	₩ 844,488	₩ 6,572,596	88.9
	U.S	-	107,079	107,079	1.4
	China	-	333,392	333,392	4.5
	Others	-	379,033	379,033	5.2
		5,728,108	1,663,992	7,392,100	100.0
Loans receivable	Korea	206,833,076	12,710,954	219,544,030	91.9
	U.S	161,162	1,146,824	1,307,986	0.5
	China	43,932	3,961,392	4,005,324	1.7
	Japan	11,403	670,107	681,510	0.3
	Hong Kong	1,375	2,533,448	2,534,823	1.1
	Others	1,218,175	11,064,220	12,282,395	5.1
Deferred loan fees and expenses		314,482	(14,310)	300,172	0.1
Allowance for possible loan losses		(1,424,265)	(288,790)	(1,713,055)	(0.7)
		207,159,340	31,783,845	238,943,185	100.0
		₩ 273,893,455	₩ 48,680,184	₩ 322,663,639	
Off-balance accounts:					
Financial guarantees	Korea	₩ 588,503	₩ 96,441	₩ 684,944	100.0
Guarantee contracts	Korea	1,696,750	11,754,250	13,451,000	82.9
	U.S	-	56,908	56,908	0.4
	China	-	1,579,792	1,579,792	9.7
	Japan	-	35,723	35,723	0.2
	Others	-	1,104,043	1,104,043	6.8
		1,696,750	14,530,716	16,227,466	100.0
Commitment	Korea	70,692,770	17,277,572	87,970,342	97.2
	U.S	-	283,171	283,171	0.3
	China	-	1,067,339	1,067,339	1.2
	Japan	-	62,294	62,294	0.1
	Others	-	1,129,370	1,129,370	1.2
		70,692,770	19,819,746	90,512,516	100.0
		₩ 72,978,023	₩ 34,446,903	₩ 107,424,926	

	December 31, 2016				
	Country	Korean won	Foreign currency	Total	
				Amount	Ratio (%)
On balance accounts:					
Due from banks	Korea	₩ 17,636,078	₩ 1,857,391	₩ 19,493,469	71.9
	U.S	-	539,375	539,375	2.0
	China	-	2,520,409	2,520,409	9.3
	Japan	-	1,245,942	1,245,942	4.6
	Singapore	-	144,512	144,512	0.5
	Hong Kong	-	20,970	20,970	0.1
	Others	-	3,131,622	3,131,622	11.6
		17,636,078	9,460,221	27,096,299	100.0
Financial assets held-for-trading: (Debt securities)	Korea	12,217,033	278,806	12,495,839	94.0
	U.S	-	238,547	238,547	1.8
	Japan	-	95,907	95,907	0.7
	Hong Kong	-	38,841	38,841	0.3
	Others	-	423,779	423,779	3.2
		12,217,033	1,075,880	13,292,913	100.0
Financial assets designated at fair value through profit and loss	Korea	1,305,944	24,759	1,330,703	86.3
	U.S	-	210,508	210,508	13.7
		1,305,944	235,267	1,541,211	100.0
Available-for-sale financial assets	Korea	29,588,274	3,651,003	33,239,277	91.6
	U.S	-	834,845	834,845	2.3
	China	-	722,156	722,156	2.0
	Japan	-	119,481	119,481	0.3
	Singapore	-	154,151	154,151	0.4
	Hong Kong	-	6,140	6,140	0.0
	Malaysia	-	7,184	7,184	0.0
	Others	-	1,217,746	1,217,746	3.4
	₩ 29,588,274	₩ 6,712,706	₩ 36,300,980	100.0	
Held-to-maturity investments	Korea	₩ 4,224,045	₩ 22,081	₩ 4,246,126	84.1
	U.S	-	30,302	30,302	0.6
	China	-	547,936	547,936	10.8
	Others	-	225,755	225,755	4.5
		4,224,045	826,074	5,050,119	100.0
Loans receivable	Korea	162,245,214	15,640,617	177,885,831	77.8
	U.S	516	1,756,655	1,757,171	0.8
	China	100,000	4,362,306	4,462,306	2.0
	Japan	-	747,125	747,125	0.3
	Hong Kong	-	2,366,624	2,366,624	1.0
	Others	₩ 33,366,077	₩ 9,545,108	₩ 42,911,185	18.8



	December 31, 2016				
	Country	Korean won	Foreign currency	Total	
				Amount	Ratio (%)
Deferred loan fees and expenses		₩ 310,299	₩ (13,494)	₩ 296,805	0.1
Allowance for possible loan losses		(1,477,472)	(342,567)	(1,820,039)	(0.8)
		194,544,634	34,063,257	228,607,008	100.0
		₩ 259,516,008	₩ 52,373,405	₩ 311,888,530	
<b>Off-balance accounts:</b>					
Financial guarantees	Korea	₩ 657,582	₩ 217,132	₩ 874,714	100.0
Guarantee contracts	Korea	1,872,744	12,761,741	14,634,485	82.9
	U.S	350	60,476	60,826	0.3
	China	-	1,593,756	1,593,756	9.0
	Japan	-	49,320	49,320	0.3
	Others	3,521	1,305,704	1,309,225	7.5
		1,876,615	15,770,997	17,647,612	100.0
Commitment	Korea	75,405,146	22,045,060	97,450,206	97.0
	U.S	2,585	153,220	155,805	0.2
	China	196	1,220,363	1,220,559	1.2
	Japan	20	81,988	82,008	0.1
	Others	2,370	1,557,220	1,559,590	1.5
		75,410,317	25,057,851	100,468,168	100.0
		₩ 77,944,514	₩ 41,045,980	₩ 118,990,494	

### 9.2 Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The purpose to manage liquidity risk is to early identify the potential risk factors upon raising and operating the Group's funds and to obtain a stable revenue base maintaining an appropriate level of the Group's liquidity by systematically managing the risk.

The targets of liquidity risk management are all assets and liabilities outstanding in the Group's statements of financial position.

The Group's principles regarding liquidity risk management are as follows:

- Set up and comply with tolerable limits to liquidity risk
- Maintain liquidity by regularly forecasting cash requirements on a regular basis
- Establish an emergency plan against a liquidity crisis to prepare an unexpected liquidity risk
- Evaluate and manage the effect of a large amount of money that is loaned out, invested, or procured on liquidity risks

Each associate assesses and manages liquidity coverage ratios (LCR) and liquidity ratio of the relevant assets and liabilities by applying the relevant supervisory regulations. The Group manages an acceptable limit on each associate's liquidity risk through the group risk management executive committee and performs liquidity stress test periodically and establishes a contingent funding plan based on the test results to be prepared for liquidity crisis.

The Group's future cash flows related to its financial liabilities are presented below using undiscounted contractual cash flows based on the earliest maturity date that the Group has to pay. In addition, financial liabilities held-for-trading subject to fair value through profit or loss and demand deposits are presented in the on demand column below.

The table below summarizes the maturity profile of the contractual undiscounted cash flows of the Group's financial liabilities. The maturity of financial liabilities as at December 31, 2017 and 2016 are summarized as follows (Korean won in millions):

	December 31, 2017						
	On demand	Within 1 month	After 1 month ~ but no later than 3 months	After 3 months ~ but no later than 1 year	After 1 years ~ but no later than 5 years	After 5 years	Total
<b>On balance accounts:</b>							
Financial liabilities held-for-trading	₩ 7,834,600	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 7,834,600
Financial liabilities designated at fair value through profit or loss	8,819,336	-	-	-	-	-	8,819,336
Deposits	106,069,749	18,470,118	26,501,268	71,690,218	10,051,410	1,506,048	234,288,811
Borrowings	2,710,703	6,200,426	4,428,539	3,144,757	1,969,409	409,067	18,862,901
Debentures	697	1,366,231	1,695,874	9,207,114	21,397,907	4,150,286	37,818,109
Derivative liabilities used for hedging purposes	-	512	714	942	19,543	(128,974)	(107,263)
Others	6,067,246	16,531,780	57,064	129,282	387,268	63,775	23,236,415
	131,502,331	42,569,067	32,683,459	84,172,313	33,825,537	6,000,202	330,752,909
<b>Off balance accounts:</b>							
Financial guarantees	684,944	-	-	-	-	-	684,944
Commitment	90,512,516	-	-	-	-	-	90,512,516
	91,197,460	-	-	-	-	-	91,197,460
	₩ 222,699,791	₩ 42,569,067	₩ 32,683,459	₩ 84,172,313	₩ 33,825,537	₩ 6,000,202	₩ 421,950,369

	December 31, 2016						
	On demand	Within 1 month	After 1 month ~ but no later than 3 months	After 3 months ~ but no later than 1 year	After 1 years ~ but no later than 5 years	After 5 years	Total
<b>On balance accounts:</b>							
Financial liabilities held-for-trading	₩ 7,073,272	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 7,073,272
Financial liabilities designated at fair value through profit or loss	9,706,839	-	-	-	-	-	9,706,839
Deposits	100,365,915	14,919,957	22,004,126	74,955,353	9,746,924	2,124,826	224,117,101
Borrowings	3,819,113	6,096,275	3,793,688	2,878,449	3,140,424	464,137	20,192,086
Debentures	52,657	1,036,418	1,032,406	7,937,543	17,886,805	5,672,820	33,618,649
Derivative liabilities used for hedging purposes	-	(803)	(674)	22,538	16,115	(79,248)	(42,072)
Others	5,412,693	17,446,434	24,154	155,732	344,556	86,993	23,470,562
	126,430,489	39,498,281	26,853,700	85,949,615	31,134,824	8,269,528	318,136,437
<b>Off balance accounts:</b>							
Financial guarantees	874,714	-	-	-	-	-	874,714
Commitment	100,468,168	-	-	-	-	-	100,468,168
	101,342,882	-	-	-	-	-	101,342,882
	₩ 227,773,371	₩ 39,498,281	₩ 26,853,700	₩ 85,949,615	₩ 31,134,824	₩ 8,269,528	₩ 419,479,319

Derivative liabilities used for hedging purposes are denominated based on the net cash flow because the accounts consist of interest rate swap only. Available assets that exist in redeeming financial liabilities and unused loan commitments are cash and bank deposits, debt securities, equity securities, and loans. In addition, the Group is able to cope with unexpected cash flows through the sale of securities and additional sources of funding, similar to asset backed securitization.

9.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to the changes in market variables such as interest rates, equity prices, exchange rates in the market.

The purpose of market risk management is to maintain the loss of assets and liabilities incurred due to changes in market variables such as interest rates, foreign exchanges and equity prices within the allowable limits in order to ensure profitability and stability. Market risk management targets include marketable securities, foreign currency net positions, derivatives and other assets and liabilities with embedded market risks. Significant risks exposed to the Group as at the reporting date are interest rate risk, currency risk and equity price risk.

For market risk management, the Group measures and monitors the relevant risk exposures on a regular basis. The Group also established and complies with market risk limits, whereby it can manage the exposures arising from changes of market variables within an adequate level. The subsidiaries exposed to market risks, such as Hana Bank, KEB and H&DS, set up and operate their own market risk management system. The group-level market risk exposures are consistently calculated through the group-integrated risk management system. The Group reports its current status of market risk management to the group risk management execution committee and group risk management committee on a monthly and quarterly basis.

The trading positions include positions of interest rate, equity price, commodity and foreign exchange held for trading purpose:

- Financial instruments for the purpose of acquiring the differences incurred due to short-term trading or price fluctuations.
- Financial instruments for the purpose of hedging risks
- Financial instruments for the purpose of acquiring arbitrages
- Financial instruments for the purpose of acquisition, brokerage, and market-making
- Monetary financial instruments expressed in other currencies other than the functional currency

The Group establishes group-level trading policies, which clearly defines types of financial instruments to be included into trading positions by risk factors. The Company's subsidiaries comply with the policies.

The Group's principles to manage market risk of its trading positions are to measure its market risk status on a regular basis and to establish and comply with the various market risk limits. The Group analyzes whether the return against risk are appropriate reviewing its profit and risk on a regular basis.

Value at Risk (VaR) is a primary method that manages and measures the degree of market risks of the trading portfolio subject to exposure, which estimates the potential loss of the trading portfolio that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The Group calculates the VaR for a standard 10 days in the 99% confidence level. In addition, to account for the method's limited use, stress tests are performed in order to measure the extent of the loss in extreme cases.

Risk types of VaR as at December 31, 2017 and 2016 are summarized as follows (Korean won in millions):

	December 31, 2017	Average	Min	Max	December 31, 2016
Interest rates risk	₩ 59,669	₩ 65,346	₩ 46,162	₩ 82,125	₩ 56,184
Foreign exchange rates risk	122,848	105,532	82,954	129,296	92,115
Stock price risk	28,259	23,284	8,742	41,617	26,115
Total risk	₩ 132,240	₩ 132,371	₩ 105,807	₩ 175,051	₩ 122,367

The calculation of the total risk VaR takes into consideration the correlation and diversification effects between each risk factor and therefore, is not the same as the arithmetic additions of all the VaRs.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group manages interest rate risks in order to maintain the stability of net interest income and net asset value.

- Financial assets with interest rates such as bank deposits, debt securities, and loans
- Financial liabilities with interest rates such as depository liabilities, borrowings, and debentures
- Financial derivatives such as interest rate swaps

To manage interest rate risk, the Group mainly monitors the interest rate gap and VaR, and establishes the relevant limits in advance. The interest rate VaR is an estimated maximum loss of net asset due to adverse changes of interest rate.

Details of interest rate VaR of the Group as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	Average	Min	Max	December 31, 2016
Interest rate VaR	₩ 1,067,554	₩ 933,012	₩ 787,150	₩ 1,067,554	₩ 1,121,277

Interest rate VaR is calculated by using the maturity bucket repricing gap, interest maturity bucket on modified durations, and expected gap due to interest rate fluctuation in accordance with BIS standards. Assets classified as below substandard and amounts in checking accounts and temporary deposits are excluded from the amount calculated.

Equity price risk is the risk that the fair value of equities results in changes in the level of related revenue and capital. Effects on capital due to fluctuations in equity price risk as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017			
	20% decline	10% decline	10% rise	20% rise
Equity price risk	₩ (143,754)	₩ (71,877)	₩ 71,877	₩ 143,754
	December 31, 2016			
	20% decline	10% decline	10% rise	20% rise
Equity price risk	₩ (115,402)	₩ (57,701)	₩ 57,701	₩ 115,402

The Group measures the non-trading equity price risk on the domestic available-for-sale equity securities only.

Currency risk is the risk that the value of a financial instrument or future cash flows will fluctuate due to changes in foreign exchange rates. Currency risk arises in financial instruments expressed in currencies other than the functional currency. Currency risk does not arise in financial instruments expressed in the functional currency or in non-monetary items measured using historical foreign exchange rates. In order to establish stop loss and limits, the Group manages the foreign exchange net exposure amount of the trading and non-trading portfolios by each currency.



Significant assets and liabilities denominated in foreign currencies as at December 31, 2017 and 2016 are as follows (Korean won in millions or U.S. dollar in thousands):

	December 31, 2017			
	Currency	Amount in foreign currency in units	U.S. dollars (*)	Korean won equivalent
Assets:				
Cash and due from banks	USD	2,647,569,651	US\$ 2,647,570	₩ 2,836,606
	JPY	44,347,977,252	392,861	420,911
	EUR	512,184,022	611,547	655,211
	CNY	12,277,692,134	1,875,345	2,009,244
	IDR	2,749,011,304,722	202,699	217,172
	BRL	357,023	108	115
	HKD	336,252,634	43,019	46,090
	CAD	348,937	278	298
	AUD	612,771	478	512
	Others		1,109,793	1,189,032
Financial assets held-for-trading			US\$ 6,883,698	₩ 7,375,191
	USD	1,369,905,954	US\$ 1,369,906	₩ 1,467,717
	JPY	2,888,465,468	25,588	27,415
	EUR	17,990,941	21,481	23,015
	CNY	131,652,888	20,109	21,545
	IDR	117,500,000	9	9
	HKD	207,580,218	26,557	28,454
	CAD	3,173,528	2,526	2,706
	AUD	103,956,927	81,035	86,821
	Others		12,009	12,865
Financial assets designated at fair value through profit or loss			1,559,220	1,670,547
	USD	302,610,341	302,610	324,217
	USD	4,598,141,519	4,598,142	4,926,449
	JPY	503,620,000	4,461	4,780
	EUR	10,762,000	12,850	13,767
	CNY	4,457,287,531	680,824	729,435
	IDR	2,459,541,796,430	181,355	194,304
	Others		1,295,737	1,388,252
			6,773,369	7,256,987
	USD	901,432,790	901,433	965,795
Held-to-maturity investments	EUR	37,051,071	44,239	47,398
	CNY	2,037,223,770	311,174	333,392
	IDR	1,150,350,151,785	84,821	90,878
	Others		211,434	226,530
			US\$ 1,553,101	₩ 1,663,993

	December 31, 2017			
	Currency	Amount in foreign currency in units	U.S. dollars (*)	Korean won equivalent
Loans receivable	USD	18,879,858,978	US\$ 18,879,859	₩ 20,227,881
	JPY	104,605,425,268	926,657	992,821
	EUR	2,280,496,955	2,722,910	2,917,326
	CNY	26,333,773,089	4,022,328	4,309,522
	IDR	18,334,714,078,405	1,351,916	1,448,442
	Others		1,762,044	1,887,853
Derivative assets used for hedging purposes			29,665,714	31,783,845
	USD	10,976,184	10,976	11,760
	USD	2,731,259,897	2,731,260	2,926,272
	JPY	125,042,982,146	1,107,705	1,186,795
	EUR	128,002,704	152,835	163,747
	CNY	2,328,908,755	355,727	381,126
Other assets	IDR	208,552,760,530	15,378	16,476
	HKD	354,132,482	45,306	48,541
	CAD	24	-	-
	AUD	606,712	473	507
	Others		232,826	249,450
			4,641,510	4,972,914
Liabilities:			US\$ 51,390,198	₩ 55,059,454
	USD	623,800,110	US\$ 623,800	₩ 668,339
	JPY	59,604,941	528	566
	EUR	5,917,519	7,066	7,570
	CNY	19,079,850	2,914	3,122
	HKD	163,084,281	20,864	22,354
Financial liabilities held-for-trading	CAD	7,704	6	7
	AUD	1,108,700	864	926
	Others		6,080	6,514
			662,122	709,398
	USD	1,315,674,940	US\$ 1,315,675	₩ 1,409,614
	USD	19,422,346,867	US\$ 19,422,347	₩ 20,809,102
Deposits	JPY	207,963,062,753	1,842,261	1,973,798
	EUR	1,568,536,128	1,872,830	2,006,550
	CNY	35,326,673,360	5,395,940	5,781,210
	IDR	16,576,953,575,507	1,222,307	1,309,579
	BRL	1,934,347	584	626
	HKD	69,759,428	8,925	9,562
	CAD	66,985	53	57
	AUD	2,446	2	2
	Others		3,023,651	3,239,540
			US\$ 32,788,900	₩ 35,130,026

	December 31, 2017			
	Currency	Amount in foreign currency in units	U.S. dollars (*)	Korean won equivalent
Borrowings	USD	6,747,894,032	US\$ 6,747,894	₩ 7,229,694
	JPY	13,761,716,433	121,909	130,614
	EUR	580,965,417	693,672	743,200
	CNY	2,280,450,812	348,325	373,196
	IDR	1,508,494,927,443	111,229	119,171
	Others		32,318	34,625
			8,055,347	8,630,500
Debentures	USD	3,524,483,923	3,524,484	3,776,132
	CNY	1,310,036,800	200,100	214,388
	IDR	242,603,324,492	17,888	19,166
	Others		118,813	127,295
			3,861,285	4,136,981
Derivative liabilities used for hedging purposes	USD	41,391,510	41,392	44,347
Other liabilities	USD	4,183,576,709	4,183,577	4,482,284
	JPY	35,872,714,201	317,782	340,472
	EUR	533,293,854	636,752	682,216
	CNY	3,359,418,826	513,131	549,769
	IDR	198,633,282,200	14,646	15,692
	HKD	175,774,746	22,488	24,093
	CAD	4,057	3	3
	Others		236,224	253,091
			5,924,603	6,347,620
			US\$ 52,649,324	₩ 56,408,486
	December 31, 2016			
	Currency	Amount in foreign currency in units	U.S. dollars (*)	Korean won equivalent
<b>Assets:</b>				
Cash and due from banks	USD	3,316,521,737	US\$ 3,316,522	₩ 4,008,017
	JPY	1,345,797,136	1,154,602	1,395,336
	EUR	1,013,073,775	1,062,617	1,284,172
	CNY	11,484,558,749	1,646,516	1,989,815
	IDR	23,666,281,270	175,857	212,523
	BRL	538,052	165	200
	HKD	149,284,323	19,249	23,263
	CAD	136,231	101	122
	AUD	266,850	193	233
	Others		1,004,602	1,214,060
			US\$ 8,380,424	₩ 10,127,741

	December 31, 2016			
	Currency	Amount in foreign currency in units	U.S. dollars (*)	Korean won equivalent
Financial assets held-for-trading	USD	1,322,654,897	US\$ 1,322,655	₩ 1,598,428
	JPY	23,788,775	20,409	24,664
	EUR	2,829,405	2,968	3,587
	CNY	133,992,430	19,210	23,216
	HKD	449,380,501	57,945	70,028
	AUD	18,226,615	13,152	15,895
	Others		1,337	1,614
			1,437,676	1,737,432
Financial assets designated at fair value through profit or loss	USD	195,685,894	195,686	236,486
Available-for-sale financial assets	USD	3,879,215,734	3,879,216	4,688,032
	JPY	33,082,500	28,383	34,300
	EUR	79,048,650	82,914	100,202
	CNY	2,808,504,520	402,649	486,601
	IDR	16,633,185,535	123,596	149,366
	Others		1,037,820	1,254,207
			5,554,578	6,712,708
Held-to-maturity investments	USD	78,523,163	78,522	94,895
	EUR	37,784,587	39,632	47,896
	CNY	3,162,508,730	453,402	547,936
	IDR	4,969,992,170	36,931	44,631
	Others		75,067	90,716
			US\$ 683,554	₩ 826,074
Loans receivable	USD	19,156,601,077	19,156,601	23,150,752
	JPY	1,159,702,986	994,946	1,202,392
	EUR	1,393,407,209	1,461,550	1,766,283
	CNY	27,006,014,921	3,871,793	4,679,062
	IDR	164,049,387,153	1,219,002	1,473,163
	Others		1,481,772	1,790,722
			28,185,664	34,062,374
Derivative assets used for hedging purposes	USD	19,169,856	19,170	23,167
Other assets	USD	3,272,824,002	3,272,824	3,955,208
	JPY	163,603,149	140,360	169,625
	EUR	65,816,585	69,035	83,429
	CNY	4,650,792,425	666,774	805,796
	IDR	1,829,857,206	13,597	16,432
	HKD	584,743,791	75,400	91,121
	CAD	156	-	-
	AUD	365,462	264	319
	Others		417,519	504,572
			4,655,773	5,626,502
			US\$ 49,112,525	₩ 59,352,484



	December 31, 2016			
	Currency	Amount in foreign currency in units	U.S. dollars (*)	Korean won equivalent
<b>Liabilities:</b>				
Financial liabilities held-for-trading	USD	505,263,395	US\$ 505,263	₩ 610,611
	JPY	579,848	497	601
	EUR	13,281,233	13,931	16,835
	CNY	1,145,772	164	199
	IDR	17,417,580	129	156
	HKD	539,938,038	69,622	84,139
	AUD	289,120	209	252
	Others		2,387	2,885
			592,202	715,678
Financial liabilities designated at fair value through profit or loss	USD	742,152,890	US\$ 742,153	₩ 896,892
Deposits	USD	17,349,926,407	US\$ 17,349,926	₩ 20,967,386
	JPY	1,733,587,766	1,487,299	1,797,401
	EUR	1,481,732,627	1,554,195	1,878,244
	CNY	32,374,258,158	4,641,427	5,609,164
	IDR	156,336,035,873	1,161,686	1,403,898
	BRL	538,052	165	200
	HKD	43,000,659	5,545	6,701
	CAD	136,231	101	122
	AUD	448	-	-
	Others		2,626,543	3,174,176
			28,826,887	34,837,292
Borrowings	USD	7,484,972,288	7,484,972	9,045,589
	JPY	266,413,619	228,565	276,220
	EUR	295,841,311	310,309	375,008
	CNY	2,033,079,211	291,478	352,251
	IDR	2,409,293,407	17,903	21,635
	Others		234,370	283,238
			8,567,597	10,353,941
Debentures	USD	4,424,555,809	4,424,556	5,347,076
	EUR	75,000,000	78,668	95,070
	CNY	1,266,857,776	181,627	219,496
	IDR	2,423,694,774	18,010	21,765
	Others		111,174	134,354
			US\$ 4,814,035	₩ 5,817,761

	December 31, 2016			
	Currency	Amount in foreign currency in units	U.S. dollars (*)	Korean won equivalent
Derivative liabilities used for hedging purposes	USD	43,312,807	US\$ 43,313	₩ 52,344
Other liabilities	USD	3,583,689,122	3,583,689	4,330,888
	JPY	175,991,805	150,989	182,470
	EUR	133,538,916	140,069	169,274
	CNY	4,138,966,425	593,395	717,117
	IDR	1,418,866,070	10,543	12,741
	HKD	128,272,005	16,540	19,989
	Others		549,455	664,017
			5,044,680	6,096,496
			US\$ 48,630,867	₩ 58,770,404

(\*) Foreign currencies other than US Dollar are converted into US Dollar equivalent at the exchange rate of the closing date.

#### 9.4 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or other external events. Risks related to strategy or damaging reputation are excluded but legal or regulatory implications are identified as operational risks. Operational risk includes non-financial risks related to losses due to internal operational problems and externalities such as natural disasters and terrorist attacks. Operational risk does not have a direct correlation with income and the Group needs to mitigate such risk through internal controls and insurance.

The Group measures and monitors its operational risk on a regular basis and complies with the predetermined risk limits, whereby the Group manages and controls its operational risk arising from changes of its operation environments and internal controls within an appropriate level. The Company's subsidiaries measures the operational risk exposures using their own approaches suitable to the relevant supervisory regulations of each industry and the group-level operational risk exposures are consistently calculated through the group-integrated risk management system. The Group reports its current status of operational risk management to the group risk management execution committee and group risk management committee on a monthly and quarterly basis.

#### 9.5 Capital management

The Group implements the BIS capital requirement system in order to secure capital adequacy and comply with the supervisory regulations. The Group maintains the consolidated capital adequacy ratio in accordance with BIS capital requirement system. In addition, the Group performs a capital adequacy assessment in order to cope with an unexpected loss.

Risk-weighted assets calculated per each risk type when calculating BIS ratio are as follows:

- Credit risk incurs when potential loss arises from default of a borrower or counterparty or downgrading of its credit rating Risk-weighted assets of credit risk of bank subsidiaries are calculated using the internal model approved by Financial Supervisory Service. Risk-weighted assets of credit risk are calculated by multiplying risk weights reflecting counter party credit rating, maturity, collateral and guarantees granted according to the standardized model of Basel III.
- Market risk incurs when potential loss arises from the fluctuation of market price of stocks, interest rates and foreign currency rates. Risk-weighted assets of market risk are calculated by multiplying 12.5 to the required capital of market risk, which consists of the interest rate risk, equity price risk, foreign currency risk, commodity risk and option risk, according to the standardized model of Supervisory Regulations on Financial Holding Companies.
- Operational risk incurs when loss arises from systems failure, human error, and business process. Risk-weighted assets of operational risk are calculated by multiplying 12.5 to the required capital of operational risk according to asterisk 3 of Detailed of Regulations on Supervisory of Banking Business.

Regulatory capital in accordance with the Regulations on the Supervision of Banking Business for calculating BIS ratio is as follows:

- Common Equity Tier 1: common shares issued by the group that meet the criteria for classification as common shares for regulatory purposes, stock surplus (share premium) resulting from the issue of instruments included in Common Equity Tier 1, retained earnings, Accumulated other comprehensive income and other disclosed reserves, common shares issued by consolidated subsidiaries of the group and held by third parties (i.e. minority interest) that meet the criteria for inclusion in Common Equity Tier 1 capital, regulatory adjustments applied in the calculation of Common Equity Tier 1
- Additional Tier 1: instruments issued by the group that meet the criteria for inclusion in Additional Tier 1 capital, stock surplus (share premium) resulting from the issue of instruments included in Additional Tier 1 capital, instruments issued by consolidated subsidiaries of the group and held by third parties that meet the criteria for inclusion in Additional Tier 1 capital and are not included in Common Equity Tier 1, regulatory adjustments applied in the calculation of Additional Tier 1
- Tier 2 capital: Instruments issued by the group that meet the criteria for inclusion in Tier 2 capital (and are not included in Tier 1 capital), Stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital, Instruments issued by consolidated subsidiaries of the group and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital, Certain loan loss provisions, Regulatory adjustments applied in the calculation of Tier 2 Capital

Regulatory capital and BIS ratios as at December 31, 2017 and 2016 are as follows (ratio in %):

	December 31, 2017	December 31, 2016
Common Equity Tier 1 capital	₩ 21,707,859	₩ 20,436,810
Additional Tier 1 capital	936,438	940,086
	22,644,297	21,376,896
Tier 2 capital	2,847,644	3,505,359
	₩ 25,491,941	₩ 24,882,255
<b>Risk-weighted assets:</b>		
Credit risk-weighted assets	₩ 149,520,293	₩ 153,811,601
Market risk-weighted assets	8,576,347	8,964,070
Operational risk-weighted assets	12,235,015	10,878,297
	₩ 170,331,655	₩ 173,653,968
<b>BIS capital ratio:</b>		
Common Equity Tier 1 ratio	12.74%	11.77%
Additional Tier 1 capital ratio	13.29%	12.31%
Total capital ratio	14.97%	14.33%

Internal capital is the amount that allows for continuous operation of business while accounting for all risks. Internal capital is defined as the size of capital needed to cope with unexpected loss under a certain rate. The purpose of managing the internal capital is to compare the size of internal capital and available capital (Tier 1) and to serve as a measure of financial strength. Managing the internal capital also provides the amount of risk-adjusted capital and the basis for measurement. The indicators consist of risk appetite ratio as well as exhaustion ratio of foreign holding limits. The risk appetite ratio is an internal capital ratio established after taking into consideration a capital buffer in Tier 1 capital. The exhaustion ratio of foreign holding limits is a ratio used to measure the amount of internal capital used against the internal capital limits.

Internal capital limits are established after accounting for the size of current and subsequent Tier 1 capital as well as the components, quality, risk appetite, target credit rating, operational strategy and business plans. The Risk Committee determines risk types and internal capital limits for HFG and each subsidiary more than once a year. In the case where new operations or expansion of operations result in the amount exceeding the internal capital limits, an approval from the Risk Committee is needed beforehand. If such a situation occurs in cases outlined as exceptions, an approval from the Risk Committee is needed for the information on exceeded amount, post hoc results, as well as subsequent plans.

10. Operating segments information

The Group is organized into four operating segments based on their financial information of each legal entity used for making decisions about resources to be allocated to the segment and assessing its performance. Details of operating segments are presented below:

- KEB Hana Bank (formerly KEB) and its subsidiaries (KEB Hana Bank)
- HFI (formerly H&DS) and its subsidiaries (HFI)
- KEB Hana Card and its subsidiaries (KEB Hana Card)
- Others: consist of Hana Financial Group’s separate performance and its other subsidiaries such as Hana Capital, Hana Asset Trust, Hana TI, Hana Savings Bank, Hana Life Insurance, Hana Alternative Asset Management and HIS.

The net income of the operating segments for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017						
	KEB Hana Bank	HFI	KEB Hana Card	Others	Subtotal	Adjustments	Total
<b>Operating income:</b>							
Net interest income	₩ 4,814,172	₩ 191,863	₩ (107,133)	₩ 226,452	₩ 5,125,354	₩ (15,846)	₩ 5,109,508
Net fee and commission income	636,313	274,142	706,000	248,451	1,864,906	11,700	1,876,606
Others	1,360,424	39,097	76,864	51,573	1,527,958	(105,002)	1,422,956
Gross operating income	6,810,909	505,102	675,731	526,476	8,518,218	(109,148)	8,409,070
Impairment loss of financial assets	(669,129)	(2,875)	(183,458)	(80,905)	(936,367)	(11,129)	(947,496)
Net operating income	6,141,780	502,227	492,273	445,571	7,581,851	(120,277)	7,461,574
General and administrative expenses	(3,091,795)	(335,832)	(324,279)	(226,568)	(3,978,474)	(60,598)	(4,039,072)
Net other operating income (loss)	(374,407)	11,006	(30,809)	(183,012)	(577,222)	(127,143)	(704,365)
Operating income	2,675,578	177,401	137,185	35,991	3,026,155	(308,018)	2,718,137
Net other non-operating income (loss)	77,440	5,828	3,748	682,078	769,094	(688,566)	80,528
Income tax expenses	(640,779)	(36,955)	(34,581)	(40,544)	(752,859)	70,816	(682,043)
Net income	₩ 2,112,239	₩ 146,274	₩ 106,352	₩ 677,525	₩ 3,042,390	₩ (925,768)	₩ 2,116,622

	December 31, 2016						
	KEB Hana Bank	HFI	KEB Hana Card	Others	Subtotal	Adjustments	Total
<b>Operating income:</b>							
Net interest income	₩ 4,328,689	₩ 254,314	₩ (112,483)	₩ 203,114	₩ 4,673,634	₩ (31,539)	₩ 4,642,095
Net fee and commission income	608,653	223,454	642,721	156,917	1,631,745	8,148	1,639,893
Others	881,353	(22,776)	64,132	43,164	965,873	(1,440)	964,433
Gross operating income	5,818,695	454,992	594,370	403,195	7,271,252	(24,831)	7,246,421
Impairment loss of financial assets	(599,774)	(3,287)	(152,130)	(53,228)	(808,419)	818	(807,601)
Net operating income	5,218,921	451,705	442,240	349,967	6,462,833	(24,013)	6,438,820
General and administrative expenses	(3,161,220)	(304,699)	(304,470)	(222,602)	(3,992,991)	(83,894)	(4,076,885)
Net other operating income (loss)	(511,732)	12,510	(43,312)	(112,501)	(655,035)	(92,793)	(747,828)

	December 31, 2016						
	KEB Hana Bank	HFI	KEB Hana Card	Others	Subtotal	Adjustments	Total
Operating income	₩ 1,545,969	₩ 159,516	₩ 94,458	₩ 14,864	₩ 1,814,807	₩ (200,700)	₩ 1,614,107
Net other non-operating income (loss)	217,142	(54,052)	5,769	455,816	624,675	(418,787)	205,888
Income tax expenses	(382,940)	(18,831)	(24,632)	(39,793)	(466,196)	45,945	(420,251)
Net income	₩ 1,380,171	₩ 86,633	₩ 75,595	₩ 430,887	₩ 1,973,286	₩ (573,542)	₩ 1,399,744

The operating income from external customers and internal transactions for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017						
	KEB Hana Bank	HFI	KEB Hana Card	Others	Subtotal	Adjustments	Total
Revenue (expense) from external customers	₩ 6,766,489	₩ 471,374	₩ 751,448	₩ 408,219	₩ 8,397,530	₩ (109,148)	₩ 8,288,382
Revenue (expense) from internal transactions	44,420	33,728	(75,717)	118,257	120,688	-	120,688
	₩ 6,810,909	₩ 505,102	₩ 675,731	₩ 526,476	₩ 8,518,218	₩ (109,148)	₩ 8,409,070

	December 31, 2016						
	KEB Hana Bank	HFI	KEB Hana Card	Others	Subtotal	Adjustments	Total
Revenue (expense) from external customers	₩ 5,745,244	₩ 460,965	₩ 660,952	₩ 311,787	₩ 7,178,948	₩ (24,831)	₩ 7,154,117
Revenue (expense) from internal transactions	73,451	(5,973)	(66,582)	91,408	92,304	-	92,304
	₩ 5,818,695	₩ 454,992	₩ 594,370	₩ 403,195	₩ 7,271,252	₩ (24,831)	₩ 7,246,421

Significant non-cash transactions included in income of operating segments for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017						
	KEB Hana Bank	HFI	KEB Hana Card	Others	Subtotal	Adjustments	Total
Gain (loss) on equity method	₩ 103,465	₩ 6,845	₩ 1,055	₩ (631)	₩ 110,734	₩ (10,842)	₩ 99,892
Depreciation and amortization	203,686	24,253	32,040	98,931	358,910	172,910	531,820
	₩ 307,151	₩ 31,098	₩ 33,095	₩ 98,300	₩ 469,644	₩ 162,068	₩ 631,712

	December 31, 2016						
	KEB Hana Bank	HFI	KEB Hana Card	Others	Subtotal	Adjustments	Total
Gain (loss) on equity method	₩ 42,172	₩ (5,367)	₩ 195	₩ (568)	₩ 36,432	₩ 15,873	₩ 52,305
Depreciation and amortization	200,122	12,804	35,288	57,119	305,333	182,425	487,758
	₩ 242,294	₩ 7,437	₩ 35,483	₩ 56,551	₩ 341,765	₩ 198,298	₩ 540,063

Revenue from external customers for the years ended December 31, 2017 and 2016 and non-current assets as at December 31, 2017 and 2016 is as follows (Korean won in millions):

	Revenue from external customers		Non-current assets	
	Year ended December 31, 2017	Year ended December 31, 2016	December 31, 2017	December 31, 2016
Domestic	₩ 7,813,127	₩ 6,555,112	₩ 4,020,839	₩ 4,167,130
Foreign:				
Hong Kong	67,162	118,600	498	801
Singapore	24,687	29,560	865	726
U.S	40,101	39,441	5,168	7,743
Japan	16,978	20,121	2,765	3,216
China	138,214	140,799	26,404	31,766
Indonesia	143,597	124,784	11,298	9,442
U.K	18,622	20,955	2,889	2,659
Canada	28,623	29,731	6,774	8,621
Others	106,420	99,845	8,828	11,785
	584,404	623,836	65,489	76,759
Adjustments	(109,149)	(24,831)	365,651	514,695
	₩ 8,288,382	₩ 7,154,117	₩ 4,451,979	₩ 4,758,584

Non-current assets consist of property and equipment, investment properties, and intangible assets and are classified as either domestic or overseas depending on its geographic proximity.

### 11. Cash and due from banks

Cash and due from banks as at December 31, 2017 and 2016 are as follows (Korean won in millions):

		Counterparty	Interest rate (%)	December 31, 2017	December 31, 2016
				₩ 2,224,789	₩ 2,130,163
Cash					
Due from banks in Korean won	Reserve deposits with BOK, etc.	Bank of Korea (BOK), etc	1.3~1.7	10,860,179	15,841,981
	Time deposits	Other banks	0.0~1.9	640,480	853,221
	Other deposits	Other financial institutions	0.0~1.8	1,333,660	940,876
				12,834,319	17,636,078
Due from banks in foreign currencies	Deposits in foreign currencies in other branches	BOK, etc.	0.0~1.7	3,075,845	4,619,193
	Time deposits	Bayern LB and others	0.1~7.3	1,496,025	1,985,830
	Other deposits	Other financial institutions	0.0~1.7	2,219,714	2,855,198
				6,791,584	9,460,221
				₩ 21,850,692	₩ 29,226,462



Restricted balances in due from banks as at December 31, 2017 and 2016 are summarized as follows (Korean won in millions):

	December 31, 2017	December 31, 2016	Restrictions
<b>Due from banks in Korean won:</b>			
Reserve deposits with BOK, etc.	₩ 10,860,179	₩ 15,841,981	The Bank of Korea Act
Reserve for futures trading	44	562	Margin for trading account
Reserve for claims of customers' deposits	187,000	332,499	Regulation on brokerage business of securities company, etc.
Other deposits	276,494	301,146	For the right of pledge, etc.
	11,323,717	16,476,188	
<b>Due from banks in foreign currencies:</b>			
Deposits in foreign currencies in other branches	342,719	1,592,370	Reserve for payment of deposits, etc.
Other deposits	501,882	949,176	OTC derivative contracts, etc.
	844,601	2,541,546	
	₩ 12,168,318	₩ 19,017,734	

12. Financial assets held-for-trading

Financial assets held-for-trading as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Equity securities	₩ 121,200	₩ 65,764
Government and public bonds	3,001,786	3,118,912
Finance bonds	5,894,136	4,416,612
Corporate bonds and others	3,761,222	4,681,509
Beneficiary certificates	348,482	381,980
Securities denominated in foreign currencies	1,263,821	1,116,960
Other securities	982,887	902,639
Derivatives assets held for trading purpose (*)	7,330,570	7,093,190
	₩ 22,704,104	₩ 21,777,566

(\*) Refer to Note 18.

13. Financial assets designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Derivative linked securities	₩ 392,571	₩ 1,004,281
Deferred day 1 profit or loss	6,096	8,516
Equity securities	362,044	296,713
Debt securities	532,047	528,414
	₩ 1,292,758	₩ 1,837,924

In regard to derivative linked securities, the Group does not separate embedded derivatives from host contracts but designates them as fair value through profit or loss. The Group designates equity securities from collective financial instruments managed on a fair value basis as fair value through profit or loss in accordance with a documented internal risk management or investment strategy.

14. Available-for-sale financial assets

Available-for-sale financial assets as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Equity securities	₩ 1,019,148	₩ 1,277,342
Investments in partnerships	189,858	172,299
Government and public bonds	14,595,744	13,887,429
Finance bonds	15,601,338	9,914,152
Corporate bonds and others	4,456,582	5,765,545
Beneficiary certificates	2,951,642	1,910,521
Securities denominated in foreign currencies	8,082,692	7,062,292
Others	24,425	22,505
	₩ 46,921,429	₩ 40,012,085

15. Held-to-maturity investments

Held-to-maturity investments as at December 31, 2017 and 2016 consist of the following (Korean won in millions):

	December 31, 2017	December 31, 2016
Government and public bonds	₩ 1,865,981	₩ 1,516,972
Finance bonds	972,622	505,552
Corporate bonds and others	2,889,505	2,201,521
Securities denominated in foreign currencies	1,663,992	826,074
	₩ 7,392,100	₩ 5,050,119

The Group has reclassified available-for-sale financial assets of ₩243,567 million, ₩519,583 million and ₩348,103 million to held-to-maturity investments as at December 31, 2015, 2016 and 2017, respectively. The Group has measured held-to-maturity investments at the fair value as at the date of reclassification.

Losses on valuation of available-for-sale financial assets (accumulated other comprehensive income) are amortized using the effective interest rate method over the remaining term of the debt securities. Loss on valuation of held-to-maturity financial assets after tax (accumulated other comprehensive income) amounts to ₩17,957 million as at December 31, 2017.

16. Pledged assets

Assets pledged as collateral for the purpose of resale agreement bonds from other banks, futures options and securities deposits for membership maintenance at the stock exchange for trading financial assets, available-for-sale financial assets and held-to-maturity investments as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	Details	Book value	
		December 31, 2017	December 31, 2016
Financial assets held-for-trading	Pledged securities	₩ 2,148,344	₩ 1,676,525
	Derivative instruments	1,660,527	1,630,098
	KRX, etc.	271,443	204,821
	Client RP	4,389,829	4,224,400
	Others	1,525	1,505
		8,471,668	7,737,349
Available-for-sale financial assets	Futures	66,955	29,491
	Daylight credit	566,317	541,725
	Client RP	392,284	109,098
	Foreign currency borrowing	290,586	489,620
	Pledged securities	599,777	761,901
	Borrowings	1,467,404	1,346,194
	BOK payment	2,554,249	3,106,348
	Others	979,720	845,772
		6,917,292	7,230,149
Held-to-maturity investments	Foreign currency borrowing	₩ 31,364	₩ 42,252
	Establishment of a pledge right	21,281	21,375
	Futures	257,233	278,398
	BOK payment	1,121,782	1,095,998
	Daylight credit	45,740	45,882
	Borrowings	275,370	390,991
	Securities paid	5,016	5,016
	Others	69,815	74,760
		1,827,601	1,954,672
Loans Receivable	Borrowings	₩ 10,212	₩ -
		17,226,773	16,922,170

17. Loans and receivables

Details of loans and receivables as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
<b>Loans and receivables:</b>		
Loans in Korean won	₩ 194,242,404	₩ 183,315,934
Loans in foreign currencies	19,878,908	21,859,069
Domestic import usance	3,450,087	3,441,151
Call loans	2,163,949	2,477,066
Bills purchased in Korean won	70,349	377,809
Bills purchased in foreign currencies	5,663,419	5,844,073
Advance payments on acceptances and guarantees	₩ 17,816	₩ 25,394

	December 31, 2017	December 31, 2016
Credit card loans	₩ 7,029,120	₩ 6,240,048
Bonds purchased under resale agreement	4,552,229	3,403,941
Installment receivables purchased	591,721	649,054
Privately-placed corporate bonds	1,243,570	1,101,258
Lease receivables	1,452,496	1,402,741
	240,356,068	230,137,538
<b>Plus (less):</b>		
Deferred loan fees and expenses	300,172	296,805
Allowance for possible loan losses	(1,713,055)	(1,820,039)
	₩ 238,943,185	₩ 228,607,008

Allocations of loans in Korean won and in foreign currencies by customer as at December 31, 2017 and 2016 are listed as follows (Korean won in millions):

	December 31, 2017		
	Korean won	Foreign currencies	Total
<b>Corporate loans:</b>			
Large business	₩ 15,631,564	₩ 18,346,830	₩ 33,978,394
Small and medium business	73,177,564	6,605,694	79,783,258
Public sector and others	9,126,273	6,009,960	15,136,233
	97,935,401	30,962,484	128,897,885
Household loans	103,304,602	1,124,461	104,429,063
Credit card loans	7,029,120	-	7,029,120
	208,269,123	32,086,945	240,356,068
<b>Plus (less):</b>			
Deferred loan fees and expenses	314,482	(14,310)	300,172
Allowance for possible loan losses	(1,424,265)	(288,790)	(1,713,055)
	₩ 207,159,340	₩ 31,783,845	₩ 238,943,185

	December 31, 2016		
	Korean won	Foreign currencies	Total
<b>Corporate loans:</b>			
Large business	₩ 17,054,671	₩ 17,992,810	₩ 35,047,481
Small and medium business	67,067,690	8,648,845	75,716,535
Public sector and others	6,917,371	6,660,939	13,578,310
	91,039,732	33,302,594	124,342,326
Household loans	98,434,461	1,115,841	99,550,302
Credit card loans	6,237,614	-	6,237,614
	195,711,807	34,418,435	230,130,242
<b>Plus (less):</b>			
Deferred loan fees and expenses	310,299	(13,494)	296,805
Allowance for possible loan losses	(1,477,472)	(342,567)	(1,820,039)
	₩ 194,544,634	₩ 34,062,374	₩ 228,607,008

Changes in allowance for possible loan losses for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017							
	Loans in Korean won	Loans in foreign currencies	Advance payments on acceptances and guarantees	Bills purchased in foreign currencies	Credit card loans	Privately placed corporate bonds	Total	
As at January 1, 2017	₩ 1,247,211	₩ 285,367	₩ 3,744	₩ 56,370	₩ 192,027	₩ 35,320	₩ 1,820,039	
Disposal of non-performing loans	(54,754)	-	-	-	(21,336)	-	(76,090)	
Write-offs	(422,641)	(50,065)	(238)	-	(181,854)	-	(654,798)	
Collection of loans written-off in prior periods	180,183	35,343	683	-	36,591	-	252,800	
Debt-to-equity swap	(109,053)	(255,690)	-	-	-	-	(364,743)	
Changes in exchange rate, etc.	28	(28,664)	-	(5,172)	-	(3)	(33,811)	
Provisions of allowance for possible loan losses	349,290	246,714	(337)	7,196	185,898	1,116	789,877	
Interest income from impaired loans	(13,027)	(2,495)	(51)	(783)	(3,535)	(328)	(20,219)	
As at December 31, 2017	₩ 1,177,237	₩ 230,510	₩ 3,801	₩ 57,611	₩ 207,791	₩ 36,105	₩ 1,713,055	

	Year ended December 31, 2016							
	Loans in Korean won	Loans in foreign currencies	Advance payments on acceptances and guarantees	Bills purchased in foreign currencies	Credit card loans	Privately placed corporate bonds	Total	
As at January 1, 2016	₩ 1,614,019	₩ 330,726	₩ 9,769	₩ 64,387	₩ 179,544	₩ 33,476	₩ 2,231,921	
Disposal of non-performing loans	(53,543)	(884)	(14,586)	-	-	-	(69,013)	
Write-offs	(843,512)	(112,318)	(36,851)	(15,359)	(178,273)	(27,600)	(1,213,913)	
Collection of loans written-off in prior periods	188,484	30,777	1,994	-	46,499	-	267,754	
Debt-to-equity swap	(76,278)	-	-	-	(10,271)	-	(86,549)	
Changes in exchange rate, etc.	9	(30,308)	(28)	1,598	-	59	(28,670)	
Provisions of allowance for possible loan losses	447,855	70,985	43,782	6,536	157,414	29,901	756,473	
Interest income from impaired loans	(29,823)	(3,611)	(336)	(792)	(2,886)	(516)	(37,964)	
As at December 31, 2016	₩ 1,247,211	₩ 285,367	₩ 3,744	₩ 56,370	₩ 192,027	₩ 35,320	₩ 1,820,039	

18. Derivative instruments

Unsettled derivative contracts held for trading purpose as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017				
	Notional amounts	Net valuation gain	Net valuation loss	Assets	Liabilities
Currency:					
Forwards	₩ 204,659,309	₩ 4,484,154	₩ 4,825,602	₩ 4,421,675	₩ 4,558,637
Swap	69,541,796	2,975,494	2,528,394	1,941,568	1,591,804
Options purchased	79,069	317	-	1,298	-
Options sold	96,426	-	364	-	2,450
Futures	1,341,222	30	185	30	186
	275,717,822	7,459,995	7,354,545	6,364,571	6,153,077
Interest:					
Swap	103,294,343	352,333	314,419	454,482	560,521
Options purchased	776,000	12,558	-	16,854	-
Options sold	3,304,802	-	4,261	-	43,050
Futures	3,851,725	2,267	209	2,267	210
	111,226,870	367,158	318,889	473,603	603,781
Stock:					
Swap	3,342,653	74,538	55,057	186,444	117,011
Options purchased	679,193	410	3,670	17,819	-
Options sold	1,950,352	17,761	8,518	-	30,341
Futures	471,981	1,585	1,928	1,585	1,928
	6,444,179	94,294	69,173	205,848	149,280
Credit:					
Credit default swap	11,354,940	100,306	56,382	188,797	382,771
Others:					
Other derivatives	1,563,996	45,108	65,268	97,751	109,443
	₩ 406,307,807	₩ 8,066,861	₩ 7,864,257	₩ 7,330,570	₩ 7,398,352

	December 31, 2016				
	Notional amounts	Net valuation gain	Net valuation loss	Assets	Liabilities
Currency:					
Forwards	₩ 180,341,206	₩ 3,615,722	₩ 3,308,497	₩ 4,131,142	₩ 3,515,542
Swap	58,520,864	961,940	1,050,204	1,696,083	1,964,208
Options purchased	678,022	10,602	-	12,137	-
Options sold	610,310	-	6,718	-	8,727
Futures	2,251,897	7	274	7	274
	242,402,299	4,588,271	4,365,693	5,839,369	5,488,751
Interest:					
Swap	103,758,743	322,508	297,020	780,885	889,899
Options purchased	1,160,500	4,503	-	30,944	-
Options sold	4,191,437	-	7,984	-	83,631
Futures	2,543,541	609	2,451	609	2,451
	111,654,221	327,620	307,455	812,438	975,981



	December 31, 2016				
	Notional amounts	Net valuation gain	Net valuation loss	Assets	Liabilities
<b>Stock:</b>					
Swap	5,864,970	158,312	47,461	242,085	256,169
Options purchased	462,597	7,816	7,107	16,696	-
Options sold	2,175,127	40,412	8,175	-	71,313
Futures	1,149,810	7,304	222	7,303	223
	9,652,504	213,844	62,965	266,084	327,705
<b>Credit:</b>					
Credit default swap	8,235,297	67,857	37,078	138,995	189,496
<b>Others:</b>					
Other derivatives	2,460,479	35,155	35,827	36,304	74,128
	₩ 374,404,800	₩ 5,232,747	₩ 4,809,018	₩ 7,093,190	₩ 7,056,061

Unsettled derivative contracts held for hedging purpose as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017				
	Notional amounts	Net valuation gain	Net valuation loss	Assets	Liabilities
<b>Fair value hedge:</b>					
Currency forwards	₩ 223,290	₩ 11,996	₩ -	₩ 11,867	₩ -
Currency swap	279,922	31,872	-	-	14,225
Interest swap	3,500,626	11,884	29,605	11,760	57,572
	4,003,838	55,752	29,605	23,627	71,797
<b>Cash flow hedge:</b>					
Interest swap	100,000	1,536	-	97	-
	₩ 4,103,838	₩ 57,288	₩ 29,605	₩ 23,724	₩ 71,797

	December 31, 2016				
	Notional amounts	Net valuation gain	Net valuation loss	Assets	Liabilities
<b>Fair value hedge:</b>					
Currency forwards	₩ 262,395	₩ -	₩ 20,705	₩ -	₩ 20,705
Currency swap	294,231	670	22,033	-	46,097
Interest swap	5,803,695	1,353	67,013	25,825	52,877
	6,360,321	2,023	109,751	25,825	119,679
<b>Cash flow hedge:</b>					
Interest swap	278,000	-	1,631	-	1,631
	₩ 6,638,321	₩ 2,023	₩ 111,382	₩ 25,825	₩ 121,310

For derivative transactions involving both Korean won and foreign currency such as currency forwards, currency futures and currency swap, the fair value of the unsettled amount for such transaction is presented using the proper foreign exchange rate of the contract amount in foreign currency at the reporting date. For a derivative transaction involving only foreign currency, the fair value of the unsettled amount is presented using the proper foreign exchange rate of the foreign currency purchased at the reporting date.

### 19. Investments in associates and joint ventures

Details of investments in associates and joint ventures as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017				
	Type	Country	Number of shares	Ownership (%)	Book value
Mirae Credit Information Services Corp	Associates	Korea	186,000	31.0	₩ 9,279
Bank of Jilin (*1)	Associates	China	1,200,000,000	17.0	644,252
PT. Sinarmas Hana Finance (*4)	Joint ventures	Indonesia	1,275	85.0	8,703
Hana UBS Asset Management	Associates	Korea	4,410,000	49.0	35,064
Maltani Development Co., Ltd. (*1)(*2)	Associates	Korea	54,000	18.0	23,404
Hana Power Infra 1st Private Equity Fund (*1)(*3)	Associates	Korea	-	7.0	23,075
CM International Financing Leases	Associates	China	1,125,000,000	25.0	201,064
Korea Credit Bureau (*1)	Associates	Korea	180,000	9.0	5,722
Company KStartup Winwin Fund (*3)	Associates	Korea	-	23.8	9,643
KOCREF REIT 30 (*1)	Associates	Korea	400,000	10.9	20,000
Finnq Co., Ltd. (*4)	Joint ventures	Korea	5,100,000	51.0	16,696
Beijing Langa Asset Management Co., Ltd	Associates	China	250,000,000	25.0	45,113
Darby Latin American Fund III	Associates	Korea	-	25.0	6,770
Others					24,793
					₩ 1,073,578

	December 31, 2016				
	Type	Country	Number of shares	Ownership (%)	Book value
Mirae Credit Information Services Corp	Associates	Korea	186,000	31.0	₩ 9,359
Bank of Jilin (*1)	Associates	China	1,200,000,000	17.0	639,369
PT. Sinarmas Hana Finance (*4)	Joint ventures	Indonesia	1,275	85.0	10,726
Hana UBS Asset Management	Associates	Korea	4,410,000	49.0	34,937
Maltani Development Co., Ltd. (*1)(*2)	Associates	Korea	54,000	18.0	22,772
Hana Power Infra 1st Private Equity Fund (*1)(*3)	Associates	Korea	-	7.0	22,481
CM International Financing Leases	Associates	China	1,125,000,000	25.0	211,928
Korea Credit Bureau (*1)	Associates	Korea	180,000	9.0	5,519
Company KStartup Winwin Fund (*3)	Associates	Korea	-	23.8	9,585
KOCREF REIT 30 (*1)	Associates	Korea	400,000	10.9	20,346
Finnq Co., Ltd. (*4)	Joint ventures	Korea	5,100,000	51.0	24,710
2010 KIF-TUBE IT Venture Fund (*3)	Associates	Korea	-	24.2	5,531
Others					19,897
					₩ 1,037,160

(\*1) The Group exercises significant influence on the investee’s Board of Directors and therefore, is included as part of affiliated companies under the equity method.

(\*2) The financial statements for the current period were not available therefore the financial statements from the prior 3 months were used and the effect from all material transactions or events from the current period were evaluated and appropriately reflected.

(\*3) The Group did not present number of investment shares since the company did not issue shares.

(\*4) Equity method is applied since the Group cannot individually control the investees and other shareholders' consent is required to make important decisions for the company.

Balances of investment accounts became zero so equity method was no longer applied. In this regard, unrecognized amount of changes in equity for the current year and unrecognized accumulated amount of changes in equity for the prior year are as follows (Korean won in millions):

	Number of shares	Ownership (%)	Unrecognized changes in equity for year ended December, 31, 2017	Unrecognized accumulated changes in equity as at December 31, 2016
Somesevit Corporation (formerly, Flossom Co., Ltd.)	165,000	1.9	₩ (43)	₩ (838)
MIDAN City Development Co., Ltd (*)	387,800	2.2	(420)	-
The hue Company Ltd (*)	400,000	7.14	-	-
Mirae Asset KEB Second Securitization Specialty Co., Ltd.	450	45.0	(453)	(2,203)
MIRAEASSETKEB First Securitization Specialty Co., Ltd.	1,000	40.0	(1,630)	(450)
Odin 2 LLC	13,990,992	26.7	(658)	(43,812)
Jungbu BIO Energy Co., Ltd.	200,000	18.9	(1,153)	(133)

(\*) MIDAN City Development Co., Ltd and The hue Company Ltd recognized the impairment loss during the period and thus the balances of the investment accounts are is zero.

The condensed financial information of investments in associates as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017						
	Assets	Liabilities	Equity	Revenue (*)	Net income (loss) (*)	Other comprehensive income (loss) (*)	Comprehensive income (loss) (*)
Korea Credit Bureau	₩ 75,504	₩ 19,323	₩ 56,181	₩ 68,750	₩ 3,580	₩ -	₩ 3,580
Bank of Jilin	62,533,816	58,823,646	3,710,170	1,401,157	484,330	(139,973)	344,357
CM International Financing Leases	5,713,627	4,909,370	804,257	358,637	57,835	-	57,835
Beijing Langa Asset Management Co., Ltd	416,310	235,856	180,454	23,843	16,884	-	16,884
Company KStartup Winwin Fund	41,025	525	40,500	3,828	3,012	628	3,640
PT. Sinarmas Hana Finance	39,421	29,511	9,910	6,249	(1,196)	(573)	(1,769)
Hana UBS Asset Management	77,304	5,745	71,559	30,994	10,337	52	10,389
Hana Power Infra 1st Private Equity Fund	330,255	606	329,649	9,028	6,544	8,494	15,038
KOCREF REIT 30	435,095	251,095	184,000	25,338	9,686	-	9,686
Maltani Development Co., Ltd.	66,197	21,085	45,112	101,613	3,448	(45)	3,403
Mirae Credit Information Services Corp	44,947	15,013	29,934	60,765	1,537	226	1,763
Finnq Co., Ltd.	47,842	15,104	32,738	-	(15,699)	(17)	(15,716)
Darby Latin American Fund III	14,258	1,934	12,324	-	(1,871)	-	(1,871)

	December 31, 2016						
	Assets	Liabilities	Equity	Revenue (*)	Net income (loss) (*)	Other comprehensive income (loss) (*)	Comprehensive income (loss) (*)
Bank of Jilin	₩ 73,278,605	₩ 69,602,185	₩ 3,676,420	₩ 5,622,873	₩ 498,867	₩ (158,651)	₩ 340,216
CM International Financing Leases	5,193,459	4,345,746	847,713	219,628	41,445	-	41,445
Hana UBS Asset Management	74,938	3,638	71,300	31,511	11,391	19	11,410
Finnq Co., Ltd.	49,589	138	48,451	-	(829)	-	(829)
Maltani Development Co., Ltd.	63,727	22,125	41,602	79,288	(2,453)	226	(2,227)
Hana Power Infra 1st Private Equity Fund	321,761	604	321,157	9,026	6,547	25,237	31,784
KOCREF REIT 30	439,942	252,757	187,185	27,909	11,365	-	11,365
PT. Sinarmas Hana Finance	31,846	19,311	12,535	2,688	(1,051)	697	(354)
Company KStartup Winwin Fund	40,471	214	40,257	288	(572)	-	(572)
Mirae Credit Information Services Corp	37,615	7,424	30,191	56,852	2,703	(2)	2,701
2010 KIF-TUBE IT Venture Fund	22,382	466	21,916	20	(413)	2,594	2,181
Korea Credit Bureau	71,245	17,322	53,923	59,868	3,517	-	3,517

Changes in the investments in associates and joint ventures for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017							Year ended December 31, 2017						
	Ownership (%)	Beginning balance	Addition	Replace	Dividend	Book value before valuation	Equity method valuation		Disposal	Impairment loss	Book value	Goodwill and others	Proportio-nate net asset	
							Earnings (loss)	Other compre-hensive income						
Korea Credit Bureau	9.0	₩ 5,519	₩ -	₩ -	₩ (149)	₩ 5,370	₩ 352	₩ -	₩ -	₩ -	₩ 5,722	₩ 666	₩ 5,056	
Mirae Credit Information Services Corp	31.0	9,359	-	-	(372)	8,987	222	70	-	-	9,279	-	9,279	
Bank of Jilin	17.0	639,369	-	-	(20,006)	619,363	82,241	(57,352)	-	-	644,252	14,265	629,987	
Hana UBS Asset Management	49.0	34,937	-	-	(4,964)	29,973	5,066	25	-	-	35,064	-	35,064	
Maltani Development Co., Ltd.	18.0	22,772	-	-	-	22,772	621	11	-	-	23,404	15,283	8,121	
CM International Financing leases	25.0	211,928	-	-	(13,019)	198,909	14,459	(12,304)	-	-	201,064	-	201,064	
Beijing Langa Asset Management Co., Ltd	25.0	-	41,801	-	-	41,801	4,199	(887)	-	-	45,113	-	45,113	
Company KStartup Winwin Fund	23.8	9,585	-	-	-	9,585	719	39	(700)	-	9,643	4	9,639	
PT. Sinarmas Hana Finance	85.0	10,726	-	-	-	10,726	(916)	(1,107)	-	-	8,703	280	8,423	
Hana Power Infra 1st Private Equity Fund	7.0	22,481	-	-	-	22,481	-	594	-	-	23,075	-	23,075	
KOCREF REIT 30	10.9	20,346	-	-	(1,399)	18,947	1,053	-	-	-	20,000	-	20,000	
Finnq Co., Ltd.	51.0	24,710	-	-	-	24,710	(8,006)	(8)	-	-	16,696	-	16,696	
Darby Latin American Fund III	25.0	-	7,621	-	-	7,621	(606)	(245)	-	-	6,770	3,690	3,080	
Others	-	25,428	4,585	(1,484)	(467)	28,062	489	(505)	(1,033)	(2,219)	24,793	640	24,155	
	₩	1,037,160	₩ 54,007	₩ (1,484)	₩ (40,376)	₩ 1,049,307	₩ 99,892	₩ (71,669)	₩ (1,733)	₩ (2,219)	₩ 1,073,578	₩ 34,828	₩ 1,038,750	
	Year ended December 31, 2016							Year ended December 31, 2016						
	Ownership (%)	Beginning balance	Addition	Replace	Dividend	Book value before valuation	Equity method valuation		Disposal	Impairment loss	Book value	Goodwill and others	Proportio-nate net asset	
							Earnings (loss)	Other compre-hensive income						
Korea Credit Bureau	9.0	₩ 5,146	₩ -	₩ -	₩ (135)	₩ 5,011	₩ 408	₩ 100	₩ -	₩ -	5,519	₩ 545	₩ 4,974	
Mirae Credit Information Services Corp	31.0	8,708	-	-	(186)	8,522	838	(1)	-	-	9,359	-	9,359	
UAM Co., Ltd.	-	126,346	-	(103,532)	(26,961)	(4,147)	4,217	(70)	-	-	-	-	-	
Bank of Jilin	17.0	625,760	-	-	(20,998)	604,762	84,710	(50,103)	-	-	639,369	15,113	624,256	
Hana UBS Asset Management	49.0	34,689	-	-	(5,336)	29,353	5,582	2	-	-	34,937	-	34,937	
Odin 2 LLC	26.7	55,050	-	-	-	55,050	(14,695)	(2,666)	-	(37,689)	-	43,812	(43,812)	
Maltani Development Co., Ltd.	18.0	23,268	-	-	-	23,268	(579)	83	-	-	22,772	15,283	7,489	
Plakor Co., Ltd.	-	38,908	-	-	-	38,908	4,622	(22)	(43,508)	-	-	-	-	
Hyundai Cement Co., Ltd.	-	23,495	-	(8,805)	-	14,690	(40,515)	7,036	-	18,789	-	-	-	
CM International Financing leases	25.0	141,792	66,968	-	-	208,760	10,361	(7,193)	-	-	211,928	-	211,928	
Company KStartup Winwin Fund	23.8	8,722	1,000	-	-	9,722	(137)	-	-	-	9,585	4	9,581	
PT. Sinarmas Hana Finance	85.0	10,958	-	-	-	10,958	(820)	588	-	-	10,726	71	10,655	
Hana Power Infra 1st Private Equity Fund	7.0	21,118	-	-	-	21,118	-	1,363	-	-	22,481	-	22,481	
KOCREF REIT 30	10.9	20,080	-	-	(969)	19,111	1,235	-	-	-	20,346	-	20,346	
Finnq Co., Ltd.	51.0	-	25,500	-	-	25,500	(423)	(367)	-	-	24,710	-	24,710	
Others		11,899	3,724	12,126	(321)	27,428	(2,499)	503	-	(4)	25,428	4,052	21,376	
	₩	1,155,939	₩ 97,192	₩ (100,211)	₩ (54,906)	₩ 1,098,014	₩ 52,305	₩ (50,747)	₩ (43,508)	₩ (18,904)	₩ 1,037,160	₩ 78,880	₩ 958,280	



20. Property and equipment

Details of property and equipment as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 1,049,311	₩ -	₩ 1,049,311
Buildings	918,515	(172,885)	745,630
Leasehold improvements	427,191	(340,421)	86,770
Vehicles, furniture and fixtures	1,191,627	(936,044)	255,583
Construction in progress	28,088	-	28,088
Operating lease assets	613,756	(127,587)	486,169
	₩ 4,228,488	₩ (1,576,937)	₩ 2,651,551
	December 31, 2016		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 1,381,897	₩ -	₩ 1,381,897
Buildings	783,183	(171,317)	611,866
Leasehold improvements	462,678	(381,100)	81,578
Vehicles, furniture and fixtures	1,253,595	(993,043)	260,552
Construction in progress	401,330	-	401,330
Operating lease assets	317,393	(51,464)	265,929
	₩ 4,600,076	₩ (1,596,924)	₩ 3,003,152

Changes in property and equipment for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017							
	January 1, 2017	Addition	Disposal	Depreciation	Reversal of impairment loss	Transfer in (out)	Others	December 31, 2017
Land	₩ 1,381,897	₩ -	₩ (130,550)	₩ -	₩ -	₩ (201,968)	₩ (68)	₩ 1,049,311
Buildings	611,866	25,337	(34,552)	(21,714)	(330)	169,208	(4,185)	745,630
Leasehold improvements	81,579	33,473	(4,434)	(30,782)	-	1,922	5,013	86,770
Vehicles, furniture and fixtures	260,552	93,586	(12,045)	(103,985)	-	6,040	11,435	255,583
Construction in progress	401,330	235,580	-	-	-	(608,822)	-	28,088
Operating lease assets	265,929	352,468	(50,685)	(81,545)	-	-	2	486,169
	₩ 3,003,152	₩ 740,444	₩ (232,266)	₩ (238,026)	₩ (330)	₩ (633,620)	₩ 12,358	₩ 2,651,551
	Year ended December 31, 2016							
	January 1, 2016	Addition	Disposal	Depreciation	Transfer in (out)	Others		December 31, 2016
Land	₩ 1,516,159	₩ 101	₩ (85,336)	₩ -	₩ (48,749)	₩ (278)	₩	1,381,897
Buildings	661,586	8,551	(25,673)	(25,026)	(7,538)	(34)		611,866
Leasehold improvements	85,381	23,996	(1,494)	(32,637)	-	6,332		81,578
Vehicles, furniture and fixtures	₩ 304,622	₩ 76,261	₩ (9,171)	₩ (108,235)	₩ 582	₩ (3,507)	₩	260,552

	Year ended December 31, 2016						
	January 1, 2016	Addition	Disposal	Depreciation	Transfer in (out)	Others	December 31, 2016
Construction in progress	₩ 198,237	₩ 232,054	₩ (5,614)	₩ -	₩ (22,839)	₩ (508)	₩ 401,330
Operating lease assets	107,590	216,749	(21,161)	(37,248)	-	(1)	265,929
	₩ 2,873,575	₩ 557,712	₩ (148,449)	₩ (203,146)	₩ (78,544)	₩ 2,004	₩ 3,003,152

21. Investment properties

Details of investment properties as at December 31, 2017 and 2016 are summarized as follows (Korean won in millions):

	December 31, 2017			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 612,498	₩ -	₩ (2)	₩ 612,496
Buildings	407,282	(42,561)	(645)	364,079
	₩ 1,019,780	₩ (42,561)	₩ (647)	₩ 976,572
	December 31, 2016			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 573,429	₩ -	₩ (2)	₩ 573,427
Buildings	230,944	(55,130)	(645)	175,169
	₩ 804,373	₩ (55,130)	₩ (647)	₩ 748,596

Changes in investment properties for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017						
	January 1, 2017	Addition	Disposal	Depreciation	Reclassification	Others	December 31, 2017
Land	₩ 573,427	₩ -	₩ -	₩ -	₩ 39,069	₩ -	₩ 612,496
Buildings	175,169	266	-	(9,952)	200,199	(1,606)	364,076
	₩ 748,596	₩ 266	₩ -	₩ (9,952)	₩ 239,268	₩ (1,606)	₩ 976,572
	Year ended December 31, 2016						
	January 1, 2016	Addition	Disposal	Depreciation	Reclassification	Others	December 31, 2016
Land	₩ 504,598	₩ -	₩ (1,051)	₩ -	₩ 71,121	₩ (1,241)	₩ 573,427
Buildings	170,176	1,539	(294)	(6,277)	7,538	2,487	175,169
	₩ 674,774	₩ 1,539	₩ (1,345)	₩ (6,277)	₩ 78,659	₩ 1,246	₩ 748,596

The Group uses the straight-line depreciation method to measure its buildings' market value and their useful life range from 40 to 50 years. The fair value of the investment properties provided by independent valuers are ₩1,152,491 million and ₩784,101 million, respectively. All investment properties are classified as level 3 in the fair value hierarchy described in Note 5-1.

Rental income and operating expenses arising from the Group's investment properties for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Rental income	₩ 12,881	₩ 14,587
Operating expenses	3,079	6,126

22. Finance leases and operating leases

Gross and net investment in the finance leases as at December 31, 2017 and 2016 are summarized as follows (Korean won in millions):

	December 31, 2017		
	Short-term	Long-term	Total
Present value of minimum lease payment	₩ 379,424	₩ 1,013,167	₩ 1,392,591
Initial direct cost	2,072	57,833	59,905
Net investment in the lease	381,496	1,071,000	1,452,496
Unearned finance income	71,258	84,408	155,666
Gross investment in the lease	₩ 452,754	₩ 1,155,408	₩ 1,608,162

	December 31, 2016		
	Short-term	Long-term	Total
Present value of minimum lease payment	₩ 350,950	₩ 999,726	₩ 1,350,676
Initial direct cost	2,149	49,916	52,065
Net investment in the lease	353,099	1,049,642	1,402,741
Unearned finance income	58,508	59,271	117,779
Gross investment in the lease	₩ 411,607	₩ 1,108,913	₩ 1,520,520

The maturities of gross and net investment in the finance leases as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	
	Gross investment	Net investment
Within 1 year	₩ 452,754	₩ 381,495
After 1 year but no later than 5 years	1,155,349	1,070,946
Later than 5 years	59	55
	₩ 1,608,162	₩ 1,452,496

	December 31, 2016	
	Gross investment	Net investment
Within 1 year	₩ 411,607	₩ 353,099
After 1 year but no later than 5 years	1,108,881	1,049,612
Later than 5 years	32	30
	₩ 1,520,520	₩ 1,402,741

Amounts to be collected as operating lease revenues for each upcoming period as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Within 1 year	₩ 36,614	₩ 19,993
After 1 year but no later than 5 years	58,956	37,001
	₩ 95,570	₩ 56,994

23. Intangible assets

Details of intangible assets as at December 31, 2017 and 2016 are summarized as follows (Korean won in millions):

	December 31, 2017			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	
Goodwill	₩ 98,498	₩ -	₩ (18,722)	₩ 79,776
Industrial property	57,931	(57,220)	-	711
Core deposits	992,198	(836,240)	(3,116)	152,842
Client relationship	388,486	(202,958)	-	185,528
Software and system development	1,258,979	(963,517)	(366)	295,096
Membership	42,361	-	(6,659)	35,702
Others	175,005	(100,758)	(46)	74,201
	₩ 3,013,458	₩ (2,160,693)	₩ (28,909)	₩ 823,856

	December 31, 2016			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book value
Goodwill	₩ 98,498	₩ -	₩ (18,722)	₩ 79,776
Industrial property	57,688	(56,067)	-	1,621
Core deposits	992,198	(697,178)	(3,116)	291,904
Client relationship	388,486	(168,223)	-	220,263
Software and system development	1,174,614	(868,504)	(808)	305,302
Membership	57,037	-	(13,714)	43,323
Others	145,300	(80,621)	(32)	64,647
	₩ 2,913,821	₩ (1,870,593)	₩ (36,392)	₩ 1,006,836

Details of goodwill as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017		
	Acquisition cost	Accumulated impairment loss	Book value
Hana Savings Bank	₩ 75,229	₩ (18,722)	₩ 56,507
Hana Asset Trust (*1)	22,377	-	22,377
Others	892	-	892
	₩ 98,498	₩ (18,722)	₩ 79,776

	December 31, 2016		
	Acquisition cost	Accumulated impairment loss	Book value
Hana Savings Bank	₩ 75,229	₩ (18,722)	₩ 56,507
Hana Asset Trust (*1)	22,377	-	22,377
Others	892	-	892
	₩ 98,498	₩ (18,722)	₩ 79,776

(\*1) Includes goodwill relating to Hana Alternative Asset Management Co., Ltd.

The Group allocated goodwill to cash-generating units which are composed of operating segments or its sub-segments. Impairment test was performed regularly on an annual basis and at times there is any indication of impairment through comparing the carrying amount of cash-generating units including goodwill with its recoverable amount.

The recoverable amount of a cash-generating unit is estimated to be the higher of the cash-generating unit's fair value and its value in use. The fair value is based on the best information available to reflect the amount that the Group could obtain, at the end of the reporting period, from the disposal of the assets or the transfer of the liabilities in formal transaction between participants, after deducting the costs of disposal. However, if the fair value could not be measured with sufficient reliability, it is possible applying the value in use which is present value of future cash flows. The Group estimates future cash flows based on the financial budget authorized by management. The estimation period cannot exceed 5 years without reasonable causes.

The goodwill allocated by cash-generating unit for the impairment test as at December 31, 2017 is as follows (Korean won in millions):

	Hana Savings Bank		Hana Asset Trust		Hana Alternative Asset Management	
Value in use (recoverable amount)	₩	242,176	₩	269,428	₩	91,946
Carrying amount of net assets		206,347		217,604		40,033
Value in use which exceeds carrying amount of net assets		35,829		51,824		51,913
Discount rate (%)		12.97		10.4		8.87
Permanent growth rate (%)		1.00		1.00		1.00

The Group estimates future cash flows based on the assumption that cash flows will continue to grow at 1.0% over 5 years referred to a recent macroeconomic indicator provided by EIU (Economist Intelligence Unit). The pre-tax discount rate used for discounting future cash flows is calculated based on the assumption of risk-free interest rate, market risk premium, systematic risk of cash generating unit and other factors.

Changes in the carrying amount of intangible assets for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017									
	January 1, 2017	Additions	Disposal	Amortization	Impairment loss	Reclassi- fication	Others (*)	December 31, 2017		
Goodwill	₩ 79,776	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 79,776		
Industrial property	1,621	242	-	(1,153)	-	-	1	711		
Core deposits	291,904	-	-	(138,744)	(318)	-	-	152,842		
Client relationship	220,263	-	-	(34,734)	-	-	(1)	185,528		
Software and system development	305,302	82,269	(869)	(95,259)	(114)	2,001	1,766	295,096		
Membership	43,323	1,787	(7,271)	(27)	(1,933)	-	(177)	35,702		
Others	64,647	31,875	(4,243)	(17,509)	445	(1,188)	174	74,201		
	₩ 1,006,836	₩ 116,173	₩ (12,383)	₩ (287,426)	₩ (1,920)	₩ 813	₩ 1,763	₩ 823,856		

	December 31, 2016									
	January 1, 2016	Additions	Disposal	Amortization	Impairment loss	Reclassi- fication	Others (*)	December 31, 2016		
Goodwill	₩ 79,776	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 79,776		
Industrial property	12,595	670	(227)	(11,477)	-	61	(1)	1,621		
Core deposits	433,725	-	-	(141,948)	-	-	127	291,904		
Client relationship	255,003	-	-	(34,740)	-	-	-	220,263		
Software and system development	208,638	158,842	(23)	(74,872)	-	9,732	2,985	305,302		
Membership	53,252	2,372	(9,638)	(1,102)	(1,035)	(870)	344	43,323		
Others	48,877	39,514	(471)	(14,935)	-	(9,908)	1,570	64,647		
	₩ 1,091,866	₩ 201,398	₩ (10,359)	₩ (279,074)	₩ (1,035)	₩ (985)	₩ 5,025	₩ 1,006,836		

(\*) Includes the effect of exchange rate differences.

## 24. Non-current assets held for sale

Tangible assets for non-business purpose accounted as non-current assets held-for sale as at December 31, 2017, consist of, 20 secured properties (2016: 12) acquired to repay the loans and Myung-dong office of HFG (owned by KEB Hana Bank) which is used by KEB Hana Bank as its head office. These tangible assets were classified as assets held-for-sale by the management's decision but they have not been sold yet as at December 31, 2017. Myung-dong office is under negotiation for sale with the buyer.

Details of non-current assets held for sale as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017		December 31, 2016	
Acquisition cost	₩	439,324	₩	21,326
Accumulated impairment loss		-		-
Book value	₩	439,324	₩	21,326

The fair market values of non-current assets held-for-sale are based on the valuation report of a qualified, independent appraisal and assessment institution, and all of them are classified as the level 3 in the fair value hierarchy described in Note 5-1.

## 25. Other assets

Other assets as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017		December 31, 2016	
Guarantee deposits	₩	1,009,594	₩	1,109,562
Accounts receivable		6,963,892		8,981,706
Accrued income		1,098,248		920,944
Prepaid expenses		126,540		119,601
Advance payments		23,820		24,192
Reinsurance assets		2,643		2,424
Unamortized new contract		15,123		11,580
Separate account assets		851,775		926,902
Receivables from spot exchange		1,506,864		975,207
Others		3,220,683		2,628,846
Allowance for possible losses		(28,652)		(35,906)
	₩	14,790,530	₩	15,665,058

Changes in the allowance for possible losses for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017		Year ended December 31, 2016	
Beginning balance	₩	35,906	₩	53,845
Write-offs		(10,771)		(27,091)
(Reversal of) Provision for possible losses		1,906		6,058
Interest income from impaired assets		(14)		8
Others		1,625		3,086
Ending balance	₩	28,652	₩	35,906



Changes in reinsurance assets and unamortized new contract fee for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	January 1, 2017	Increase	Decrease	December 31, 2017
Reinsurance assets	₩ 2,424	₩ 668	₩ (449)	₩ 2,643
Unamortized new contract fee	11,580	24,151	(20,608)	15,123
	₩ 14,004	₩ 24,819	₩ (21,057)	₩ 17,766
	January 1, 2016	Increase	Decrease	December 31, 2016
Reinsurance assets	₩ 2,360	₩ 532	₩ (468)	₩ 2,424
Unamortized new contract fee	9,123	1,432	1,026	11,580
	₩ 11,483	₩ 1,964	₩ 557	₩ 14,004

## 26. Financial liabilities held-for-trading

Financial liabilities held-for-trading as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Derivative liabilities held for trading purpose (*)	₩ 7,398,352	₩ 7,056,061
Securities sold	436,248	17,211
	₩ 7,834,600	₩ 7,073,272

(\*) Refer to Note 18.

## 27. Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Derivatives linked securities sold	₩ 8,368,885	₩ 9,312,610
Deposits	425,627	378,595
Deferred day 1 profit or loss	24,824	15,634
	₩ 8,819,336	₩ 9,706,839

With respect to derivative linked securities and structured deposits, the Group does not separate embedded derivatives from main contracts but designates them as fair value through profit or loss.

## 28. Deposits

Details of deposits as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
<b>Demand deposits:</b>		
Demand deposits in Korean won:	₩ 10,564,113	₩ 10,090,158
Demand deposits in foreign currency:	22,351,509	22,189,760
	32,915,622	32,279,918
<b>Time and saving deposits:</b>		
Time and saving deposits in Korean won:	183,088,127	175,766,928
Time and saving deposits in foreign currency:	12,778,518	12,384,290
	₩ 195,866,645	₩ 188,151,218

	December 31, 2017	December 31, 2016
<b>Certificate of deposits</b>	₩ 3,383,886	₩ 1,981,868
	₩ 232,166,153	₩ 222,413,004

Allocations of deposits by customer as at December 31, 2017 and 2016 are listed as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Individuals	₩ 86,555,089	₩ 83,836,430
Corporations	72,858,516	66,698,295
Other banks	14,094,662	12,876,412
Public institutions	6,491,303	4,663,457
Other financial institutions	29,402,246	33,257,194
Government	5,839,680	5,410,856
Non-profit corporations	9,703,880	8,617,382
Foreign corporations	2,094,367	2,117,887
Others	5,126,410	4,935,091
	₩ 232,166,153	₩ 222,413,004

## 29. Borrowings

Borrowings as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	Lender	Interest rate (%)	December 31, 2017	December 31, 2016
<b>Borrowings in Korean won:</b>				
BOK borrowings	BOK	0.5~0.8	₩ 1,606,722	₩ 1,579,178
Government borrowings	Korea Finance Corporation, etc.	1.4~2.5	1,456,174	1,569,444
Other borrowings	Korean Energy Management Corporation, etc.	0.0~3.5	2,403,660	2,473,817
			5,466,556	5,622,439
<b>Borrowings in foreign currencies:</b>				
Bank overdrafts	Foreign bank, etc.	0.7~6.3	586,941	516,494
Other borrowings	OCBC, etc.	0.0~10.5	5,771,681	6,293,960
			6,358,622	6,810,454
<b>Call money:</b>				
Call money in Korean won	Kakaobank of Korea Corporation, etc.	1.3~1.5	174,000	-
Call money in foreign currencies	The Export-Import Bank of Korea, etc.	0.0~6.5	2,006,567	2,866,675
			2,180,567	2,866,675
<b>Bonds sold under repurchase agreements:</b>				
Bonds sold under repurchase agreements in Korean won	General customers	0.0~1.9	4,466,099	4,024,629
Bonds sold under repurchase agreements in foreign currencies	Nomura International Ltd., etc.	1.6~4.1	265,310	676,812
			₩ 4,731,409	₩ 4,701,441

	Lender	Interest rate (%)	December 31,2017	December 31, 2016
<b>Other borrowings:</b>				
Bills sold	General customers	0.0~2.2	₩ 54,741	₩ 30,613
			₩ 18,791,895	₩ 20,031,622

### 30. Debentures

Debentures as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	Lender	Interest rate (%)	December 31,2017	December 31, 2016
<b>Korean won:</b>				
Debentures	Financial institutions	1.3~5.0	₩ 27,415,000	₩ 21,527,000
Subordinated bonds	Financial Institutions and general customers	2.5~8.0	4,940,697	4,990,926
Net loss on fair value hedges (before the previous term)			-	364
Present value discount			(48,227)	(30,261)
			32,307,470	26,488,029
<b>Foreign currencies:</b>				
Debentures	Barclays, etc.	1.8~5.0	3,281,291	4,849,629
Subordinated bonds	Barclays, etc.	4.3~10.0	884,215	1,003,567
Net gain on fair value hedges (this term)			624	(50,539)
Net loss on fair value hedges (before the previous term)			(15,331)	34,842
Present value discount			(13,818)	(19,739)
			4,136,981	5,817,760
			₩ 36,444,451	₩ 32,305,789

### 31. Net defined benefit liability

Actuarial assumptions as at December 31, 2017 and 2016 are as follows:

	Ratio (%)		Notes
	December 31, 2017	December 31, 2016	
Demographic assumptions:			
Mortality	0.0~0.1	0.0~0.1	Table from Korea insurance development institute, etc.
Rates of employee turnover	3.6~33.1	3.5~33.1	Table from Korea insurance development institute, etc.
Financial assumptions:			
Expected rate of salary increase	0.0~15.9	0.0~17.9	
Discount rate	2.7~3.0	2.3~3.0	Return on corporate bond with the same credit rating

Details of net defined benefit liability as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Present value of defined benefit obligation	₩ 1,484,575	₩ 1,417,407
Fair value of plan assets	(1,503,547)	(1,356,613)
	₩ (18,972)	₩ 60,794
Net defined benefit asset	(44,545)	-
Net defined benefit liability	25,573	60,794

Changes in present value of defined benefit obligation for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Beginning balance	₩ 1,417,407	₩ 1,327,796
Current service cost	154,734	147,008
Past service cost	4,154	7,206
Interest cost on benefit obligation	34,034	31,181
Remeasurements of the net defined benefit liability	(50,233)	56,599
Benefits paid	(73,898)	(150,603)
Others	(1,623)	(1,780)
Ending balance	₩ 1,484,575	₩ 1,417,407

Details of losses incurred from severance and retirement benefit plan for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Current service cost	₩ 154,734	₩ 147,008
Past service cost	4,154	7,206
Net interest on the net defined benefit liability	3,283	4,599
	162,171	158,813
Benefits paid for the defined contribution plan	2,266	1,945
Long-term employee payment and others	(850)	(1,730)
	₩ 163,587	₩ 159,028

Plan assets for severance benefit as at December 31, 2017 and 2016 consist of the followings (Korean won in millions):

	December 31, 2017	December 31, 2016
<b>Plan assets which have market price quoted in an active market:</b>		
Time deposit	₩ 1,380,960	₩ 1,261,781
ELS / ELB	4,315	12,014
Bonds	1,013	-
Others	117,259	82,818
	₩ 1,503,547	₩ 1,356,613

Changes in the fair value of plan assets for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Beginning balance of fair value of plan assets	₩ 1,356,613	₩ 1,165,871
Employer contributions	195,977	317,078
Expected return on plan assets	30,751	26,582
Remeasurements of the plan assets	(10,199)	(6,067)
Benefits paid	(68,636)	(146,121)
Others	(959)	(730)
Ending balance of fair value of plan assets	₩ 1,503,547	₩ 1,356,613

Details of remeasurement accompanied by the application of actuarial assumptions for the years ended December 31, 2017 and 2016 are as follows (Korea won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
<b>Actual gains (losses):</b>		
Changes in demographic assumptions	₩ 6,457	₩ 2,100
Changes in financial assumptions	36,181	(17,006)
Experience adjustments	7,595	(41,693)
	50,233	(56,599)
<b>Income on planned assets:</b>		
Actual income on planned assets	20,552	21,046
Amounts included in net interest on the net defined benefit liability	30,761	27,113
	(10,199)	(6,067)
	₩ 40,034	₩ (62,666)

A quantitative sensitivity analysis for significant actuarial assumptions as at December 31, 2017 and 2016 is as follows (Korea won in millions):

(1) Discount rate

	December 31, 2017	1% point increase	1% point decrease
Present value of defined benefit obligation	₩ 1,484,575	₩ 1,362,646	₩ 1,594,250

	December 31, 2016	1% point increase	1% point decrease
Present value of defined benefit obligation	₩ 1,417,407	₩ 1,286,735	₩ 1,535,104

(2) Expected rate of salary increase

	December 31, 2017	1% point increase	1% point decrease
Present value of defined benefit obligation	₩ 1,484,575	₩ 1,590,361	₩ 1,363,722

	December 31, 2016	1% point increase	1% point decrease
Present value of defined benefit obligation	₩ 1,417,407	₩ 1,530,385	₩ 1,288,297

The sensitivity analyses above has been determined based on a method that extrapolates the impact on defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

Employer contributions for the years ended December 31, 2017 and 2016 are reasonably estimated to be ₩149,259 million and ₩156,950 million, respectively, and the average durations of the defined benefit plan obligation as at December 31, 2017 and 2016 are 6.4~9.06 years and 6.8~10.6 years, respectively.

### 32. Provisions

Details of provisions as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
<b>Allowance for possible losses on acceptances and guarantees:</b>		
Financial acceptances and guarantees	₩ 765	₩ 912
Non-financial acceptances and guarantees	84,294	81,788
Bills endorsed	165	222
	₩ 85,224	₩ 82,922

	December 31, 2017	December 31, 2016
<b>Allowances for unused commitments</b>	₩ 94,568	₩ 109,543
<b>Other allowance:</b>		
Allowances for restoration cost	60,469	58,142
Allowances for reward points	56,002	55,189
Allowance for lawsuits	71,573	97,005
Others	16,266	5,865
	204,310	216,201
	₩ 384,102	₩ 408,666

(\*) The Group recognizes the amount of financial guarantee contracts subsequently measured that exceed the unamortized balance as provisions for acceptances and guarantees on initial recognition. The unamortized balance amounts to ₩13,867 million and ₩9,466 million as at December 31, 2017 and 2016, respectively and is categorized as financial guarantee contract liability.

Changes in provisions for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017				
	January 1, 2017	Net loss of allowance (reversal of allowance)	Allowance used	Others	December 31, 2017
Allowance for possible losses on acceptances and guarantees	₩ 82,922	₩ 9,405	₩ -	₩ (7,103)	₩ 85,224
Allowances for unused commitments	109,543	(14,630)	-	(345)	94,568
Other allowance:					
Allowances for restoration cost	58,142	6,408	(10,376)	6,295	60,469
Allowances for reward points	55,189	44,782	(44,533)	564	56,002
Allowance for lawsuits	97,005	(21,772)	(2,712)	(948)	71,573
Others	5,865	15,440	(4,601)	(438)	16,266
	216,201	44,858	(62,222)	5,473	204,310
	₩ 408,666	₩ 39,633	₩ (62,222)	₩ (1,975)	₩ 384,102

	Year ended December 31, 2016				
	January 1, 2016	Net loss of allowance (reversal of allowance)	Allowance used	Others	December 31, 2016
Allowance for possible losses on acceptances and guarantees	₩ 81,751	₩ 61	₩ -	₩ 1,110	₩ 82,922
Allowances for unused commitments	99,100	10,521	-	(78)	109,543
Other allowance:					
Allowances for restoration cost	43,908	10,770	(4,377)	7,841	58,142
Allowances for reward points	36,936	53,911	(35,701)	43	55,189
Allowance for lawsuits	56,882	44,626	(4,534)	31	97,005
Others	20,195	3,506	(18,697)	861	5,865
	157,921	112,813	(63,309)	8,776	216,201
	₩ 338,772	₩ 123,395	₩ (63,309)	₩ 9,808	₩ 408,666



Details of guarantees as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
<b>Financial acceptances and guarantees in Korean won:</b>		
Collateral for loans	₩ 99,940	₩ 99,667
Loans for purchase	488,563	557,915
	588,503	657,582
<b>Financial acceptances and guarantees in foreign currencies:</b>		
Local financial acceptances and guarantees	96,441	217,132
<b>Confirmed acceptances and guarantees in Korean won</b>	<b>1,634,495</b>	1,847,362
<b>Confirmed acceptances and guarantees in foreign currencies:</b>		
Acceptance on letter of credit	835,516	431,957
Acceptance on letter of guarantees	119,910	126,175
Others	9,926,698	11,712,387
	10,882,124	12,270,519
<b>Contingent acceptances and guarantees:</b>		
Letters of credit	3,281,199	3,202,590
Others	382,479	281,138
	3,663,678	3,483,728
Bills endorsed	47,169	46,003
	₩ 16,912,410	₩ 18,522,326

Details of unused commitments as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Commitments on loans in Korean won	₩ 67,630,887	₩ 72,026,453
Commitments on loans in foreign currencies	19,242,684	25,052,483
Commitments on purchase of asset-backed commercial papers	418,700	318,100
Commitments on credit lines on asset-backed securities	2,127,398	1,599,034
Commitments on purchase of securities	1,092,847	1,472,098
	₩ 90,512,516	₩ 100,468,168

As at December 31, 2017, the Group is involved in 1,688 lawsuits as a plaintiff and 325 lawsuits as a defendant. The aggregate amounts of claims as a plaintiff and a defendant are approximately ₩550,329 million and ₩1,949,945 million, respectively. The Group's material lawsuits in progress as a defendant are as follows (Korean won in millions):

Defendant	Plaintiff	Amount	Status of lawsuit		Content
			First trial	On appeal	
Hana Financial Group Inc.	LSF-KEB Holdings SCA	₩ 1,504,567	In-progress	-	A claim for damages related to the purchase of KEB shares
KEB Hana Bank	Individual	57,015	Won	In-progress	Return of deposit
KEB Hana Bank	Bankruptcy trustee(F*****)	35,992	In-progress	-	Restitution of unjust enrichment
KEB Hana Bank	**** Securities Co., Ltd.	37,136	In-progress	-	Compensation for damages
KEB Hana Bank	**** Investment Co., Ltd.	16,798	In-progress	-	Compensation for damages

Defendant	Plaintiff	Amount	Status of lawsuit		Content
			First trial	On appeal	
KEB Hana Bank	**** Industrial Co., Ltd.	₩ 15,169	Lost	3 <sup>rd</sup> trial is in progress	Return of deposit
Hana Savings Bank	Kim Hak Jae, the manager of Tae Seung LP Co., Ltd.	19,473	Won	3 <sup>rd</sup> trial is in progress (Partially lost)	Objection to litigation for finalization of reorganization claim

33. Other liabilities

Details of other liabilities as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Accounts payable	₩ 8,107,580	₩ 10,200,397
Accrued expense payables	1,594,589	1,579,936
Advances	160,915	116,135
Income in advance	306,001	281,908
Policy reserve	3,198,467	2,858,898
Separate account liabilities	854,427	930,842
Borrowing from trust accounts	4,690,383	5,127,806
Foreign exchanges settlement credits	303,576	637,021
Domestic exchange settlement credits	4,307,181	5,126,258
Deposits for letter of guarantees and others	1,449,203	612,602
Taxes withheld	153,203	87,310
Security deposits received	123,108	28,061
Accounts for agency businesses	158,583	158,411
Agency	1,918,483	1,452,871
Others	2,593,283	2,920,434
Present value discount	(18,413)	(16,267)
	₩ 29,900,569	₩ 32,102,623

Details of policy reserve as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Premium reserve	₩ 3,158,516	₩ 2,826,267
Prepaid premium reserve	937	916
Guaranteed reserve	6,595	7,043
Outstanding claim	32,419	24,672
	₩ 3,198,467	₩ 2,858,898

Changes in the policy reserve for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	January 1, 2017	Changes	December 31, 2017
Premium reserve	₩ 2,826,267	₩ 332,249	₩ 3,158,516
Prepaid premium reserve	916	21	937
Guaranteed reserve	7,043	(448)	6,595
Outstanding claim	24,672	7,747	32,419
	₩ 2,858,898	₩ 339,569	₩ 3,198,467

	January 1, 2016	Changes	December 31, 2016
Premium reserve	₩ 2,375,788	₩ 450,479	₩ 2,826,267
Prepaid premium reserve	866	50	916
Guaranteed reserve	9,415	(2,372)	7,043
Outstanding claim	24,164	508	24,672
	₩ 2,410,233	₩ 448,665	₩ 2,858,898

The experience rates and calculation basis used by the Group for the liability adequacy test are as follows:

Assumptions	Calculation methodology
Discount rate	200 scenarios presented by the supervisor of Financial Supervisory Service are applied.
Business expense rate	Based on the last year experience statistics, business expense rate is estimated by calculating the ratio of detailed business expenses to total business expense categorized by types of product, premium payment method, business expense (new acquisition cost or maintenance cost) and elapsed time. Besides the experience statistics, the Group reasonably estimated the trend of business expense by considering the variability arising from inflation, changes in management policies. Temporary expenses that are not expected to incur is excluded from the assumption for calculation of the business expense rate.
Surrender ratio	Based on the last five years' experience statistics, surrender ratio is estimated by calculating the ratios of elapsed or cancelled contracts to total contracts held by the Group by types of product, premium payment method, sales channel and lapse of time. The ratio is calculated on the basis of fifty or more historical data to ensure statistical reliability. If the historical data is insufficient, the Group applies surrender ratio of similar type of contract, uses trends by elapsed time or reclassifies the categories for the surrender ratio to ensure statistical reliability. The Group considers elapsed time, premium payment status, employee benefit policy, the period of tax benefit for an insurance contract, trend on the market interest rate which can be influential on surrender ratio. The Group applies the same surrender ratio after the specific period of elapsed time to the end of the projected period. If there are temporary increases in surrender ratio due to tax benefit, the Group calculates the final surrender ratio by eliminating the tax benefit effect or by applying the surrender ratio for the period in which there is no effect.
Risk rate	Based on the last five years' experience statistics, risk rate is calculated based on the ratio of payment of premium to risk premium by collateral, time of sales (by experience life table), and elapsed time. Risk rate is reasonably calculated after reviewing and applying increase rate/trend rate compared to previous year or on a yearly basis. When risk rate is applied, at least 10 years of risk rate should be applied. But in case of decline in cash flow stability due to extreme fluctuation in risk rate by elapsed time caused by shortage of statistics after 5 years, risk rate can be calculated by adding statistics by elapsed time. In order to retain statistical reliability by category, there should be at least 50 experience statistics. For sections that are short of such experience statistics, similar risk rates of other categories are applied. In case the reliability of the calculation results is not guaranteed due to shortage of experience statistics, trends by elapsed time of similar risk rates or upper-level category may be applied.

The result of LAT as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017		
	Reserve for test	LAT base	Premium surplus (loss) (*)
<b>Non- participating:</b>			
Interest rate-linked	₩ 2,738,858	₩ 2,647,416	₩ 91,442
Interest rate-fixed	296,809	215,646	81,163
Variable life insurance	(7,203)	(25,500)	18,297
	₩ 3,028,464	₩ 2,837,562	₩ 190,902
	December 31, 2016		
	Reserve for test	LAT base	Premium surplus (loss) (*)
<b>Non- participating:</b>			
Interest rate-linked	₩ 2,531,429	₩ 2,475,293	₩ 56,136
Interest rate-fixed	261,952	283,790	(21,838)
Variable life insurance	(446)	(10,773)	10,327
	₩ 2,792,935	₩ 2,748,310	₩ 44,625

(\*1) Surplus = Reserve for test - LAT base ((-) is loss, (+) is surplus)

(\*2) LAT of the Group is conducted at the end of reporting period, and surplus to reserve for the test is calculated as at December 31, 2017.

(\*3) The Group did not record additional reserve since the surplus exceeded the deficit based on the result of LAT.

### 34. Capital stock and capital surplus

Details of capital stock as at December 31, 2017 and December 31, 2016 are as follows:

	December 31, 2017	December 31, 2016
Number of shares authorized	800,000,000 shares	800,000,000 shares
Par value per share	₩ 5,000	₩ 5,000
Number of shares issued	296,003,062 shares	296,003,062 shares

Changes in capital stock and capital surplus from December 1, 2005 (inception) to December 31, 2017 are as follows (Korean won in millions except for number of shares):

	Date	Shares	Common stock	Capital surplus
Incorporation	Dec. 1, 2005	204,256,243	₩ 1,021,281	₩ 5,075,488
Stock dividends	Mar. 24, 2006	2,042,562	10,213	-
Shares swap (*1)	Oct. 13, 2006	5,552,788	27,764	215,427
Paid-in capital increase	Feb. 21, 2011	31,198,170	155,991	1,168,759
Shares swap (*2)	Apr. 5, 2013	46,844,299	234,221	1,511,856
Paid-in capital increase	Apr. 21, 2015	6,109,000	30,545	149,298
		296,003,062	₩ 1,480,015	₩ 8,120,828

(\*1) Represents transactions the Company conducted to incorporate HFI (formerly Hana IB) into its subsidiaries.

(\*2) Represents transactions the Company conducted to incorporate KEB Hana Bank (formerly KEB) into its wholly owned subsidiaries.

Details of hybrid equity securities classified as equity attributable to equity holders of the parent as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	Issuance date	Maturity	Interest rate (%)	Amount	
				December 31, 2017	December 31, 2016
The 1-1 <sup>st</sup> hybrid debentures (*1)	May 29, 2015	May 29, 2045	3.95	₩ 80,000	₩ 80,000
The 1-2 <sup>nd</sup> hybrid debentures (*2)	May 29, 2015	May 29, 2045	4.45	190,000	190,000
The 2-1 <sup>st</sup> hybrid debentures (*1)	Nov. 6, 2015	Nov. 6, 2045	4.24	155,000	155,000
The 2-2 <sup>nd</sup> hybrid debentures (*2)	Nov. 6, 2015	Nov. 6, 2045	4.61	20,000	20,000
				445,000	445,000
Issuance cost				(1,231)	(1,231)
				₩ 443,769	₩ 443,769

(\*1) 5 years after the hybrid equity securities are issued, these can be redeemed at any point before the maturity date with an approval of the governor of the Financial Supervisory Service.

(\*2) 10 years after the hybrid equity securities are issued, these can be redeemed at any point before the maturity date with an approval of the governor of the Financial Supervisory Service.

Capital surplus as at December 31, 2017 and 2016 consists of the followings (Korean won in millions):

	December 31, 2017	December 31, 2016
Paid-in capital in excess of par value	₩ 8,120,828	₩ 8,120,828
Gain on disposal of treasury stock	76,372	76,372
Other capital surplus	2,265,833	2,265,867
	₩ 10,463,033	₩ 10,463,067

### 35. Capital adjustment

Details of capital adjustment as at December 31, 2017 and 2016 are summarized as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Other capital adjustment	₩ (15,049)	₩ (13,183)

Changes in the Group's treasury stock for the years ended December 31, 2017 and 2016 are summarized as follows (Korean won in millions and shares in unit):

	January 1, 2017	Acquisition	Disposal	December 31, 2017
Number of shares	-	96	(96)	-
Carrying amount	₩ -	₩ 5	₩ (5)	₩ -

	January 1, 2016	Acquisition	Disposal	December 31, 2016
Number of shares	-	1,257	(1,257)	-
Carrying amount	₩ -	₩ 49	₩ (49)	₩ -

### 36. Accumulated other comprehensive income

Changes in accumulated other comprehensive income for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017				
	January 1, 2017	Changes (except for reclassification adjustment)	Reclassification adjustment	Tax effect	December 31, 2017
Gain (loss) on valuation of available-for-sale-financial assets	₩ 26,309	₩ (3,452)	₩ (185,380)	₩ 55,079	₩ (107,444)
Changes in unrealized gain (loss) on valuation of equity method investments	(30,659)	(71,350)	(65)	21,090	(80,984)
Gain (loss) on valuation of net investment hedges of foreign operations	(29,715)	55,973	-	(13,546)	12,712
Net gain (loss) on cash flow hedges	398	1,286	193	(355)	1,522
Exchange differences on transaction of foreign operations	(128,114)	(209,894)	-	15,159	(322,849)
Remeasurements of the net defined benefit liabilities (assets)	(299,588)	40,508	345	(9,864)	(268,599)
Total	₩ (461,369)	₩ (186,929)	₩ (184,907)	₩ 67,563	₩ (765,642)

	Year ended December 31, 2016				
	January 1, 2016	Changes (except for reclassification adjustment)	Reclassification adjustment	Tax effect	December 31, 2016
Gain (loss) on valuation of available-for-sale-financial assets	₩ 421,066	₩ (135,776)	₩ (379,854)	₩ 120,873	₩ 26,309
Changes in unrealized gain (loss) on valuation of equity method investments	7,709	(49,737)	(1,085)	12,454	(30,659)
Gain (loss) on valuation of net investment hedges of foreign operations	₩ (15,346)	₩ (18,957)	₩ -	₩ 4,588	₩ (29,715)

	Year ended December 31, 2016				
	January 1, 2016	Changes (except for reclassification adjustment)	Reclassification adjustment	Tax effect	December 31, 2016
Net gain (loss) on cash flow hedges	₩ (420)	₩ 1,078	₩ -	₩ (260)	₩ 398
Exchange differences on transaction of foreign operations	(167,242)	51,818	-	(12,690)	(128,114)
Remeasurements of the net defined benefit liabilities (assets)	(252,149)	(62,598)	-	15,159	(299,588)
Total	₩ (6,382)	₩ (214,172)	₩ (380,939)	₩ 140,124	₩ (461,369)

### 37. Retained earnings

Retained earnings as at December 31, 2017 and 2016 consist of the following (Korean won in millions):

	December 31, 2017	December 31, 2016
Legal reserve (*)	₩ 513,590	₩ 486,771
Voluntary reserve	3,650,764	3,650,211
Unappropriated retained earnings	8,103,211	6,438,413
	₩ 12,267,565	₩ 10,575,395

(\*) In accordance with Article 53 of the Financial Holding Company Act, whenever dividends are paid, an amount equal to at least 10% of net income is required to be appropriated as a legal reserve until the reserve amount equals the aggregate par value of common stock. The legal reserve may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to capital.

Changes in retained earnings for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Beginning balance	₩ 10,575,395	₩ 9,481,847
Net income attributable to equity holders of the parent	2,036,839	1,330,477
Dividends	(325,603)	(222,003)
Dividends on hybrid equity securities	(19,098)	(21,961)
Others	32	7,035
Ending balance	₩ 12,267,565	₩ 10,575,395

### 38. Regulatory reserve for bad debts

Regulatory reserve for bad debt is calculated and disclosed in accordance with Article 27, Section 1 and 2 of the Financial Holding Company Act.

Regulatory reserve for bad debt as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Beginning balance	₩ 2,222,793	₩ 2,183,063
Planned regulatory reserve for bad debts	88,787	39,730
Ending balance:	₩ 2,311,580	₩ 2,222,793
Attributable to equity holders of the parent	2,256,421	2,175,863
Attributable to non-controlling interests	55,159	46,930



Provisions for bad debt reserve and income adjusted for deductions of provisions for bad debt for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Net income attributable to equity holders of the parent before deducting provisions for bad debt	₩ 2,036,839	₩ 1,330,477
Provisions for bad debt reserve	80,558	38,607
Adjusted income after deducting provisions for bad debt	1,956,281	1,291,870
Basic earnings per share on adjustment	₩ 6,544	₩ 4,290
Diluted earnings per share on adjustment	₩ 6,504	₩ 4,265

### 39. Operating income and expense

Total operating income for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Interest income	₩ 8,932,396	₩ 8,381,809
Fee and commission income	2,856,157	2,557,890
Gain on financial assets and liabilities held-for-trading	20,970,988	18,114,091
Gain on financial assets and liabilities designated at fair value through profit or loss	476,038	224,516
Gain on derivative instruments used for hedging purpose	92,802	90,810
Gain on financial instruments	697,994	640,591
Gain on foreign currency transactions	4,285,020	3,771,202
Recovery of impairment loss on financial assets	2,248	715
Other operating income	838,961	818,179
	₩ 39,152,604	₩ 34,599,803

Total operating expense for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Interest expense	₩ 3,822,888	₩ 3,739,714
Fee and commission expense	979,551	917,997
Loss on financial assets and liabilities held-for-trading	20,559,449	17,426,244
Loss on financial assets and liabilities designated at fair value through profit or loss	858,278	458,294
Loss on derivative instruments used for hedging purpose	56,562	127,602
Loss on financial instruments	35,396	51,847
Loss on foreign currency transactions	3,590,201	3,812,790
Impairment loss of financial assets	949,744	808,316
General and administrative expense	4,039,072	4,076,885
Other operating expense	1,543,326	1,566,007
	₩ 36,434,467	₩ 32,985,696

### 40. Net interest income

Interest income for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Interest income on due from banks	₩ 167,188	₩ 113,869
Interest income on available-for-sale financial assets	697,754	644,744
Interest income on held-to-maturity investments	177,090	161,890
Interest income on loans receivable	7,510,480	7,074,088
Others	78,128	68,220
	8,630,640	8,062,811
Interest income on financial assets designated at fair value through profit or loss	19,990	18,240
Interest income on financial assets held-for-trading	281,766	300,758
	₩ 8,932,396	₩ 8,381,809

Interest expense for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Interest expense on deposit liabilities	₩ 2,479,343	₩ 2,428,038
Interest expense on borrowings	270,556	258,326
Interest expense on debentures	854,178	818,556
Others	218,811	234,794
	₩ 3,822,888	₩ 3,739,714

### 41. Net fee and commission income

Fee and commission income for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Fee and commission received from loans and others	₩ 1,051,217	₩ 859,714
Fee and commission received on credit card	1,511,206	1,403,268
Fee and commission received on guarantee	68,542	74,910
Fee and commission received from redemption before maturity	389	178
Fee and commission related foreign exchange	224,803	219,820
	₩ 2,856,157	₩ 2,557,890

Fee and commission expense for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Commission paid borrowings and others	₩ 237,408	₩ 202,694
Commission paid on credit card	704,938	673,119
Commission related foreign exchange	37,134	41,966
Commission paid trust	71	218
	₩ 979,551	₩ 917,997

#### 42. Gain (loss) on financial assets and liabilities held-for-trading

Gain (loss) on financial assets and liabilities held-for-trading for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
<b>Gain on financial assets and liabilities held-for-trading:</b>		
Trading securities:		
Gain on valuation	₩ 26,410	₩ 18,213
Gain on disposal	192,158	136,078
Gain on redemption	456	115
Dividend income	5,373	44,963
	224,397	199,369
<b>Derivatives held for trading purpose:</b>		
Gain on valuation of derivatives:		
Currency related derivatives	7,459,995	4,588,271
Interest related derivatives	367,158	327,620
Stock related derivatives	94,294	213,844
Credit related derivatives	100,306	67,857
Others related derivatives	45,108	35,155
	₩ 8,066,861	₩ 5,232,747
Gain on settlement of derivatives:		
Currency related derivatives	₩ 10,700,620	₩ 10,815,584
Interest related derivatives	1,184,193	1,279,149
Stock related derivatives	444,401	203,774
Credit related derivatives	43,436	52,345
Others related derivatives	280,940	304,771
	12,653,590	12,655,623
Gain on securities sold	13,796	15,537
Gain on others	12,344	10,815
	20,970,988	18,114,091
<b>Loss on financial assets and liabilities held-for-trading:</b>		
Trading securities:		
Loss on valuation	68,881	70,933
Loss on disposal	146,810	131,225
Loss on redemption	24,363	12,732
	240,054	214,890
<b>Derivatives held for trading purpose:</b>		
Loss on valuation of derivatives:		
Currency related derivatives	7,354,545	4,365,693
Interest related derivatives	318,889	307,455
Stock related derivatives	69,173	62,965
Credit related derivatives	56,382	37,078
Others related derivatives	65,268	35,827
	₩ 7,864,257	₩ 4,809,018

	Year ended December 31, 2017	Year ended December 31, 2016
Loss on settlement of derivatives:		
Currency related derivatives	₩ 10,887,407	₩ 10,556,355
Interest related derivatives	1,157,209	1,311,651
Stock related derivatives	209,779	76,009
Credit related derivatives	32,433	54,499
Others related derivatives	144,872	375,943
	12,431,700	12,374,457
Loss on securities sold	23,437	27,879
Others	1	-
	20,559,449	17,426,244
	₩ 411,539	₩ 687,847

#### 43. Gain (loss) on financial assets and liabilities designated at fair value through profit or loss

Gain (loss) on financial assets and liabilities designated at fair value through profit or loss for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
<b>Gain on financial assets and liabilities designated at fair value through profit or loss:</b>		
Securities designated at fair value through profit and loss:		
Gain on valuation	₩ 21,538	₩ 13,427
Gain on redemption	7,523	4,576
Gain on disposal	18,787	3,704
	47,848	21,707
Derivative linked securities purchased:		
Gain on valuation	16,859	83,254
Gain on redemption	164,807	16,615
	181,666	99,869
Deposit liabilities:		
Gain on valuation	13,051	11,098
Gain on disposal	-	1,380
	13,051	12,478
Debentures:		
Gain on disposal	-	698
Derivative linked securities sold:		
Gain on valuation	219,423	79,814
Gain on redemption	14,050	9,950
	233,473	89,764
	₩ 476,038	₩ 224,516

	Year ended December 31, 2017	Year ended December 31, 2016
<b>Loss on financial assets and liabilities designated at fair value through profit or loss:</b>		
Securities designated at fair value through profit and loss:		
Loss on valuation	₩ 18,946	₩ 8,206
Loss on disposal	3,997	6,466
	22,943	14,672
Deposit liabilities		
Loss on disposal	391	469
Derivative linked securities purchased:		
Loss on valuation	24,750	8,528
Loss on redemption	174	3,359
	₩ 24,924	₩ 11,887
Derivative linked securities sold:		
Loss on valuation	₩ 135,998	₩ 300,977
Loss on redemption	674,022	130,289
	810,020	431,266
	858,278	458,294
	₩ (382,240)	₩ (233,778)

#### 44. Gain (loss) on derivative instruments used for hedging purpose

Gain (loss) on derivative instruments used for hedging purpose for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
<b>Gain on derivative instruments used for hedging purposes:</b>		
Hedged item:		
Gain on valuation of hedged item:		
Debentures	₩ 12,581	₩ 53,157
Deposits	17,821	18,959
	30,402	72,116
Gain on disposal of hedged item:		
Debentures	1,466	8,790
Deposits	2,658	-
	4,124	8,790
Derivative instruments used for hedging purposes:		
Gain on valuation of derivatives:		
Currency related derivatives	43,868	670
Interest related derivatives	11,884	1,353
	55,752	2,023
Gain on settlement of derivatives:		
Currency related derivatives	-	1,775
Interest related derivatives	2,524	6,106
	2,524	7,881
	₩ 92,802	₩ 90,810

	Year ended December 31, 2017	Year ended December 31, 2016
<b>Loss on derivative instruments used for hedging purposes:</b>		
Hedged item:		
Loss on valuation of hedged item:		
Debentures	₩ 13,205	₩ 2,617
Deposits	7,125	-
	₩ 20,330	₩ 2,617
Loss on disposal of hedged item:		
Debentures	₩ 1,833	₩ -
Deposits	697	6,106
	2,530	6,106
Derivative instruments used for hedging purposes:		
Loss on valuation of derivatives:		
Currency related derivatives	-	42,738
Interest related derivatives	29,605	67,013
	29,605	109,751
Loss on settlement of derivatives:		
Currency related derivatives	-	332
Interest related derivatives	4,097	8,796
	4,097	9,128
	56,562	127,602
	₩ 36,240	₩ (36,792)

#### 45. Net other income on financial instruments

Net other income on financial instruments for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
<b>Other income on financial instruments:</b>		
Available-for-sale financial assets:		
Gain on disposal	₩ 473,953	₩ 457,160
Dividend income	82,266	70,369
	556,219	527,529
Loans receivable:		
Gain on disposal	141,775	113,062
	697,994	640,591
<b>Other loss on financial instruments:</b>		
Available-for-sale financial assets:		
Loss on disposal	25,335	41,195
Loss on redemption	-	513
	25,335	41,708
Loans receivable:		
Loss on disposal	10,061	10,139
	35,396	51,847
	₩ 662,598	₩ 588,744



46. Impairment loss of financial instruments

Impairment loss on financial instruments for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Available-for-sale financial assets:		
Impairment loss	₩ 157,961	₩ 45,785
Recovery of impairment loss	(2,248)	(715)
Loans receivable:	789,877	
Provision of allowances for possible loan losses for loans	789,877	756,473
Other assets:		
Provision (reversal) of allowances for possible loan losses for other assets	1,906	6,058
	₩ 947,496	₩ 807,601

47. General and administrative expenses

General and administrative expenses for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Salaries	₩ 2,019,640	₩ 1,863,894
Provision for severance and retirement benefits	160,543	156,167
Termination benefits	134,787	296,990
Employee benefits	110,588	115,546
Rental expenses	315,668	326,521
Entertainment expenses	29,015	33,397
Depreciation on property and equipment	153,482	165,347
Depreciation on investment property	9,952	6,277
Amortization	286,841	278,886
Taxes and dues	136,092	131,541
Advertising expenses	152,454	131,144
Servicing expenses	267,439	112,976
Supplies expense	9,715	2,296
Others	252,856	455,903
	₩ 4,039,072	₩ 4,076,885

48. Other operating income

Other operating income for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Reversal of allowance for unused commitments	₩ 14,630	₩ -
Reversal of other provisions	21,772	786
Trust commissions	230,912	157,748
Adjustment for offered price	6,159	7,666
Insurance profit	494,373	593,658
Others	71,115	58,321
	₩ 838,961	₩ 818,179

49. Other operating expense

Other operating expenses for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Provision of allowances for possible losses on acceptances and guarantees	₩ 9,405	₩ 61
Provision of allowance for unused commitments	-	10,521
Provision of allowance for restoration cost	6,402	10,770
Provision for reward points	44,782	53,911
Provision of allowance for lawsuits	-	44,626
Provision of allowance for other losses	15,437	4,292
Contribution to guarantee fund	189,541	215,110
Insurance fee on deposit	318,728	304,778
Contribution to housing credit guarantee fund	75,884	63,038
Insurance cost	263,137	212,649
Provision for policy reserves	339,568	448,665
Others	280,442	197,586
	₩ 1,543,326	₩ 1,566,007

50. Other non-operating income

Other non-operating income for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Rental fee income	₩ 13,875	₩ 14,587
Gains on disposal of property and equipment	28,362	92,627
Gains on disposal of investment property	30,997	562
Gains on disposal of investment in subsidiaries and associates	775	71,979
Recovery of impairment loss on investments in associates	-	18,789
Others	52,718	85,451
	₩ 126,727	₩ 283,995

51. Other non-operating expense

Other non-operating expenses for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Disposal of property and equipment	₩ 7,777	₩ 10,907
Disposal of investment in associates	261	13,366
Contribution	23,041	20,086
Impairment loss on tangible and intangible assets	2,089	896
Impairment loss on investments in associates	2,219	37,693
Commissions received on collection of special bond	6,373	5,659
Others	104,331	41,805
	₩ 146,091	₩ 130,412

### 52. Income taxes

The major components of income tax expense for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Current income taxes	₩ 941,148	₩ 322,598
Additional refund of prior year's income tax	(23,650)	(23,477)
Changes of deferred income taxes due to the tax effect of temporary differences	(306,717)	(35,043)
Current and deferred income taxes recognized directly to equity	71,262	156,173
Income tax expense	₩ 682,043	₩ 420,251

Reconciliations of income tax expense applicable to income before income tax at the Korea statutory tax rate to income tax expense at the effective income tax rate of the Group for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Income before income tax	₩ 2,798,665	₩ 1,819,995
Tax at domestic statutory income tax rate of 24.2%	671,659	446,684
Income not subject to tax	(15,739)	(9,864)
Expenses not deductible for tax purposes	10,240	10,049
Tax deduction	(14,027)	(18,425)
Deduction of tax loss carryforwards	(1,673)	-
Income tax expense of foreign branches and subsidiaries	34,058	33,002
Tax effect of consolidated tax return	1,971	(28,553)
Additional refund of prior year's income tax	(23,650)	(23,476)
Effect of tax rates change	6,883	3,170
Others	12,321	7,664
Income tax expense	₩ 682,043	₩ 420,251
Effective income tax rate (%)	24.4	23.1

Temporary differences and deferred income tax assets (liabilities) as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	
	Deductible (taxable) temporary differences	Deferred income tax assets (liabilities)
Loss on valuation of securities	₩ 877,607	₩ 241,356
Impairment loss on securities	79,626	20,454
Gain on valuation of investments in subsidiaries	(533,400)	(139,662)
Gain on valuation of derivatives	(403,147)	(110,862)
Deemed dividends	158,344	43,545
Deferred loan fees and expenses	(274,595)	(75,514)
Accrued income	(372,794)	(102,518)
Accrued expenses	254,901	68,712
Allowance for acceptance guarantees	83,284	22,903
Plan assets for severance benefit	(1,333,304)	(364,241)
Defined benefit obligation	1,350,708	368,666
Allowance for other losses	226,556	60,832
Bad debt expenses	597,664	163,751
Depreciation	₩ (23,941)	₩ (6,717)

	December 31, 2017	
	Deductible (taxable) temporary differences	Deferred income tax assets (liabilities)
Fair value valuation resulting from merger	₩ 32	₩ 9
Dormant deposits	15,506	4,264
Advanced depreciation provision	(180,315)	(49,587)
Deemed cost for property and equipment	(931,110)	(256,055)
Available-for-sale financial assets	51,930	14,470
Tax loss carryforwards	143,764	32,789
Investment in kind	18,479	5,082
Financial acceptances and guarantees	1,975	543
Deferred point income	157,982	38,254
Fair value differences due to the business combination	(309,256)	(85,045)
Others	506,100	134,522
	₩ 162,596	₩ 29,951
Domestic deferred income tax assets		121,775
Domestic deferred income tax liabilities		(91,824)
Foreign deferred income tax assets (*)		28,758
Foreign deferred income tax liabilities (*)		(52,852)
Deferred income tax assets		₩ 5,857

	December 31, 2016	
	Deductible (taxable) temporary differences	Deferred income tax assets (liabilities)
Loss on valuation of securities	₩ 767,971	₩ 185,873
Impairment loss on securities	73,083	17,517
Gain on valuation of investments in subsidiaries	(385,027)	(92,153)
Gain on valuation of derivatives	(533,980)	(129,227)
Deemed dividends	29,634	7,171
Deferred loan fees and expenses	(264,359)	(63,975)
Accrued income	(317,410)	(76,813)
Accrued expenses	217,250	52,494
Allowance for acceptance guarantees	81,048	19,614
Plan assets for severance benefit	(1,263,045)	(305,368)
Defined benefit obligation	1,275,336	308,293
Allowance for other losses	269,304	65,167
Bad debt expenses	361,544	86,981
Depreciation	(13,430)	(3,252)
Fair value valuation resulting from merger	32	8
Dormant deposits	17,860	4,322
Advanced depreciation provision	(180,315)	(43,636)
Deemed cost for property and equipment	(1,003,274)	(242,792)
Available-for-sale financial assets	(281,746)	(68,182)
Tax loss carryforwards	157,672	35,903
Financial acceptances and guarantees	(3,302)	(799)
Deferred point income	₩ 134,136	₩ 32,461

	December 31, 2016	
	Deductible (taxable) temporary differences	Deferred income tax assets (liabilities)
Fair value differences due to the business combination	(503,159)	(121,764)
Others	9,311	2,245
	₩ (1,354,866)	₩ (329,912)
Domestic deferred income tax assets		119,484
Domestic deferred income tax liabilities		(449,396)
Foreign deferred income tax assets (*)		33,755
Foreign deferred income tax liabilities (*)		(4,672)
Deferred income tax liabilities		₩ (300,829)

(\*) Deferred income tax assets of foreign branches are not offset against the deferred income tax liabilities due to differences in tax jurisdictions.

The effective income tax rate of 27.5% is applied when calculating deferred income tax assets or liabilities that will be realized. Also, deferred income tax assets are recognized when it is foreseeable that future taxable income will be incurred and that future tax credits will be realized.

Details of deferred income taxes charged (credited) directly to equity as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	
	Before tax amounts	Deferred income tax assets (liabilities)
Gain (loss) on valuation of available-for-sale financial assets	₩ 471,390	₩ (115,705)
Gain (loss) on valuation of cash flow hedges	290	(66)
Changes in valuation of equity method investments	(118,263)	32,363
Exchange differences on translation of foreign operations	(66,070)	18,100
Remeasurements of the net defined benefit liability (asset)	(13,528)	3,307
	₩ 273,819	₩ (62,001)
	December 31, 2016	
	Before tax amounts	Deferred income tax assets (liabilities)
Gain (loss) on valuation of available-for-sale financial assets	₩ 661,604	₩ (159,183)
Gain (loss) on valuation of cash flow hedges	(1,381)	335
Changes in valuation of equity method investments	(39,386)	9,443
Exchange differences on translation of foreign operations	(194,513)	47,072
Remeasurements of the net defined benefit liability (asset)	(12,449)	3,023
	₩ 413,875	₩ (99,310)

### 53. Dividends

Details of the Group's dividend including interim dividend for the years ended December 31, 2017 and 2016 are as follows (Korean won):

	Year ended December 31, 2017			
	Number of shares	Dividend per share	Share ratio (%)	Dividends (Korea won in millions)
Cash dividend (interim)	296,003,062	₩ 300	6.0	₩ 88,801
Cash dividend (annual)	296,003,062	1,250	25.0	370,004
				₩ 458,805

	Year ended December 31, 2016			
	Number of shares	Dividend per share	Share ratio (%)	Dividends (Korea won in millions)
Cash dividend (interim)	296,003,062	₩ 250	5.0	₩ 74,001
Cash dividend (annual)	296,003,062	800	16.0	236,802
				₩ 310,803

Details of the Group's dividend payout ratio and dividend yield ratio for the years ended December 31, 2017 and 2016 are as follows:

	Calculating formula	Year ended December 31, 2017	Year ended December 31, 2016
Dividend payout ratio (%)	Cash dividends / net income	22.53	23.36
Dividend yield ratio (%)	Cash dividends per share / market value per share at reporting date	3.11	3.36

Details of dividends on hybrid equity securities for the years ended December 31, 2017 and 2016 are summarized as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Average balance of hybrid equity securities	₩ 445,000	₩ 490,109
Weighted-average interest rate	4.29%	4.48%
Total dividends	₩ 19,098	₩ 21,961

### 54. Earnings per share

Weighted-average numbers of common shares for the years ended December 31, 2017 and 2016 are calculated as follows (shares in units):

	Year ended December 31, 2017	Year ended December 31, 2016
Beginning	296,003,062	296,003,062
Acquisition of treasury shares	(41)	(613)
Disposal of treasury shares	40	465
Weighted-average number of shares of common stocks outstanding	296,003,061	296,002,914

The Group's basic earnings per share for the years ended December 31, 2017 and 2016 are calculated as follows (Korean won in millions and per share amounts in units):

	Year ended December 31, 2017	Year ended December 31, 2016
Net income attributable to equity holders of the parent	₩ 2,036,839	₩ 1,330,477
Dividends on hybrid equity securities	(19,098)	(27,014)
Net income attributable to common stock	₩ 2,017,741	₩ 1,308,516
Weighted-average number of shares of common stocks outstanding	296,003,061 shares	296,002,914 shares
Basic earnings per share (Korean won in units)	₩ 6,817	₩ 4,421



Weighted-average numbers of common shares adjusted for the effect of dilution for the years ended December 31, 2017 and 2016 are calculated as follows (shares in units):

	Year ended December 31, 2017	Year ended December 31, 2016
Weighted-average number of common shares of outstanding for basic earnings per share	296,003,061	296,002,914
Dilution effect due to:		
Stock grants	1,841,390	1,747,420
Weighted-average number of common shares (diluted)	297,844,451	297,750,334

The Group's diluted earnings per share for the years ended December 31, 2017 and 2016 are computed as follows (Korean won in millions and number of shares in units):

	Year ended December 31, 2017	Year ended December 31, 2016
Net income attributable to common stock holders	₩ 2,017,741	₩ 1,308,516
Weighted-average number of shares of common stocks outstanding (Diluted)	297,844,451 shares	297,750,334 shares
Diluted earnings per share (Korean won in units)	₩ 6,774	₩ 4,395

55. Share-based payment transactions

The Group has granted employees and directors of HFG and its subsidiaries share options which may be settled by the issuance of additional shares or by cash payment equal to the difference between the market value and exercise price.

Details of outstanding share options granted by HFG as at December 31, 2017 are as follows (Korean won, rate in %):

Grant date	Settlement method	Exercise price	Exercisable period (*2)	Maturity	Assumptions to estimate fair value of the stock options						
					Option pricing model	Risk free rate (%)	Expected exercise period	Expected volatility in shares (%) (*3)	Expected dividend	Stock price at the grant date	Fair value of share options
<KEB Hana Bank>											
2011.08.10	(*)	9,100	2014.08.11~2018.08.10	2018-08-10	Black-Scholes	1.12	8.01	26.68	800	8,060	1,894
2011.08.26	(*)	8,500	2014.08.27~2018.08.26	2018-08-26	Black-Scholes	1.20	8.01	27.60	800	7,720	2,193
2011.09.02	(*)	8,400	2014.09.03~2018.09.02	2018-09-02	Black-Scholes	1.24	8.01	27.73	800	7,930	2,289

(\*1) KEB Hana Bank chooses one of the following at its discretion: additional equity issue grants, treasury stock grant or cash settlement.  
(\*2) The above stock options will vest after a two-year vesting period and become exercisable within 3 years after the vesting date, except if KEB Hana Bank's employees or directors retire at the regular retirement age or for reasons not attributable to the fault of the employees or directors. Such options will vest and become exercisable immediately within 6 months from the retirement date (one year for the second granted options), or if KEB Hana Bank's employee or director deceases, such options will vest and become exercisable immediately within two years from the date of death (no exceptions for deaths for the second granted options). In addition, if KEB Hana Bank's employee or director is terminated voluntarily after the options have become vested, such options should be exercised within 30 days from the termination date.  
(\*3) Expected volatility in shares is assessed based on the volatility of Hana Financial Group's share price for the same period as the expected exercise period.

Changes in stock options granted by the Group for the years ended December 31, 2017 are summarized as follows (number of shares in units):

<KEB Hana Bank>					
Grant date	Company	Beginning	Forfeited	Exercised	Exercisable
2010.03.10	KEB Hana Bank	312,350	312,350	-	-
2010.03.30	KEB Hana Bank	237,140	237,140	-	-
2010.08.04	KEB Hana Bank	251,890	251,890	-	-

Grant date	Company	Beginning	Forfeited	Exercised	Exercisable
2010.09.29	KEB Hana Bank	17,810	17,810	-	-
2011.08.10	KEB Hana Bank	333,000	-	-	333,000
2011.08.26	KEB Hana Bank	42,290	-	-	42,290
2011.09.02	KEB Hana Bank	11,250	-	-	11,250
		1,205,730	819,190	-	386,540

The Group calculates compensation costs for cash-settled stock options by using fair value approach. Every closing period, the subsidiaries of the Group remeasures fair value of liabilities and reflects them on compensation costs. The stock option liabilities in accounts payable amount to ₩329 million and ₩68 million as at December 31, 2017 and 2016, respectively.

The details of stock grants as at December 31, 2017 are summarized as follows:

<HFG>					
	Grant date	Settlement method	Exercisable period (appraisal period)	Payment date	Estimated vested shares as at December 31, 2017
Grant in 2014	2014.01.01	(*1)	2014.01.01~2016.12.31	2016.12.31	399,030 (*2)
Grant in 2015	2015.01.01	(*1)	2015.01.01~2017.12.31	2017.12.31	623,070 (*2)
Grant in 2016	2016.01.01	(*1)	2016.01.01~2018.12.31	2018.12.31	606,340 (*2)
Grant in 2017	2017.01.01	Cash settlement	2017.01.01~2019.12.31	2019.12.31	191,015 (*2)

(\*1) HFG chooses one of the following at its discretion: treasury stock grant or cash settlement.  
(\*2) The maximum number of shares to be compensated is pre-determined before the grant date, and vested shares are determined by performance measures. The performance assessment consists of the group performance assessment (relative shareholder return) constituting 40% and the business unit performance assessment (stocks granted in 2014 are based on the company's ROE and ROIC, and stocks granted in 2015 and 2016 are based on the company's ROE and rate of goal net income achieved) constituting 60% of the total performance scorecard.

The Group uses the cash settlement method in connection with the performance-linked stock grant liabilities based on past practice, and compensation costs are recorded by re-measuring fair value of liabilities at the end of every vesting year. The stock grant liabilities in accounts payable are in the amount ₩81,556 million and ₩36,883 million as at December 31, 2017 and 2016, respectively.

56. Cash flow information

Cash and cash equivalents as at December 31, 2017 and 2016 are summarized as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Cash	₩ 2,224,789	₩ 2,130,163
Due from banks in Korean won	12,834,319	17,636,078
Due from banks in foreign currencies	6,791,584	9,460,221
	21,850,692	29,226,462
Restricted balances	12,168,318	19,017,734
Due from banks with original maturities exceeding three months from the date of acquisition	1,310,607	1,288,296
	13,478,925	20,306,030
	₩ 8,371,767	₩ 8,920,432

Significant non-cash transactions for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Changes in gain on valuation of available-for-sale financial assets, net	₩ (144,448)	₩ (136,175)
Debt-to-equity swap	11,014	228,883
Replacement from current assets to Non-current assets held for sale	399,522	-
Replacement from current assets to Investment Properties	239,268	78,659

Cash flows from interest and dividend for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Interest receipts	₩ 9,351,146	₩ 8,858,615
Interest payments	(3,810,598)	(4,181,154)
Dividend receipts	107,151	174,402

Changes in liabilities arising from financing activities are as follows (Korean won in millions):

	January 1, 2017	Cash flows	Foreign exchange movement	Changes in fair values	Other	December 31, 2017
Borrowings	₩ 20,031,622	52,922	(1,292,649)	-	-	₩ 18,791,895
Debtentures	32,305,789	4,405,694	(240,239)	(55,349)	28,556	36,444,451
	₩ 52,337,411	4,458,616	(1,532,888)	(55,349)	28,556	₩ 55,236,346

57. Related party transactions

Details of transactions with related parties for the years ended December 31, 2017 and 2016 are summarized as follows (Korean won in millions):

Related party	Year ended December 31, 2017								
	Type	Income				Expense			
		Interest income	Fee and commission income	Other income	Bad debt expense	Interest expense	Fee and commission expense	Other expense	
Mirae Credit Information Services Corp.	Associate	₩ 89	₩ -	₩ -	₩ -	₩ 5	₩ 54	₩ 223	₩ -
Korea Credit Bureau	Associate	-	-	-	-	-	56	62	-
Company KStartup Winwin fund	Associate	-	-	-	-	-	31	-	-
Hana UBS Asset Management	Associate	-	7,219	-	-	-	-	1	-
Hana Power Infra 1st Private Equity Fund	Associate	-	2,372	-	-	-	-	-	-
KOCREF REIT 30	Associate	-	-	-	-	-	-	-	10,440
Finnq Co., Ltd.	Joint venture	-	67	-	-	-	1	-	-
MIDAN City Development Co., Ltd.	Associate	-	-	-	(1)	33	-	-	-
Masan Marine New Town Co., Ltd.	Associate	108	-	-	-	2	-	-	-
Darby-Hana Infrastructure Fund Management	Associate	-	-	505	(1)	159	-	-	-
Odin 2 LLC	Associate	-	-	-	2,126	-	-	-	-
Gunsan Bio Energy Co., Ltd. (formerly Joongbu Bio Energy Co., Ltd.)	Associate	-	-	-	-	13	-	-	-
Hana Lantern Energy Factory PEF	Associate	-	162	-	-	-	-	-	-
F&U Credit Information	Associate	-	3	1,150	-	-	2,206	12,928	
Advanced & Different Credit Information Co., Ltd.	Associate	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 3	₩ -	₩ -

Related party	Type	Year ended December 31, 2017							
		Income				Expense			
		Interest income	Fee and commission income	Other income	Bad debt expense	Interest expense	Fee and commission expense	Other expense	
Mirae Asset KEB Second Securitization Specialty Co., Ltd	Associate	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 2	₩ -	₩ -
The hue Company Ltd.	Associate	232	4	-	(14)	-	-	-	-
HN NSC Private Equity Fund	Associate	100	-	-	26	-	-	-	-
Hana AIM a global reit AMC	Associate	-	-	-	-	10	-	-	-
GMHB Co., Ltd	Associate	-	1,825	-	-	-	-	-	-
Key management personnel	Associate	180	24	149	-	82	1	-	-
		₩ 709	₩ 11,676	₩ 1,804	₩ 2,141	₩ 446	₩ 2,493	₩ 23,368	

Related party	Type	Year ended December 31, 2016							
		Income				Expense			
		Interest income	Fee and commission income	Other income	Bad debt expense	Interest expense	Fee and commission expense	Other expense	
Mirae Credit Information Services Corp.	Associate	₩ -	₩ 10	₩ (1)	₩ -	₩ 122	₩ 4,842	₩ 326	
Korea Credit Bureau	Associate	-	-	-	-	16	268	3,164	
Company KStartup Winwin fund	Associate	-	-	-	-	16	-	-	
MIDAN City Development Co., Ltd.	Associate	-	-	-	-	400	-	-	
Masan Marine New Town Co., Ltd.	Associate	95	10	-	(3)	4	-	-	
Darby-Hana Infrastructure Fund Management	Associate	-	-	431	1	149	-	-	
Hana UBS Asset Management	Associate	-	10,875	-	(1)	18	1	359	
Odin 2 LLC	Associate	123	1	-	25,973	-	-	-	
HN NSC Private Equity Fund	Associate	-	115	-	-	-	-	-	
Hana Power Infra 1st Private Equity Fund	Associate	-	2,376	-	-	-	-	-	
Jungbu BIO Energy Co., Ltd	Associate	-	4,758	-	-	25	-	-	
KOCREF REIT 30	Associate	-	-	-	-	-	-	10,385	
Hana Lantern Energy Factory PEF	Associate	-	142	-	-	-	-	-	
F&U Credit Information	Associate	-	-	290	-	-	2,895	13,247	
Advanced & Different Credit Information Co., Ltd.	Associate	-	-	-	-	13	-	-	
The hue Company Ltd.	Associate	307	3	-	48	-	-	-	
HN housing Co., Ltd.	Associate	20	-	-	7	6	-	-	
Finnq Co., Ltd.	Joint venture	-	-	77	-	3	-	-	
Key management personnel		260	20	171	-	104	2	2	
		₩ 805	₩ 18,292	₩ 968	₩ 26,025	₩ 876	₩ 8,008	₩ 27,483	

Outstanding balances with related parties arising from the below transactions as at December 31, 2017 and 2016 are summarized as follows (Korean won in millions):

Related party	December 31, 2017						
	Type	Assets		Allowance for possible loan losses	Liabilities		
		Loans receivables	Other receivables		Deposits	Borrowings	Other payables
Mirae Credit Information Services Corp.	Associate	₩ 7,287	₩ -	₩ 5	₩ 10,734	₩ -	₩ -
Korea Credit Bureau	Associate	15	-	-	6,015	-	912
Company KStartup Winwin fund	Associate	-	-	-	4,020	-	-
Hana UBS Asset Management	Associate	-	1,928	-	408	-	-
Hana Power Infra 1st Private Equity Fund	Associate	-	598	-	-	-	-
KOCREF REIT 30	Associate	-	9,395	-	-	-	-
Finnq Co., Ltd.	Joint venture	-	-	-	4,597	-	-
MIDAN City Development Co., Ltd.	Associate	-	-	-	327	-	-
Masan Marine New Town Co., Ltd.	Associate	1,513	-	-	787	-	-
Darby-Hana Infrastructure Fund Management	Associate	-	11,734	-	12,121	-	-
Odin 2 LLC	Associate	2,237	-	2,237	-	-	-
Gunsan Bio Energy Co., Ltd. (formerly Joongbu Bio Energy Co., Ltd.)	Associate	-	2,617	-	5,194	-	-
Hana Lantern Energy Factory PEF	Associate	-	38	-	74	-	-
F&U Credit Information	Associate	383	-	-	1	-	1,023
Mirae Asset KEB First Securitization Specialty Co., Ltd.	Associate	-	-	-	620	-	-
Mirae Asset KEB Second Securitization Specialty Co., Ltd.	Associate	-	-	-	744	-	-
The hue Company Ltd.	Associate	5,250	-	86	74	-	-
HN NSC Private Equity Fund	Associate	4,900	-	33	107	-	-
Hana AIM a global reit AMC	Associate	-	-	-	2,117	-	-
Key management personnel	Associate	5,945	-	-	10,552	-	-
		₩ 27,530	₩ 26,310	₩ 2,361	₩ 58,492	₩ -	₩ 1,935
Related party	December 31, 2016						
	Type	Assets		Allowance for possible loan losses	Liabilities		
		Loans receivables	Other receivables		Deposits	Borrowings	Other payables
Mirae Credit Information Services Corp.	Associate	₩ -	₩ 257	₩ -	₩ 9,725	₩ -	₩ -
Korea Credit Bureau	Associate	-	-	-	2,114	-	-
Company KStartup Winwin fund	Associate	-	-	-	900	-	-
MIDAN City Development Co., Ltd.	Associate	-	8	1	22,644	-	-
Masan Marine New Town Co., Ltd.	Associate	1,513	-	-	761	-	-
Darby-Hana Infrastructure Fund Management	Associate	-	11,600	1	10,275	-	-
Hana UBS Asset Management	Associate	-	2,399	-	226	-	-
Odin 2 LLC	Associate	2,237	-	111	-	-	-
Maltani Development Co., Ltd. (formerly Taewon Lighting Co., Ltd.)	Associate	₩ -	₩ 2	₩ -	₩ -	₩ -	₩ -

Related party	Type	December 31, 2016					
		Assets		Allowance for possible loan losses	Liabilities		
		Loans receivables	Other receivables		Deposits	Borrowings	Other payables
HN NSC Private Equity Fund	Associate	₩ -	₩ 29	₩ -	₩ -	₩ -	₩ -
Hana Power Infra 1st Private Equity Fund	Associate	-	596	-	-	-	-
Jungbu Bio Energy Co., Ltd.	Associate	-	2,617	-	6,771	-	-
KOCREF REIT 30	Associate	-	-	-	-	-	10,698
Hana Lantern Energy Factory PEF	Associate	-	42	-	76	-	-
F&U Credit Information	Associate	-	409	-	-	-	1,184
Advanced & Different Credit Information Co., Ltd.	Associate	-	-	-	1,000	-	-
The hue Company Ltd.	Associate	6,244	69	99	15	-	-
HN housing Co., Ltd.	Associate	-	-	-	56	-	300
Hana AIM a global reit AMC	Associate	1,700	-	7	728	-	-
Doosan capital Co., Ltd.	Associate	-	-	-	141	-	-
Finnq Co., Ltd.	Joint venture	-	-	-	82	-	-
Key management personnel		4,885	-	-	12,036	-	-
		₩ 16,579	₩ 18,028	₩ 219	₩ 67,550	₩ -	₩ 12,182

Money transactions between related parties for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions).

Related party	December 31, 2017			
	Type	Changes in loans receivables	Changes in deposits and borrowings	Investment in carryu
Mirae Credit Information Services Corp.	Associate	₩ 7,030	₩ 1,009	₩ -
Korea Credit Bureau	Associate	15	3,901	-
Company KStartup Winwin fund	Associate	-	3,120	-
Hana UBS Asset Management	Associate	(44)	182	-
Maltani Development Co., Ltd.	Associate	(2)	-	-
Finnq Co., Ltd.	Joint venture	-	4,515	-
Beijing Langa Asset Management Co., Ltd	Associate	-	-	41,801
MIDAN City Development Co., Ltd.	Associate	(8)	(22,317)	-
Masan Marine New Town Co., Ltd.	Associate	-	26	-
Darby-Hana Infrastructure Fund Management	Associate	(19)	1,846	-
Gunsan Bio Energy Co., Ltd. (formerly Joongbu Bio Energy Co., Ltd.)		-	(1,577)	-
Hana Lantern Energy Factory PEF	Associate	-	(2)	-
F&U Credit Information	Associate	(26)	1	-
Advanced & Different Credit Information Co., Ltd.	Associate	-	(1,000)	-
Mirae Asset KEB First Securitization Specialty Co., Ltd.	Associate	-	620	-
Mirae Asset KEB Second Securitization Specialty Co., Ltd.	Associate	-	744	-



Related party	December 31, 2017			
	Type	Changes in loans receivables	Changes in deposits and borrowings	Investment in carryu
The hue Company Ltd.	Associate	₩ (1,063)	₩ 59	₩ -
HN housing Co., Ltd.	Associate	3,200	(621)	-
Hana AIM a global reit AMC	Associate	-	2,061	-
GMHB Co., Ltd	Associate	-	-	995
Darby Latin American Fund III	Associate	-	-	7,621
Darby Latin American Fund IIIA	Associate	-	-	1,190
BSK-6 Patent Technology Investment Association	Associate	-	-	900
Key management personnel		1,060	(1,484)	-
		₩ 10,143	₩ (8,917)	₩ 52,507

Related party	December 31, 2016		
	Type	Changes in loans receivables	Changes in deposits and borrowings
Mirae Credit Information Services Corp.	Associate	₩ (198)	₩ 1,744
Korea Credit Bureau	Associate	-	1,086
Company KStartup Winwin fund	Associate	-	900
MIDAN City Development Co., Ltd.	Associate	(20)	5,036
Masan Marine New Town Co., Ltd.	Associate	-	(2)
Darby-Hana Infrastructure Fund Management	Associate	(13)	1,614
Hana UBS Asset Management	Associate	(65)	(5,589)
Odin 2 LLC	Associate	(25,151)	-
Maltani Development Co., Ltd. (formerly Taewon Lighting Co., Ltd.)	Associate	(2)	-
Jungbu Bio Energy Co., Ltd.	Associate	-	6,771
Hana Lantern Energy Factory PEF	Associate	-	76
F&U Credit Information	Associate	(454)	-
Advanced & Different Credit Information Co.,Ltd.	Associate	-	1,000
The hue Company Ltd.	Associate	6,244	15
Hana AIM a global reit AMC	Associate	-	56
HN housing Co., Ltd.	Associate	1,700	728
Doosan capital Co., Ltd.	Associate	(8)	141
Finnq Co., Ltd.	Joint venture	-	82
Key management personnel		1,722	9,741
		₩ (16,245)	₩ 23,429

Details of compensation paid to key management personnel for the years ended December 31, 2017 and 2016 are summarized as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Short-term employee payment	₩ 28,781	₩ 24,764
Severance payment	1,547	1,500
Share-based compensation expenses	45,917	22,673
	₩ 76,245	₩ 48,937

## 58. Business combination

### 58.1 Merger of HFI and Hana Futures

The Board of Directors of HFI and Hana Futures resolved for merger on May 12, 2016 and Hana Futures merged with HFI on August 1, 2016. Consequently, the original shareholders listed on the roster of shareholders of Hana Futures, the extinct company, as at the merger date (August 1, 2016) received 0.2718977 ordinary shares (par value at KRW 5,000) of HFI, the surviving company, per one ordinary share (par value at KRW 5,000) of Hana Futures.

### 58.2 Business transfer of HIF

HIF decided to transfer all of its business to KEB Hana Bank at the extraordinary general meeting of shareholders on July 10, 2017. As a result, HIF was withdrawn from the Company's subsidiary on July 10, 2017. The liquidation registration was completed on December 14, 2017.

## 59. Confirmation date of financial statements and approval authority

The 2017 consolidated financial statements of the Group were approved by the Board of Directors on February 2, 2018.

# Corporate Information

**Hana Financial Group Inc.**

66, Eulji-ro, Jung-gu, Seoul, 04538  
Tel. +82-2-2002-1110  
www.hanafn.com

**KEB Hana Bank**

35, Eulji-ro, Jung-gu, Seoul, 04523  
Tel. +82-2-1599-1111  
www.kebhana.com

**Hana Financial Investment**

82, Uisadang-daero, Yeongdeungpo-gu, Seoul, 07321  
Tel. +82-2-1588-3111/3222  
www.hanaw.com

**KEB Hana Card**

66, Eulji-ro, Jung-gu, Seoul, 04538  
Tel. +82-2-1800-1111  
www.hanacard.co.kr

**Hana Life**

66, Eulji-ro, Jung-gu, Seoul, 04538  
Tel. +82-80-3488-7000  
www.hanalife.co.kr

**Hana Capital**

17/F-20/F, Hana Financial Group Gangnam Office,  
127, Teheran-ro, Gangnam-gu, Seoul, 06133  
Tel. +82-2-2037-1111  
www.hanacapital.co.kr

**Hana Savings Bank**

16/F, Hana Financial Group Gangnam Office,  
127, Teheran-ro, Gangnam-gu, Seoul, 06133  
Tel. +82-2-1899-1122  
www.hanasavings.com

**Hana Asset Trust**

15/F, Hana Financial Group Gangnam Office,  
127, Teheran-ro, Gangnam-gu, Seoul, 06133  
Tel. +82-2-3287-4600  
www.hanatrust.com

**Hana Alternative Asset Management**

66, Eulji-ro, Jung-gu, Seoul, 04538  
Tel. +82-2-2190-6500  
www.hana-aamc.com

**Hana TI**

181, Eco-ro, Seo-gu, Inchoen, 22742  
Tel. +82-2-2151-6400  
www.hanati.co.kr

**Hana F&I**

66, Eulji-ro, Jung-gu, Seoul, 04538  
Tel. +82-2-3108-2114  
www.hanafni.com

**Hana Investors Services**

66, Eulji-ro, Jung-gu, Seoul, 04538  
Tel. +82-2-6714-4600  
www.hanais.co.kr

**Finnq**

20/F, 100, Eulji-ro, Jung-gu, Seoul, 04551  
Tel. +82-2-6031-5200  
www.finnq.com

**Hana Bank (China) Co., Ltd.**

5/F, No.88, PICC Tower, Xichangan Street,  
Xicheng District, Beijing, China  
Tel. +86-10-6658-1111  
www.hanabank.cn

**PT. Bank KEB Hana Indonesia**

9/F, Mangkuluhur City, Jalan Jend. Gatot Soebroto Kav.  
1-3, Jakarta 12710, Indonesia  
Tel. +62-21-522-0222  
www.myhana.co.id

# ENCOURAGE

One Company



**Forward Looking Statements** Some of the information in this report constitute ‘forward looking statements’ which reflect Hana Financial Group’s current intentions, plans, forecasts, expectations, assumptions and beliefs about future events or results and are subject to risks, uncertainties and other factors. These statements may be identified by words such as “aim,” “believe,” “estimate,” “expect,” “plan,” “seek,” “target,” “will,” or words of similar meaning. These statements are not guarantees of future results or performance and involve certain risks, uncertainties and assumptions that are difficult to predict and often are beyond the Hana Financial Group’s control. Actual outcomes and results may differ materially from those expressed in, or implied by, the Hana Financial Group’s forward-looking statements.



**Hana Financial Group**

66, Eulji-ro, Jung-gu, Seoul, 04538, Republic of Korea

Tel 822.2002.1110

[www.hanafn.com](http://www.hanafn.com)